

**TOWN OF HERTFORD  
NORTH CAROLINA**

**ANNUAL REPORT**

**FOR THE YEAR ENDED JUNE 30, 2022**



# **TOWN OF HERTFORD, NORTH CAROLINA**

## **FINANCIAL STATEMENTS**

**JUNE 30, 2022**

### **TOWN COUNCIL MEMBERS**

Ashley Hodges, Mayor Pro-Term

Connie Brothers

Sandra Anderson

Jerry Mimlitsch

Earnell Brown, Mayor

Janice Cole, Interim Town Manager



# TOWN OF HERTFORD, NORTH CAROLINA

## ANNUAL REPORT FOR THE YEAR ENDED JUNE 30, 2022

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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 Audit of the Financial Statements**

#### ***Opinions***

We have audited the 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, 2022, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

In our opinion, based on our audit and the report of the other auditors, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Hertford, North Carolina, as of June 30, 2022, 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.

We did not audit the financial statements of the Town of Hertford ABC Board as of and for the year ended June 30, 2022. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Town of Hertford ABC Board, is based solely on the report of the other auditors.

#### ***Basis for Opinions***

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

### ***Responsibilities of Management for the Financial Statements***

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

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

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

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

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

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the 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 is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We 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 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, other schedules, and the Schedule of Expenditures of Federal and State Awards, as required by Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the State Single Audit Implementation Act are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and the other auditors. In our opinion, based on our audit and the report of the other auditors, the combining and individual fund financial statements, budgetary schedules, other schedules, and the Schedule of Expenditures of Federal and State Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2022 on our consideration of the Town of Hertford's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and 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  
October 31, 2022

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**Town of Hertford**  
**Management's Discussion and Analysis**

As management of the Town of Hertford, we offer readers of the Town of Hertford's financial statements this narrative overview and analysis of the financial activities of the Town of Hertford for the fiscal year ended June 30, 2022. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

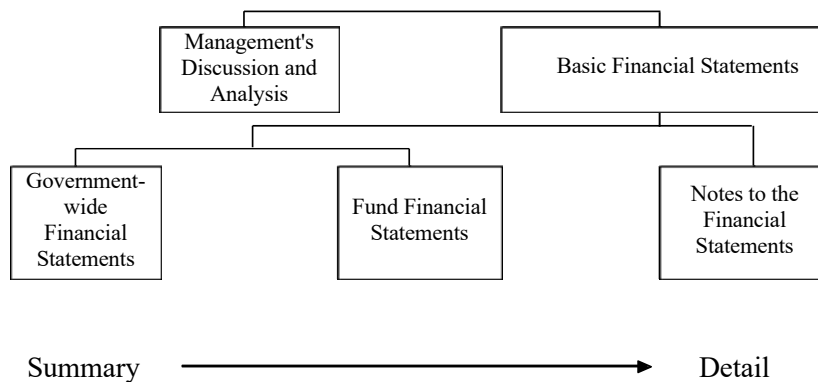
***Financial Highlights***

- The assets and deferred outflows of resources of the Town of Hertford exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$10,184,091 (*net position*).
- The government's total net position increased by \$491,576, 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 \$1,912,597 with a net change of \$605,144 in fund balance. Approximately 39.6 percent of this total amount, or \$758,225 is restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,264,967, or 79.7%, of total General Fund expenditures for the fiscal year.
- The Town of Hertford's total debt decreased by \$772,634 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 the 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**



## **Town of Hertford**

### **Management's Discussion and Analysis**

#### **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 3) the proprietary fund statements.

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

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

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

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

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

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

#### **Fund Financial Statements**

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

## **Town of Hertford**

### **Management's Discussion and Analysis**

**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** – The 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. The 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 22-50 of this report.

**Other Information** – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town of Hertford's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 51 of this report.

**Interdependence with Other Entities:** The Town depends on financial resources flowing from, or associated with, both the Federal Government and the State of North Carolina. Because of this 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**  
**Management's Discussion and Analysis**

*Government-Wide Financial Analysis*

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

|                                  | <u>Governmental Activities</u> |                     | <u>Business-Type Activities</u> |                     | <u>Total</u>         |                     |
|----------------------------------|--------------------------------|---------------------|---------------------------------|---------------------|----------------------|---------------------|
|                                  | <u>2022</u>                    | <u>2021</u>         | <u>2022</u>                     | <u>2021</u>         | <u>2022</u>          | <u>2021</u>         |
| <b>Assets:</b>                   |                                |                     |                                 |                     |                      |                     |
| Current and other assets         | \$ 2,481,724                   | \$ 1,657,824        | \$ 2,944,213                    | \$ 2,546,305        | \$ 5,425,937         | \$ 4,204,129        |
| Noncurrent assets                | -                              | -                   | 180,000                         | 210,000             | 180,000              | 210,000             |
| Capital assets                   | 23,030,531                     | 36,294,881          | 15,352,228                      | 20,878,719          | 38,382,759           | 57,173,600          |
| Total assets                     | <u>25,512,255</u>              | <u>37,952,705</u>   | <u>18,476,441</u>               | <u>23,635,024</u>   | <u>43,988,696</u>    | <u>61,587,729</u>   |
| <b>Total Deferred Outflows</b>   | <u>162,039</u>                 | <u>247,850</u>      | <u>254,745</u>                  | <u>145,676</u>      | <u>416,784</u>       | <u>393,526</u>      |
| <b>Liabilities:</b>              |                                |                     |                                 |                     |                      |                     |
| Other liabilities                | 559,692                        | 349,356             | 934,142                         | 1,043,221           | 1,493,834            | 1,392,577           |
| Long-term liabilities            | 614,751                        | 916,766             | 6,218,247                       | 6,708,660           | 6,832,998            | 7,625,426           |
| Total liabilities                | <u>1,174,443</u>               | <u>1,266,122</u>    | <u>7,152,389</u>                | <u>7,751,881</u>    | <u>8,326,832</u>     | <u>9,018,003</u>    |
| <b>Total Deferred Inflows</b>    | <u>147,027</u>                 | <u>114,620</u>      | <u>230,689</u>                  | <u>10,418</u>       | <u>377,716</u>       | <u>125,038</u>      |
| <b>Net Position:</b>             |                                |                     |                                 |                     |                      |                     |
| Net investment in capital assets | 1,003,761                      | 1,059,472           | 4,809,064                       | 5,210,204           | 5,812,825            | 6,269,676           |
| Restricted                       | 758,225                        | 574,171             | -                               | -                   | 758,225              | 574,171             |
| Unrestricted                     | 1,126,891                      | 558,634             | 2,486,150                       | 2,060,146           | 3,613,041            | 2,618,780           |
| Total net position               | <u>\$ 2,888,877</u>            | <u>\$ 2,192,277</u> | <u>\$ 7,295,214</u>             | <u>\$ 7,270,350</u> | <u>\$ 10,184,091</u> | <u>\$ 9,462,627</u> |

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 \$10,184,091 as of June 30, 2022. The Town's net position increased by \$491,576 for the fiscal year ended June 30, 2022. However, the largest portion, 57.1%, 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, \$758,225 represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$3,613,041 is unrestricted.

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

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

**Town of Hertford  
Management's Discussion and Analysis**

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

|  | Governmental Activities |              | Business-Type Activities |              | Total         |              |
|--|-------------------------|--------------|--------------------------|--------------|---------------|--------------|
|  | 2022                    | 2021         | 2022                     | 2021         | 2022          | 2021         |
| <b>Revenues:</b>                               |                         |              |                          |              |               |              |
| Program Revenues:                              |                         |              |                          |              |               |              |
| Charges for services                           | \$ 131,695              | \$ 218,545   | \$ 5,136,610             | \$ 5,078,373 | \$ 5,268,305  | \$ 5,296,918 |
| Operating grants and contributions             | 163,048                 | 314,732      | 103,070                  | -            | 266,118       | 314,732      |
| Capital grants and contributions               | 70,002                  | 75,198       | -                        | -            | 70,002        | 75,198       |
| General Revenues:                              |                         |              |                          |              |               |              |
| Property taxes                                 | 734,885                 | 719,894      | -                        | -            | 734,885       | 719,894      |
| Other taxes, contributions not restricted      | 1,039,049               | 986,517      | -                        | -            | 1,039,049     | 986,517      |
| Miscellaneous                                  | 6,977                   | 4,551        | -                        | -            | 6,977         | 4,551        |
| Investment earnings, unrestricted              | 1,357                   | 1,261        | 61                       | 62           | 1,418         | 1,323        |
| Total revenues                                 | 2,147,013               | 2,320,698    | 5,239,741                | 5,078,435    | 7,386,754     | 7,399,133    |
| <b>Expenses:</b>                               |                         |              |                          |              |               |              |
| General government                             | 522,645                 | 430,160      | -                        | -            | 522,645       | 430,160      |
| Public safety                                  | 421,341                 | 1,271,307    | -                        | -            | 421,341       | 1,271,307    |
| Transportation                                 | 368,301                 | 339,529      | -                        | -            | 368,301       | 339,529      |
| Economic and physical development              | 30,443                  | 20,219       | -                        | -            | 30,443        | 20,219       |
| Environmental protection                       | 44,075                  | 38,325       | -                        | -            | 44,075        | 38,325       |
| Sanitation                                     | 167,245                 | -            | -                        | -            | 167,245       | -            |
| Interest on long-term debt                     | 19,959                  | 37,735       | -                        | -            | 19,959        | 37,735       |
| Loss on disposal of assets                     | 11,404                  | 79,053       | -                        | -            | 11,404        | 79,053       |
| Electric                                       | -                       | -            | 3,268,043                | 3,161,862    | 3,268,043     | 3,161,862    |
| Water and sewer                                | -                       | -            | 2,041,722                | 1,876,694    | 2,041,722     | 1,876,694    |
| Total expenses                                 | 1,585,413               | 2,216,328    | 5,309,765                | 5,038,556    | 6,895,178     | 7,254,884    |
| Change in net position before transfers        | 561,600                 | 104,370      | (70,024)                 | 40,179       | 491,576       | 144,249      |
| Transfers                                      | 84,000                  | 84,000       | (84,000)                 | (84,000)     | -             | -            |
| Change in net position                         | 645,600                 | 188,370      | (154,024)                | (43,821)     | 491,576       | 144,249      |
| Net position, beginning as previously restated | 2,192,277               | 2,061,463    | 7,270,350                | 7,314,171    | 9,462,627     | 9,375,634    |
| Prior period adjustment                        | 51,100                  | (57,556)     | 178,888                  | -            | 229,988       | (57,556)     |
| Net position, beginning as restated            | 2,243,377               | 2,003,907    | 7,449,238                | 7,314,171    | 9,692,615     | 9,318,078    |
| Net position, June 30                          | \$ 2,888,977            | \$ 2,192,277 | \$ 7,295,214             | \$ 7,270,350 | \$ 10,184,191 | \$ 9,462,327 |

## **Town of Hertford Management's Discussion and Analysis**

**Governmental activities:** Governmental activities increased the Town net position by \$645,600, after transfers. Key elements of this increase are as follows:

- 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 \$154,024, after transfers. The key element of this increase are 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, the Town of Hertford's unassigned fund balance in the general fund was \$1,264,967, while total fund balance reached 1,910,167. The Governing Body of the Town of Hertford has determined that the Town should maintain an unassigned fund balance of 20% of General Fund expenditures in case of unforeseen needs or opportunities, in addition to meeting the cash flow needs of the Town. The Town currently has an unassigned fund balance of 80% of General Fund expenditures, while total fund balance represents 120% of the same amount.

At June 30, 2022, the governmental funds of the Town of Hertford reported a combined fund balance of \$1,912,597, a 46.3% 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 \$1,341,450, and those for the Water and Sewer Fund amounted to \$1,144,700. The total change in net position for each fund was \$(98,966) and \$(55,058) respectively. Other factors concerning the finances of these two funds have already been addressed in the discussion of the Town's business-type activities.

**Town of Hertford**  
**Management's Discussion and Analysis**

**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, 2022 totals \$12,865,918 (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**

|                          | <b>Governmental</b> |                     | <b>Business-Type</b> |                      | <b>Total</b>         |                      |
|--------------------------|---------------------|---------------------|----------------------|----------------------|----------------------|----------------------|
|                          | <b>Activities</b>   |                     | <b>Activities</b>    |                      |                      |                      |
|                          | <b>2022</b>         | <b>2021</b>         | <b>2022</b>          | <b>2021</b>          | <b>2022</b>          | <b>2021</b>          |
| Land                     | \$ 407,205          | \$ 407,205          | \$ 379,893           | \$ 379,893           | \$ 787,098           | \$ 787,098           |
| Buildings and systems    | 236,056             | 194,839             | -                    | -                    | 236,056              | 194,839              |
| Machinery and equipment  | 151,240             | 176,373             | 75,333               | 90,565               | 226,573              | 266,938              |
| Improvements             | 472,111             | 522,244             | 10,570,673           | 11,376,533           | 11,042,784           | 11,898,777           |
| Vehicles                 | 106,002             | 184,729             | 128,296              | 173,174              | 234,298              | 357,903              |
| Construction in progress | 193,970             | 181,955             | 145,139              | 110,503              | 339,109              | 292,458              |
| <b>Total</b>             | <b>\$ 1,566,584</b> | <b>\$ 1,667,345</b> | <b>\$ 11,299,334</b> | <b>\$ 12,130,668</b> | <b>\$ 12,865,918</b> | <b>\$ 13,798,013</b> |

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

**Long-term Debt.** As of June 30, 2022, the Town of Hertford had total debt outstanding of \$7,337,824.

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

|                                  | <b>Governmental</b> |                   | <b>Business-Type</b> |                     | <b>Total</b>        |                     |
|----------------------------------|---------------------|-------------------|----------------------|---------------------|---------------------|---------------------|
|                                  | <b>Activities</b>   |                   | <b>Activities</b>    |                     |                     |                     |
|                                  | <b>2022</b>         | <b>2021</b>       | <b>2022</b>          | <b>2021</b>         | <b>2022</b>         | <b>2021</b>         |
| Net pension liability (LGERS)    | \$ 97,901           | \$ 308,545        | \$ 153,913           | \$ 192,807          | \$ 251,814          | \$ 501,352          |
| Total pension liability (LEOSSA) | -                   | 32,873            | -                    | -                   | -                   | 32,873              |
| Compensated absences             | 6,013               | 16,700            | 26,904               | 31,196              | 32,917              | 47,896              |
| General obligation bonds         | -                   | -                 | 3,966,000            | 4,052,000           | 3,966,000           | 4,052,000           |
| Capital lease                    | -                   | -                 | -                    | 121,698             | -                   | 121,698             |
| Installment purchases            | 562,823             | 607,873           | 446,048              | 371,266             | 1,008,871           | 979,139             |
| Revolving loans                  | -                   | -                 | 2,078,222            | 2,375,500           | 2,078,222           | 2,375,500           |
| <b>Total</b>                     | <b>\$ 666,737</b>   | <b>\$ 965,991</b> | <b>\$ 6,671,087</b>  | <b>\$ 7,144,467</b> | <b>\$ 7,337,824</b> | <b>\$ 8,110,458</b> |

The Town of Hertford's total debt decreased by \$772,634 (9.5%) during the past fiscal year, primarily due to principal payments on prior debt.

## **Town of Hertford Management's Discussion and Analysis**

North Carolina General Statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the Town of Hertford is \$9,695,512.

Additional information regarding the Town of Hertford's long-term debt can be found in Note III.B.7., beginning on page 42 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:

- Investments are being made in the rehabilitation of commercial property. New retail space is being created as well as AirBnB and rental apartments in the downtown area. The projected trend looks favorable with the addition of an assisted living facility, and dialysis medical facility.
- 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. They are beginning the work and already have a potential business or two expressing interests. Also, new businesses are moving into the Industrial Commerce Center.
- 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, 2023**

**Governmental Activities:** In order to balance and insert equity into the residents' fiscal responsibility, the property tax rate was raised and the electric rate was lowered so that the Town's general operations can be self-sufficient and not have to be as reliant and the funds transferred from the Electric Fund.

**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.

**Grant Activities:** The Town has been very successful in obtaining grants to study, replace and rehabilitate our infrastructure.

### **Requests for Information**

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

**Town of Hertford, North Carolina**  
**Statement of Net Position**  
**June 30, 2022**

**Exhibit 1**

|  | <b>Primary Government</b>          |                                     |                      | <b>Town of Hertford<br/>ABC Board</b> |
|--|------------------------------------|-------------------------------------|----------------------|---------------------------------------|
|  | <b>Governmental<br/>Activities</b> | <b>Business-Type<br/>Activities</b> | <b>Total</b>         |                                       |
| <b>ASSETS</b>                                  |                                    |                                     |                      |                                       |
| Current Assets:                                |                                    |                                     |                      |                                       |
| Cash and investments                           | \$ 1,387,662                       | \$ 1,580,528                        | \$ 2,968,190         | \$ 247,654                            |
| Property taxes receivable, net                 | 75,110                             | -                                   | 75,110               | -                                     |
| Accounts receivable, net                       | 44,944                             | 983,047                             | 1,027,991            | -                                     |
| Due from other governments                     | 275,540                            | 165,590                             | 441,130              | -                                     |
| Due from component unit                        | 222,722                            | -                                   | 222,722              | -                                     |
| Note receivable - Winfall settlement-current   | -                                  | 15,000                              | 15,000               | -                                     |
| Internal balances                              | (75,977)                           | 75,977                              | -                    | -                                     |
| Prepaid items                                  | -                                  | -                                   | -                    | 1,837                                 |
| Inventories                                    | -                                  | -                                   | -                    | 178,357                               |
| Cash, restricted                               | 551,723                            | 124,071                             | 675,794              | -                                     |
| Total Current Assets                           | <u>2,481,724</u>                   | <u>2,944,213</u>                    | <u>5,425,937</u>     | <u>427,848</u>                        |
| Noncurrent Assets:                             |                                    |                                     |                      |                                       |
| Capital Assets:                                |                                    |                                     |                      |                                       |
| Land and construction in progress              | 601,175                            | 525,032                             | 1,126,207            | 5,472                                 |
| Other capital assets, net                      | 965,409                            | 10,774,302                          | 11,739,711           | 115,572                               |
| Capital Assets, net                            | <u>1,566,584</u>                   | <u>11,299,334</u>                   | <u>12,865,918</u>    | <u>121,044</u>                        |
| Notes receivable - Winfall settlement          | -                                  | 180,000                             | 180,000              | -                                     |
| Total Assets                                   | <u>4,048,308</u>                   | <u>14,423,547</u>                   | <u>18,471,855</u>    | <u>548,892</u>                        |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>          |                                    |                                     |                      |                                       |
| Pension deferrals                              | 162,039                            | 254,745                             | 416,784              | 31,037                                |
| Total deferred outflows of resources           | <u>162,039</u>                     | <u>254,745</u>                      | <u>416,784</u>       | <u>31,037</u>                         |
| <b>LIABILITIES</b>                             |                                    |                                     |                      |                                       |
| Current Liabilities:                           |                                    |                                     |                      |                                       |
| Accounts payable and accrued liabilities       | 171,002                            | 357,231                             | 528,233              | 149,293                               |
| Unearned revenue                               | 336,704                            | -                                   | 336,704              | -                                     |
| Liabilities to be paid from restricted assets: |                                    |                                     |                      |                                       |
| Customer deposits                              | -                                  | 124,071                             | 124,071              | -                                     |
| Due to primary government                      | -                                  | -                                   | -                    | 222,722                               |
| Compensated absences, current                  | 4,867                              | 17,143                              | 22,010               | -                                     |
| Notes payable current                          | 47,119                             | 435,697                             | 482,816              | 15,768                                |
| Total Current Liabilities                      | <u>559,692</u>                     | <u>934,142</u>                      | <u>1,493,834</u>     | <u>387,783</u>                        |
| Long-Term Liabilities:                         |                                    |                                     |                      |                                       |
| Net pension liability - LGERS                  | 97,901                             | 153,913                             | 251,814              | 12,575                                |
| Due in more than one year                      | 516,850                            | 6,064,334                           | 6,581,184            | 69,246                                |
| Total Long-Term Liabilities                    | <u>614,751</u>                     | <u>6,218,247</u>                    | <u>6,832,998</u>     | <u>81,821</u>                         |
| Total Liabilities                              | <u>1,174,443</u>                   | <u>7,152,389</u>                    | <u>8,326,832</u>     | <u>469,604</u>                        |
| <b>DEFERRED INFLOWS OF RESOURCES</b>           |                                    |                                     |                      |                                       |
| Prepaid taxes                                  | 290                                | -                                   | 290                  | -                                     |
| Pension deferrals                              | 146,737                            | 230,689                             | 377,426              | 17,967                                |
| Total deferred inflows of resources            | <u>147,027</u>                     | <u>230,689</u>                      | <u>377,716</u>       | <u>17,967</u>                         |
| <b>NET POSITION</b>                            |                                    |                                     |                      |                                       |
| Net investment in capital assets               | 1,003,761                          | 4,809,064                           | 5,812,825            | 36,030                                |
| Restricted for:                                |                                    |                                     |                      |                                       |
| Stabilization by state statute                 | 543,206                            | -                                   | 543,206              | -                                     |
| USDA Reserve                                   | 87,580                             | -                                   | 87,580               | -                                     |
| Restricted for streets                         | 127,439                            | -                                   | 127,439              | -                                     |
| Working capital                                | -                                  | -                                   | -                    | 53,384                                |
| Unrestricted                                   | 1,126,891                          | 2,486,150                           | 3,613,041            | 2,944                                 |
| Total Net Position                             | <u>\$ 2,888,877</u>                | <u>\$ 7,295,214</u>                 | <u>\$ 10,184,091</u> | <u>\$ 92,358</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, 2022**

**Exhibit 2**  
**Page 1 of 2**

| <b>Functions/Programs</b>         | <b>Expenses</b>     | <b>Program Revenues</b>     |   |   |
|-----------------------------------|---------------------|-----------------------------|---|---|
|                                   |                     | <b>Charges for Services</b> | <b>Operating Grants and Contributions</b> | <b>Capital Grants and Contributions</b> |
| <b>Governmental Activities:</b>   |                     |                             |   |   |
| General government                | \$ 522,645          | \$ 131,695                  | \$ -                                      | \$ -                                    |
| Public safety                     | 421,341             | -                           | 103,908                                   | -                                       |
| Transportation                    | 368,301             | -                           | 59,140                                    | -                                       |
| Economic and physical development | 30,443              | -                           | -   | 70,002                                  |
| Environmental protection          | 44,075              | -                           | -   | -                                       |
| Sanitation                        | 167,245             | -                           | -   | -                                       |
| Loss on disposal of assets        | 11,404              | -                           | -   | -                                       |
| Interest on long-term debt        | 19,959              | -                           | -   | -                                       |
| Total governmental activities     | <u>1,585,413</u>    | <u>131,695</u>              | <u>163,048</u>                            | <u>70,002</u>                           |
| <b>Business-Type Activities:</b>  |                     |                             |   |   |
| Water and sewer                   | 2,041,722           | 1,927,040                   | 59,570                                    | -                                       |
| Electric                          | 3,268,043           | 3,209,570                   | 43,500                                    | -                                       |
| Total business-type activities    | <u>5,309,765</u>    | <u>5,136,610</u>            | <u>103,070</u>                            | <u>-</u>                                |
| Total primary government          | <u>\$ 6,895,178</u> | <u>\$ 5,268,305</u>         | <u>\$ 266,118</u>                         | <u>\$ 70,002</u>                        |
| <b>Component Unit:</b>            |                     |                             |   |   |
| ABC Board                         | <u>\$ 1,780,143</u> | <u>\$ 1,795,226</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, 2022**

**Exhibit 2**  
**Page 2 of 2**

| <b>Functions/Programs</b>                                     | <b>Net (Expense) Revenue and Changes in Net Position</b> |                                     |                       | <b>Town of Hertford<br/>ABC Board</b> |
|---|--|-------------------------------------|-----------------------|---------------------------------------|
|   | <b>Primary Government</b>                                |                                     |                       |                                       |
|   | <b>Governmental<br/>Activities</b>                       | <b>Business-Type<br/>Activities</b> | <b>Total</b>          |                                       |
| <b>Governmental Activities:</b>                               |  |                                     |                       |                                       |
| General government  | \$ (390,950)   | \$ -                                | \$ (390,950)          |                                       |
| Public safety   | (317,433)  | -                                   | (317,433)             |                                       |
| Transportation  | (309,161)  | -                                   | (309,161)             |                                       |
| Economic and physical development                             | 39,559   | -                                   | 39,559                |                                       |
| Environmental protection                                      | (44,075)   | -                                   | (44,075)              |                                       |
| Sanitation  | (167,245)  | -                                   | (167,245)             |                                       |
| Loss on disposal of assets                                    | (11,404)   | -                                   | (11,404)              |                                       |
| Interest on long-term debt                                    | (19,959)   | -                                   | (19,959)              |                                       |
| Total governmental activities                                 | <u>(1,220,668)</u>                                       | <u>-</u>                            | <u>(1,220,668)</u>    |                                       |
| <b>Business-Type Activities:</b>                              |  |                                     |                       |                                       |
| Water and sewer   | -  | (55,112)                            | (55,112)              |                                       |
| Electric  | -  | (14,973)                            | (14,973)              |                                       |
| Total business-type activities                                | <u>-</u>   | <u>(70,085)</u>                     | <u>(70,085)</u>       |                                       |
| Total primary government                                      | <u>\$ (1,220,668)</u>                                    | <u>\$ (70,085)</u>                  | <u>\$ (1,290,753)</u> |                                       |
| <b>Component Unit:</b>  |  |                                     |                       |                                       |
| ABC Board   |  |                                     |                       | <u>\$ 15,083</u>                      |
| <b>General Revenues:</b>                                      |  |                                     |                       |                                       |
| Ad valorem taxes  | 734,885  | -                                   | 734,885               | -                                     |
| Other taxes   | 35,240   | -                                   | 35,240                | -                                     |
| Grants and contributions not restricted to a specific program | 1,003,809  | -                                   | 1,003,809             | -                                     |
| Miscellaneous   | 6,977  | -                                   | 6,977                 | -                                     |
| Investment earnings, unrestricted                             | 1,357  | 61                                  | 1,418                 | 307                                   |
| Total general revenues  | <u>1,782,268</u>   | <u>61</u>                           | <u>1,782,329</u>      | <u>15,390</u>                         |
| Transfers   | 84,000   | (84,000)                            | -                     | -                                     |
| Total general revenues and transfers                          | <u>1,866,268</u>   | <u>(83,939)</u>                     | <u>1,782,329</u>      | <u>15,390</u>                         |
| Change in net position  | <u>645,600</u>   | <u>(154,024)</u>                    | <u>491,576</u>        | <u>15,390</u>                         |
| Net position, beginning, as previously reported               | 2,192,277  | 7,270,350                           | 9,462,627             | 76,968                                |
| Prior period adjustment                                       | 51,000   | 178,888                             | 229,888               | -                                     |
| Net position, beginning, as restated                          | <u>2,243,277</u>   | <u>7,449,238</u>                    | <u>9,692,515</u>      | <u>76,968</u>                         |
| Net position, ending  | <u>\$ 2,888,877</u>                                      | <u>\$ 7,295,214</u>                 | <u>\$ 10,184,091</u>  | <u>\$ 92,358</u>                      |

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

**Town of Hertford, North Carolina**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2022**

**Exhibit 3**

|   | <u>Major Funds</u>  |                   | <u>Non-major</u>                | <u>Total</u>        |
|---|---------------------|-------------------|---------------------------------|---------------------|
|   | <u>General Fund</u> | <u>ARP Fund</u>   | <u>Other Governmental Funds</u> |                     |
| <b>ASSETS</b>   |                     |                   |                                 |                     |
| Cash and investments  | \$ 1,387,462        | \$ -              | \$ 200                          | \$ 1,387,662        |
| Receivables, net:   |                     |                   |                                 |                     |
| Taxes   | 75,110              | -                 | -                               | 75,110              |
| Accounts  | 44,944              | -                 | -                               | 44,944              |
| Due from other governments  | 162,515             | -                 | 113,025                         | 275,540             |
| Due from component unit   | 222,722             | -                 | -                               | 222,722             |
| Restricted cash and cash equivalents                                | 215,019             | 336,704           | -                               | 551,723             |
| Total assets  | <u>\$ 2,107,772</u> | <u>\$ 336,704</u> | <u>\$ 113,225</u>               | <u>\$ 2,557,701</u> |
| <b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b> |                     |                   |                                 |                     |
| <b>LIABILITIES</b>  |                     |                   |                                 |                     |
| Accounts payable and accrued liabilities                            | \$ 46,228           | \$ -              | \$ 110,795                      | \$ 157,023          |
| Unearned revenue  | -                   | 336,704           | -                               | 336,704             |
| Due to other funds  | 75,977              | -                 | -                               | 75,977              |
| Total liabilities   | <u>122,205</u>      | <u>336,704</u>    | <u>110,795</u>                  | <u>569,704</u>      |
| <b>DEFERRED INFLOWS OF RESOURCES</b>                                |                     |                   |                                 |                     |
| Property taxes receivable, net                                      | 75,110              | -                 | -                               | 75,110              |
| Prepaid tax   | 290                 | -                 | -                               | 290                 |
| Total deferred inflows of resources                                 | <u>75,400</u>       | <u>-</u>          | <u>-</u>                        | <u>75,400</u>       |
| <b>FUND BALANCE</b>   |                     |                   |                                 |                     |
| Restricted:   |                     |                   |                                 |                     |
| Stabilization by state statute                                      | 430,181             | -                 | 113,025                         | 543,206             |
| Streets - Powell bill   | 127,439             | -                 | -                               | 127,439             |
| USDA Reserve  | 87,580              | -                 | -                               | 87,580              |
| Assigned  | -                   | -                 | 200                             | 200                 |
| Unassigned  | 1,264,967           | -                 | (110,795)                       | 1,154,172           |
| Total fund balance  | <u>1,910,167</u>    | <u>-</u>          | <u>2,430</u>                    | <u>1,912,597</u>    |
| Total liabilities, deferred inflows of resources, and fund balance  | <u>\$ 2,107,772</u> | <u>\$ 336,704</u> | <u>\$ 113,225</u>               | <u>\$ 2,557,701</u> |

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

|   |                     |
|---|---------------------|
| Total fund balance  | \$ 1,912,597        |
| Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the funds. | 1,566,584           |
| Deferred outflows of resources related to pensions are not reported in the funds.   | 162,039             |
| Earned revenues considered deferred inflows of resources in fund statements fund statements.  | 75,110              |
| Deferred inflows of resources related to pensions are not reported in the funds.  | (146,737)           |
| The following long-term liabilities are not due and payable in the current period and, therefore, are no reported in the funds:                             |                     |
| Net pension liability - LGERS   | (97,901)            |
| Accrued interest  | (13,979)            |
| Gross long-term debt  | (562,823)           |
| Compensated absences  | (6,013)             |
| Net position of governmental activities   | <u>\$ 2,888,877</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**  
**Governmental Funds**  
**For the Year Ended June 30, 2022**

**Exhibit 4**  
**Page 1 of 2**

|   | <u>Major Funds</u>  |                 | <u>Non-major</u>                | <u>Total</u>        |
|---|---------------------|-----------------|---------------------------------|---------------------|
|   | <u>General Fund</u> | <u>ARP Fund</u> | <u>Other Governmental Funds</u> |                     |
| <b>REVENUES</b>                         |                     |                 |                                 |                     |
| Ad valorem taxes                        | \$ 724,867          | \$ -            | \$ -                            | \$ 724,867          |
| Other taxes and licenses                | 35,240              | -               | -                               | 35,240              |
| Unrestricted intergovernmental revenues | 1,003,809           | -               | -                               | 1,003,809           |
| Restricted intergovernmental revenues   | 163,048             | -               | 70,002                          | 233,050             |
| Sales and services                      | 131,695             | -               | -                               | 131,695             |
| Investment earnings                     | 1,357               | -               | -                               | 1,357               |
| Miscellaneous                           | 6,977               | -               | -                               | 6,977               |
| Total Revenues                          | <u>2,066,993</u>    | <u>-</u>        | <u>70,002</u>                   | <u>2,136,995</u>    |
| <b>EXPENDITURES</b>                     |                     |                 |                                 |                     |
| Current:                                |                     |                 |                                 |                     |
| General government                      | 506,295             | -               | -                               | 506,295             |
| Public safety                           | 475,626             | -               | -                               | 475,626             |
| Transportation                          | 295,210             | -               | -                               | 295,210             |
| Economic and physical development       | 33,152              | -               | 67,772                          | 100,924             |
| Environmental protection                | 44,075              | -               | -                               | 44,075              |
| Sanitation                              | 167,245             | -               | -                               | 167,245             |
| Debt service:                           |                     |                 |                                 |                     |
| Principal                               | 45,050              | -               | -                               | 45,050              |
| Interest and other charges              | 21,122              | -               | -                               | 21,122              |
| Total Expenditures                      | <u>1,587,775</u>    | <u>-</u>        | <u>67,772</u>                   | <u>1,655,547</u>    |
| Excess of revenues over expenditures    | <u>479,218</u>      | <u>-</u>        | <u>2,230</u>                    | <u>481,448</u>      |
| <b>OTHER FINANCIAL SOURCES (USES)</b>   |                     |                 |                                 |                     |
| Sale of capital assets                  | 39,696              | -               | -                               | 39,696              |
| Transfer from electric fund             | 84,000              | -               | -                               | 84,000              |
| Total other financing sources (uses)    | <u>123,696</u>      | <u>-</u>        | <u>-</u>                        | <u>123,696</u>      |
| Net change in fund balance              | 602,914             | -               | 2,230                           | 605,144             |
| Fund balance, beginning                 | <u>1,307,253</u>    | <u>-</u>        | <u>200</u>                      | <u>1,307,453</u>    |
| Fund balance, ending                    | <u>\$ 1,910,167</u> | <u>\$ -</u>     | <u>\$ 2,430</u>                 | <u>\$ 1,912,597</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**  
**Governmental Funds**  
**For the Year Ended June 30, 2022**

**Exhibit 4**  
**Page 2 of 2**

Amounts reported for governmental activities in the Statement of Activities (Exhibit B) are different because:

|   |    |         |
|---|----|---------|
| Net changes in fund balances - total governmental funds (Exhibit 4) | \$ | 605,144 |
|---|----|---------|

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 |  | 10,018 |
|--|--|--------|

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 as follows:

|  |  |           |
|--|--|-----------|
| Capital outlay expenditures which were capitalized |  | 67,872    |
| Disposal of fixed assets                           |  | (51,100)  |
| Depreciation expense for governmental assets       |  | (168,533) |

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.

|                                      |  |        |
|--------------------------------------|--|--------|
| Principal payments on long-term debt |  | 45,050 |
|--------------------------------------|--|--------|

|  |  |        |
|--|--|--------|
| Contributions to the pension plan in the current fiscal year not included in the Statement of Activities |  | 32,174 |
|--|--|--------|

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:

|                          |  |          |
|--------------------------|--|----------|
| Accrued interest         |  | 1,163    |
| Pension expense - LGERS  |  | (22,679) |
| Pension expense - LEOSSA |  | 115,804  |
| Compensated absences     |  | 10,687   |

|  |    |         |
|--|----|---------|
| Total changes in net position of governmental activities | \$ | 645,600 |
|--|----|---------|

*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**  
**General Fund**  
**For the Year Ended June 30, 2022**

Exhibit 5

|                                       | <u>Budgeted Amounts</u> |                  | <u>Actual</u><br>Amounts | <u>Variance with</u><br><u>Final Budget -</u><br><u>Over (Under)</u> |
|---------------------------------------|-------------------------|------------------|--------------------------|--|
|                                       | <u>Original</u>         | <u>Final</u>     |                          |  |
| <b>REVENUES</b>                       |                         |                  |                          |  |
| Ad valorem taxes                      | \$ 723,162              | \$ 723,162       | 724,867                  | \$ 1,705   |
| Unrestricted intergovernmental        | 770,038                 | 913,174          | 1,003,809                | 90,635   |
| Other taxes and licenses              | 27,300                  | 27,300           | 35,240                   | 7,940  |
| Restricted intergovernmental          | 161,590                 | 172,106          | 163,048                  | (9,058)  |
| Sales and services                    | 298,062                 | 144,410          | 131,695                  | (12,715)   |
| Investment earnings                   | 500                     | 500              | 1,357                    | 857  |
| Miscellaneous                         | -                       | 68               | 6,977                    | 6,909  |
| Total Revenues                        | <u>1,980,652</u>        | <u>1,980,720</u> | <u>2,066,993</u>         | <u>86,273</u>  |
| <b>EXPENDITURES</b>                   |                         |                  |                          |  |
| Current:                              |                         |                  |                          |  |
| General government                    | 504,863                 | 562,071          | 506,295                  | 55,776   |
| Public safety                         | 622,225                 | 670,557          | 475,626                  | 194,931  |
| Transportation                        | 509,387                 | 441,215          | 295,210                  | 146,005  |
| Economic and physical development     | 178,915                 | 118,915          | 33,152                   | 85,763   |
| Environmental protection              | 65,000                  | 58,000           | 44,075                   | 13,925   |
| Sanitation                            | 143,000                 | 153,300          | 167,245                  | (13,945)   |
| Debt service:                         |                         |                  |                          |  |
| Principal                             | 41,262                  | 41,262           | 45,050                   | (3,788)  |
| Interest                              | -                       | 19,400           | 21,122                   | (1,722)  |
| Total Expenditures                    | <u>2,064,652</u>        | <u>2,064,720</u> | <u>1,587,775</u>         | <u>476,945</u>   |
| Revenues over (under) expenditures    | <u>(84,000)</u>         | <u>(84,000)</u>  | <u>479,218</u>           | <u>563,218</u>   |
| <b>OTHER FINANCING SOURCES</b>        |                         |                  |                          |  |
| Sale of capital assets                | -                       | (34,700)         | 39,696                   | (74,396)   |
| Transfer from electric fund           | 84,000                  | 84,000           | 84,000                   | -  |
| Total other financing sources (users) | <u>84,000</u>           | <u>49,300</u>    | <u>123,696</u>           | <u>(74,396)</u>  |
| Appropriated fund balance             | <u>-</u>                | <u>34,700</u>    | <u>-</u>                 | <u>(34,700)</u>  |
| Net change in fund balance            | <u>\$ -</u>             | <u>\$ -</u>      | <u>602,914</u>           | <u>\$ 602,914</u>  |
| Fund balance, beginning               |                         |                  | <u>1,307,253</u>         |  |
| Fund balance, ending                  |                         |                  | <u>\$ 1,910,167</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, 2022**

**Exhibit 6**

|  | <b>Water and<br/>Sewer Fund</b> | <b>Electric Fund</b> | <b>Total</b>        |
|--|---------------------------------|----------------------|---------------------|
| <b>ASSETS</b>                                  |                                 |                      |                     |
| Current assets:                                |                                 |                      |                     |
| Cash and cash equivalents                      | \$ 680,173                      | \$ 900,355           | \$ 1,580,528        |
| Accounts receivable, net                       | 422,454                         | 560,593              | 983,047             |
| Due from other governments                     | 69,450                          | 96,140               | 165,590             |
| Note Receivable - Winfall settlement - current | 15,000                          | -                    | 15,000              |
| Due from other funds                           | 339                             | 115,636              | 115,975             |
| Restricted cash and cash equivalents           | -                               | 124,071              | 124,071             |
| Total current assets                           | <u>1,187,416</u>                | <u>1,796,795</u>     | <u>2,984,211</u>    |
| Noncurrent assets:                             |                                 |                      |                     |
| Note Receivable - Winfall settlement           | <u>180,000</u>                  | <u>-</u>             | <u>180,000</u>      |
| Capital assets:                                |                                 |                      |                     |
| Land and construction in progress              | 379,893                         | 145,139              | 525,032             |
| Other capital assets, net of depreciation      | 10,457,575                      | 316,727              | 10,774,302          |
| Capital assets                                 | <u>10,837,468</u>               | <u>461,866</u>       | <u>11,299,334</u>   |
| Total noncurrent assets                        | <u>11,017,468</u>               | <u>461,866</u>       | <u>11,479,334</u>   |
| Total assets                                   | <u>12,204,884</u>               | <u>2,258,661</u>     | <u>14,463,545</u>   |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>          |                                 |                      |                     |
| Pension deferrals                              | <u>134,487</u>                  | <u>120,258</u>       | <u>254,745</u>      |
| <b>LIABILITIES</b>                             |                                 |                      |                     |
| Current liabilities:                           |                                 |                      |                     |
| Accounts payable and accrued liabilities       | 99,199                          | 258,032              | 357,231             |
| Current portion of long-term debt              | 424,244                         | 11,453               | 435,697             |
| Compensated absences, current                  | 9,416                           | 7,727                | 17,143              |
| Due to other funds                             | 39,998                          | -                    | 39,998              |
| Liabilities payable from restricted assets:    |                                 |                      |                     |
| Customer deposits                              | -                               | 124,071              | 124,071             |
| Total current liabilities                      | <u>572,857</u>                  | <u>401,283</u>       | <u>974,140</u>      |
| Noncurrent liabilities:                        |                                 |                      |                     |
| Compensated absences                           | 5,548                           | 4,213                | 9,761               |
| Revolving loans                                | 1,780,944                       | -                    | 1,780,944           |
| Installment loan payable                       | 232,987                         | 163,642              | 396,629             |
| Bonds payable                                  | 3,877,000                       | -                    | 3,877,000           |
| Net pension liability                          | 81,255                          | 72,658               | 153,913             |
| Total noncurrent liabilities                   | <u>5,977,734</u>                | <u>240,513</u>       | <u>6,218,247</u>    |
| Total liabilities                              | <u>6,550,591</u>                | <u>641,796</u>       | <u>7,192,387</u>    |
| <b>DEFERRED INFLOWS OF RESOURCES</b>           |                                 |                      |                     |
| Pension deferrals                              | <u>121,787</u>                  | <u>108,902</u>       | <u>230,689</u>      |
| <b>NET POSITION</b>                            |                                 |                      |                     |
| Net investment in capital assets               | 4,522,293                       | 286,771              | 4,809,064           |
| Unrestricted                                   | 1,144,700                       | 1,341,450            | 2,486,150           |
| Total net position                             | <u>\$ 5,666,993</u>             | <u>\$ 1,628,221</u>  | <u>\$ 7,295,214</u> |

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

**Town of Hertford, North Carolina**  
**Statement of Revenues, Expenses, and Changes in Fund Net Position**  
**Proprietary Funds**  
**For the Year Ended June 30, 2022**

**Exhibit 7**

|  | <b>Water and<br/>Sewer Fund</b> | <b>Electric Fund</b> | <b>Total</b>        |
|--|---------------------------------|----------------------|---------------------|
| <b>OPERATING REVENUES</b>  |                                 |                      |                     |
| Charges for services   | \$ 1,838,866                    | \$ 2,912,178         | \$ 4,751,044        |
| Winfall charges  | 76,715                          | -                    | 76,715              |
| Water and sewer taps   | 2,160                           | -                    | 2,160               |
| Miscellaneous revenue  | 9,299                           | 297,392              | 306,691             |
| <b>Total operating revenues</b>                                  | <u>1,927,040</u>                | <u>3,209,570</u>     | <u>5,136,610</u>    |
| <b>OPERATING EXPENSES</b>  |                                 |                      |                     |
| Water and sewer operations                                       | 1,053,962                       | -                    | 1,053,962           |
| Electric operations  | -                               | 3,172,830            | 3,172,830           |
| Depreciation   | 778,751                         | 87,219               | 865,970             |
| <b>Total operating expenses</b>                                  | <u>1,832,713</u>                | <u>3,260,049</u>     | <u>5,092,762</u>    |
| <b>Operating income (loss)</b>                                   | <u>94,327</u>                   | <u>(50,479)</u>      | <u>43,848</u>       |
| <b>NONOPERATING REVENUES (EXPENSES)</b>                          |                                 |                      |                     |
| Investment earnings  | 54                              | 7                    | 61                  |
| Restricted intergovernmental revenues                            | 59,570                          | 43,500               | 59,570              |
| Interest and other charges                                       | (209,009)                       | (7,994)              | (217,003)           |
| <b>Total nonoperating revenue (expenses)</b>                     | <u>(149,385)</u>                | <u>35,513</u>        | <u>(157,372)</u>    |
| <b>Loss before transfers</b>                                     | (55,058)                        | (14,966)             | (70,024)            |
| <b>Transfers to other funds</b>                                  | <u>-</u>                        | <u>(84,000)</u>      | <u>(84,000)</u>     |
| <b>Change in net position</b>                                    | (55,058)                        | (98,966)             | (154,024)           |
| <b>Total net position, beginning,<br/>as previously reported</b> | 5,722,051                       | 1,548,299            | 7,270,350           |
| <b>Prior period adjustment</b>                                   | -                               | 178,888              | 178,888             |
| <b>Total net position, beginning,<br/>as restated</b>            | <u>5,722,051</u>                | <u>1,727,187</u>     | <u>7,449,238</u>    |
| <b>Total net position, ending</b>                                | <u>\$ 5,666,993</u>             | <u>\$ 1,628,221</u>  | <u>\$ 7,295,214</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, 2022**

**Exhibit 8**

|   | <b>Water and<br/>Sewer Fund</b> | <b>Electric Fund</b> | <b>Total</b> |
|---|---------------------------------|----------------------|--------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                                 |                      |              |
| Cash received from customers  | \$ 1,874,938                    | \$ 3,244,227         | \$ 5,119,165 |
| Cash paid for goods and services  | (598,586)                       | (2,789,189)          | (3,387,775)  |
| Cash paid to employees  | (373,390)                       | (337,994)            | (711,384)    |
| Cash received from Winfall settlement   | 15,000                          | -                    | 15,000       |
| Customer deposits received (returned)   | -                               | (5,384)              | (5,384)      |
| Net cash provided (used) by operating activities  | 917,962                         | 111,660              | 1,029,622    |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>                                  |                                 |                      |              |
| Operating grants  | (396)                           | 10,000               | 9,604        |
| Transfers to other funds  | -                               | (84,000)             | (84,000)     |
| Net cash provided (used) by noncapital financing activities                             | (396)                           | (74,000)             | (74,396)     |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>                         |                                 |                      |              |
| Principal paid on long-term debt  | (419,656)                       | (10,538)             | (430,194)    |
| Acquisition of capital assets   | -                               | (34,636)             | (34,636)     |
| Interest and other charges  | (210,116)                       | (8,344)              | (218,460)    |
| Net cash provided (used) by capital and related financing activities                    | (629,772)                       | (53,518)             | (683,290)    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                                 |                      |              |
| Interest and dividends  | 54                              | 7                    | 61           |
| Net cash provided (used) by investing activities  | 54                              | 7                    | 61           |
| Net increase (decrease) in cash and cash equivalents                                    | 287,848                         | (15,851)             | 271,997      |
| Cash and cash equivalents, July 1   | 392,325                         | 1,040,277            | 1,432,602    |
| Cash and cash equivalents, June 30  | \$ 680,173                      | \$ 1,024,426         | \$ 1,704,599 |
| <b>Reconciliation of operating income to net cash provided by operating activities</b>  |                                 |                      |              |
| Operating income  | \$ 94,327                       | \$ (50,479)          | \$ 43,848    |
| Adjustments to reconcile operating income to net cash provided by operating activities: |                                 |                      |              |
| Depreciation  | 778,751                         | 87,219               | 865,970      |
| Changes in assets, deferred outflows of resources, and liabilities:                     |                                 |                      |              |
| (Increase) decrease in accounts receivable, net   | (51,033)                        | 61,666               | 10,633       |
| (Increase) decrease in due from other governments                                       | (1,070)                         | (27,004)             | (28,074)     |
| (Increase) decrease in note receivable - Winfall settlement                             | 15,000                          | -                    | 15,000       |
| Increase in net pension liability   | (1,448)                         | (37,446)             | (38,894)     |
| Increase (decrease) in accounts payable and accrued liabilities                         | 33,259                          | 26,355               | 59,614       |
| Increase (decrease) in customer deposits  | -                               | (5,385)              | (5,385)      |
| Increase (decrease) in compensated absences   | 4,859                           | (9,151)              | (4,292)      |
| Increase (decrease) in deferred inflows of resources for pensions                       | 117,318                         | 102,953              | 220,271      |
| (Increase) decrease in deferred outflows of resources for pensions                      | (72,001)                        | (37,068)             | (109,069)    |
| Total adjustments   | 823,635                         | 162,139              | 985,774      |
| Net cash provided by operating activities   | \$ 917,962                      | \$ 111,660           | \$ 1,029,622 |

*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, 2022

### NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

#### **A. Reporting Entity**

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

#### **Town of Hertford ABC Board**

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

#### **B. Basis of Presentation**

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

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

*Fund Financial Statements:* The fund financial statements provide information about the Town's funds. Separate statements for each fund category – *governmental and proprietary* – are presented. 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.

# TOWN OF HERTFORD, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022

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.

**American Rescue Plan Fund.** This fund accounts for funds used to account for ARP expenditures.

The Town maintains the following nonmajor governmental funds:

**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 reports the following major enterprise funds:

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

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

### C. Measurement Focus and Basis of Accounting

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

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

# TOWN OF HERTFORD, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022

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

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

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

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

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

# TOWN OF HERTFORD, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022

### **D. Budgetary Data**

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund and the Enterprise Funds. All annual appropriations lapse at the fiscal-year end. Project ordinances are adopted for the ARPA Special Revenue Fund, 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**

#### **1. Deposits and Investments**

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

State law [G.S. 159-30(c)(8)] authorizes the Town and the ABC Board to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances and the North Carolina Capital Management Trust (NCCMT). The Town's and the ABC Board's investments are 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.

#### **2. Cash and Cash Equivalents**

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

#### **3. Restricted Assets**

The Town is required by the USDA to set aside ten percent (10%) of the current year's note payment as restricted cash in a separate account for ten years or until one payment has accrued or the note is paid out. For the fiscal year ended June 30, 2022, the Town has accumulated \$87,580 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

# TOWN OF HERTFORD, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022

as restricted cash because it can be expended only for the purposes outlined in G.S. 136-41.1 through 136-41.4. The Town is required by the U.S. Treasury to classify the American Rescue Plan funds as restricted because they can be expended only for the purposes outlined by the U.S. Treasury.

### Governmental Activities:

#### General Fund:

|                               |                |
|-------------------------------|----------------|
| USDA Reserve                  | \$ 87,580      |
| Streets - Powell Bill         | <u>127,439</u> |
| Total General Fund            | <u>215,019</u> |
| ARPA Fund                     | <u>336,704</u> |
| Total governmental activities | <u>551,723</u> |

### Business-Type Activities:

#### Electric Fund

|                                |                   |
|--------------------------------|-------------------|
| Customer deposits              | <u>124,071</u>    |
| Total business-type activities | <u>124,071</u>    |
| Total restricted cash          | <u>\$ 675,794</u> |

#### 4. Ad Valorem Taxes Receivable

In accordance with state law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1st, the beginning of the fiscal year. The taxes are due on September 1st (lien date); however, interest does not accrue until the following January 6th. These taxes are based on the assessed values as of January 1, 2021. As allowed by state law, the Town has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the Town's General Fund, ad valorem tax revenues are reported net of such discounts.

#### 5. Allowances for Doubtful Accounts

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

#### 6. Inventory and Prepaid Items

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

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

# TOWN OF HERTFORD, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022

### 7. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets received prior to June 15, 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:

| <u>Asset</u>            | <u>Years</u> |
|-------------------------|--------------|
| 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:

| <u>Asset</u>            | <u>Years</u> |
|-------------------------|--------------|
| Buildings               | 20 years     |
| Equipment and furniture | 10 years     |
| Automobiles             | 3-5 years    |
| Computers               | 3 years      |

### 8. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of 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 assets 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 2022 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 assets 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.

# TOWN OF HERTFORD, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022

### 9. Long-Term Obligations

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

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

### 10. Compensated Absences

The vacation policies of the Town and the ABC Board provide for the accumulation of up to thirty days earned vacation leave with such leave being fully vested when earned. For the Town's government-wide and proprietary funds and the ABC Board, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned. The Town has assumed a first-in, first-out method of using accumulated compensated time. The portion of that time that is estimated to be used in the next fiscal year has been designated as a current liability in the government-wide financial statements.

Both the Town and the ABC Board's sick leave policies provide for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since neither the Town nor the ABC Board has any obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

### 11. Net Position/Fund Balances

#### *Net Position*

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

#### *Fund Balances*

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

# TOWN OF HERTFORD, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022

The governmental fund types classify fund balance as follows:

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

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

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

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

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

**Committed Fund Balance** – portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of the 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 the Town of Hertford intends to use for specific purposes.

*Assigned for Transportation* – portion of fund balance that has been budgeted by the Board for constructions of a resurface project.

**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.

# **TOWN OF HERTFORD, NORTH CAROLINA**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022**

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.

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

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

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

### **Noncompliance with North Carolina General Statutes**

#### **Excess of Expenditures over Appropriations**

For the fiscal year ended June 30, 2022, the expenditures made in the Town's General Fund exceeded the authorized appropriations made by the governing board for sanitation by \$13,945 and debt service by \$5,510. The over-expenditure for debt service and sanitation occurred due to the Board not budgeting funds to cover the total expenses. The Town's Electric Fund had expenditures exceeding authorized appropriations by \$255,563. The Town incurred more usage than anticipated which 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, 2022, 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, 2022, the Board-appointed Finance Officer was not individually bonded under a surety bond.

# TOWN OF HERTFORD, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022

### NOTE III – DETAIL NOTES ON ALL ACTIVITIES AND FUNDS

#### A. Assets

##### 1. Deposits

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

At June 30, 2022, the Town's deposits had a carrying amount of \$3,638,304, and a bank balance of \$3,577,050. 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 \$247,254 and the bank balance was \$240,066. All of the bank balance was covered by federal depository insurance. At June 30, 2022, the Town's petty cash fund totaled \$750 and the ABC Board's petty cash fund totaled \$400.

##### 2. Investments

At June 30, 2022, the Town of Hertford had \$4,930 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-F by Moody's Investors Service as of June 30, 2022. The Town has no formal policy regarding interest rate or credit risk of its investments.

*Level of Fair Value Hierarchy:* Level 1 debt securities are valued using directly observable, quoted prices (unadjusted) in active markets for identical assets. Level 2 debt securities are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' benchmark quoted prices.

# TOWN OF HERTFORD, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022

### 3. Receivables – Allowance for Doubtful Accounts

The amounts presented in the Balance Sheet and the Statement of Net Position for the year ended June 30, 2022 are net of the following allowances for doubtful accounts:

|                                       | <u>Accounts</u>   | <u>Taxes</u>     | <u>Due from<br/>Other<br/>Governments</u> | <u>Total</u>        |
|---------------------------------------|-------------------|------------------|---|---------------------|
| <b>Governmental Activities:</b>       |                   |                  |   |                     |
| <b>General Fund</b>                   |                   |                  |   |                     |
| Property taxes                        | \$ -              | \$ 117,081       | \$ -                                      | \$ 117,081          |
| Local option sales/franchise tax      | -                 | -                | 133,051                                   | 133,051             |
| Accounts receivable                   | 44,944            | -                | -   | 44,944              |
| Solid waste disposal tax              | -                 | -                | 336                                       | 336                 |
| Housing Authority                     | -                 | -                | 3,200                                     | 3,200               |
| DMV fees                              | -                 | -                | 6,360                                     | 6,360               |
| Sales tax refund                      | -                 | -                | 10,183                                    | 10,183              |
| Due from component unit               | -                 | -                | 222,722                                   | 222,722             |
| Motor vehicle tax                     | -                 | -                | 9,385                                     | 9,385               |
| Allowance for doubtful accounts       | -                 | (41,971)         | -   | (41,971)            |
| <b>Total General Fund</b>             | <b>44,944</b>     | <b>75,110</b>    | <b>385,237</b>                            | <b>505,291</b>      |
| <b>Waterfront Project</b>             |                   |                  |   |                     |
| Property taxes                        | -                 | -                | 113,025                                   | 113,025             |
| <b>Total governmental activities</b>  | <b>\$ 44,944</b>  | <b>\$ 75,110</b> | <b>\$ 498,262</b>                         | <b>\$ 618,316</b>   |
| <b>Water and Sewer</b>                |                   |                  |   |                     |
| Water and sewer                       | \$ 510,890        | \$ -             | \$ -                                      | \$ 510,890          |
| Allowance for doubtful accounts       | (88,436)          | -                | -   | (88,436)            |
| USDA                                  | -                 | -                | 59,570                                    | 59,570              |
| Other                                 | -                 | -                | 396                                       | 396                 |
| Sales tax refund                      | -                 | -                | 9,484                                     | 9,484               |
| <b>Total Water and Sewer</b>          | <b>422,454</b>    | <b>-</b>         | <b>69,450</b>                             | <b>491,904</b>      |
| <b>Electric Fund</b>                  |                   |                  |   |                     |
| Electric Fund                         | 605,774           | -                | -   | 605,774             |
| Allowance for doubtful accounts       | (45,181)          | -                | -   | (45,181)            |
| NCDOT                                 | -                 | -                | 33,500                                    | 33,500              |
| Other                                 | -                 | -                | 640                                       | 640                 |
| Utility franchise tax                 | -                 | -                | 19,274                                    | 19,274              |
| Sales tax refund                      | -                 | -                | 42,726                                    | 42,726              |
| <b>Total Electric Fund</b>            | <b>560,593</b>    | <b>-</b>         | <b>96,140</b>                             | <b>656,733</b>      |
| <b>Total business-type activities</b> | <b>\$ 983,047</b> | <b>\$ -</b>      | <b>\$ 165,590</b>                         | <b>\$ 1,148,637</b> |

# TOWN OF HERTFORD, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022

### 4. Capital Assets

**Primary Government.** Capital asset activity for the Primary Government for the year ended June 30, 2022 was as follows:

|   | <b>Beginning<br/>Balance</b> | <b>Additions</b> | <b>Retirements</b> | <b>Ending<br/>Balance</b> |
|---|------------------------------|------------------|--------------------|---------------------------|
| <b>Governmental Activities:</b>             |                              |                  |                    |                           |
| Non-Depreciable Assets:                     |                              |                  |                    |                           |
| Land  | \$ 458,305                   | \$ -             | \$ 51,100          | \$ 407,205                |
| Construction in progress                    | 181,955                      | 67,772           | 55,757             | 193,970                   |
| Total non-depreciable assets                | 640,260                      | 67,772           | 106,857            | 601,175                   |
| Depreciable Assets:                         |                              |                  |                    |                           |
| Buildings                                   | 1,011,287                    | 55,757           | -                  | 1,067,044                 |
| Equipment and furniture                     | 563,397                      | -                | -                  | 563,397                   |
| Other improvements                          | 1,233,396                    | -                | -                  | 1,233,396                 |
| Vehicles and motorized equipment            | 1,543,070                    | -                | -                  | 1,543,070                 |
| Total depreciable assets                    | 4,351,150                    | 55,757           | -                  | 4,406,907                 |
| Less Accumulated Depreciation:              |                              |                  |                    |                           |
| Buildings                                   | 816,448                      | 14,540           | -                  | 830,988                   |
| Equipment and furniture                     | 375,246                      | 25,231           | -                  | 400,477                   |
| Other improvements                          | 711,249                      | 50,036           | -                  | 761,285                   |
| Vehicles and motorized equipment            | 1,370,022                    | 78,726           | -                  | 1,448,748                 |
| Total accumulated depreciation              | 3,272,965                    | 168,533          | -                  | 3,441,498                 |
| Governmental activities capital assets, net | \$ 1,718,445                 | \$ (112,776)     | \$ -               | \$ 1,566,584              |

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

|                                 |            |
|---------------------------------|------------|
| <b>Governmental Activities:</b> |            |
| General government              | \$ 26,900  |
| Public safety                   | 64,062     |
| Public works                    | 77,571     |
| Total                           | \$ 168,533 |

# TOWN OF HERTFORD, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022

|  | <u>Beginning<br/>Balance</u> | <u>Additions</u> | <u>Retirements</u> | <u>Ending<br/>Balance</u> |
|--|------------------------------|------------------|--------------------|---------------------------|
| <b>Business-Type Activities:</b>                   |                              |                  |                    |                           |
| <b>Electric Fund</b>                               |                              |                  |                    |                           |
| Non-Depreciable Assets:                            |                              |                  |                    |                           |
| Construction in progress                           | \$ 110,503                   | \$ 34,636        | \$ -               | \$ 145,139                |
| Total non-depreciable assets                       | <u>110,503</u>               | <u>34,636</u>    | <u>-</u>           | <u>145,139</u>            |
| Depreciable Assets:                                |                              |                  |                    |                           |
| Equipment  | 286,052                      | -                | -                  | 286,052                   |
| Vehicles   | 265,904                      | -                | -                  | 265,904                   |
| Improvements                                       | <u>2,406,470</u>             | <u>-</u>         | <u>-</u>           | <u>2,406,470</u>          |
| Total depreciable assets                           | <u>2,958,426</u>             | <u>-</u>         | <u>-</u>           | <u>2,958,426</u>          |
| Less Accumulated Depreciation:                     |                              |                  |                    |                           |
| Equipment  | 221,437                      | 10,850           | -                  | 232,287                   |
| Vehicles   | 199,478                      | 19,278           | -                  | 218,756                   |
| Improvements                                       | <u>2,133,565</u>             | <u>57,091</u>    | <u>-</u>           | <u>2,190,656</u>          |
| Total accumulated depreciation                     | <u>2,554,480</u>             | <u>87,219</u>    | <u>-</u>           | <u>2,641,699</u>          |
| Total capital assets being depreciated, net        | <u>403,946</u>               | <u>(87,219)</u>  | <u>-</u>           | <u>316,727</u>            |
| Electric Funds capital assets, net                 | <u>514,449</u>               | <u>(52,583)</u>  | <u>-</u>           | <u>461,866</u>            |
| <b>Water and Sewer Fund</b>                        |                              |                  |                    |                           |
| Non-Depreciable Assets:                            |                              |                  |                    |                           |
| Land   | 379,893                      | -                | -                  | 379,893                   |
| Total non-depreciable assets                       | <u>379,893</u>               | <u>-</u>         | <u>-</u>           | <u>379,893</u>            |
| Depreciable Assets:                                |                              |                  |                    |                           |
| Buildings  | 1,700                        | -                | -                  | 1,700                     |
| Equipment  | 476,227                      | -                | -                  | 476,227                   |
| Vehicles   | 181,106                      | -                | -                  | 181,106                   |
| Improvements                                       | <u>23,139,476</u>            | <u>-</u>         | <u>-</u>           | <u>23,139,476</u>         |
| Total depreciable assets                           | <u>23,798,509</u>            | <u>-</u>         | <u>-</u>           | <u>23,798,509</u>         |
| Less Accumulated Depreciation:                     |                              |                  |                    |                           |
| Buildings  | 1,700                        | -                | -                  | 1,700                     |
| Equipment  | 450,277                      | 4,382            | -                  | 454,659                   |
| Vehicles   | 74,358                       | 25,600           | -                  | 99,958                    |
| Improvements                                       | <u>12,035,848</u>            | <u>748,769</u>   | <u>-</u>           | <u>12,784,617</u>         |
| Total accumulated depreciation                     | <u>12,562,183</u>            | <u>778,751</u>   | <u>-</u>           | <u>13,340,934</u>         |
| Total capital assets being depreciated, net        | <u>11,236,326</u>            | <u>(778,751)</u> | <u>-</u>           | <u>10,457,575</u>         |
| Water and Sewer Fund capital assets, net           | <u>11,616,219</u>            |                  |                    | <u>10,837,468</u>         |
| Total business-type activities capital assets, net | <u>\$ 12,130,668</u>         |                  |                    | <u>\$ 11,299,334</u>      |

# TOWN OF HERTFORD, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022

**Discretely presented component units.** Activity for the ABC Board for the year ended June 30, 2022, was as follows:

|   | <b>Beginning<br/>Balance</b> | <b>Additions</b> | <b>Retirements</b> | <b>Ending<br/>Balance</b> |
|---|------------------------------|------------------|--------------------|---------------------------|
| Non-Depreciable Assets:                     |                              |                  |                    |                           |
| Land  | \$ 5,472                     | \$ -             | \$ -               | \$ 5,472                  |
| Total non-depreciable assets                | 5,472                        | -                | -                  | 5,472                     |
| Depreciable Assets:                         |                              |                  |                    |                           |
| Buildings                                   | 36,310                       | -                | -                  | 36,310                    |
| Furniture and equipment                     | 261,182                      | -                | -                  | 261,182                   |
| Improvements                                | 11,871                       | -                | -                  | 11,871                    |
| Total depreciable assets                    | 309,363                      | -                | -                  | 309,363                   |
| Less Accumulated Depreciation:              |                              |                  |                    |                           |
| Buildings                                   | 36,310                       | -                | -                  | 36,310                    |
| Furniture and equipment                     | 123,512                      | 22,098           | -                  | 145,610                   |
| Improvements                                | 11,871                       | -                | -                  | 11,871                    |
| Total accumulated depreciation              | 171,693                      | 22,098           | -                  | 193,791                   |
| Total capital assets being depreciated, net | 137,670                      | (22,098)         | -                  | 115,572                   |
| Total ABC Board capital assets, net         | \$ 143,142                   |                  |                    | \$ 121,044                |

### B. Liabilities

#### 1. Payables

Payables at the governmental-wide level at June 30, 2022, were as follows:

|                               | <b>Vendors</b> | <b>Other</b> | <b>Total</b> |
|-------------------------------|----------------|--------------|--------------|
| Governmental Activities:      |                |              |              |
| General                       | \$ 53,092      | \$ 7,115     | \$ 60,207    |
| Other governmental            | 110,795        | -            | 110,795      |
| Total governmental activities | \$ 163,887     | \$ 7,115     | \$ 171,002   |
| Business-type Activities:     |                |              |              |
| Water and Sewer               | \$ 76,839      | \$ 22,360    | \$ 99,199    |
| Electric                      | 214,519        | 43,513       | 258,032      |
| Total governmental activities | \$ 291,358     | \$ 65,873    | \$ 357,231   |

# TOWN OF HERTFORD, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022

### 2. Pension Plan Obligations

#### a. Local Governmental Employees' Retirement System

*Plan Description.* The Town of Hertford and the ABC Board are participating employers in the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple- employer defined benefit pension plan administered by the State of North Carolina. LGERS membership is comprised of general employees and 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](http://www.osc.nc.gov).

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

*Contributions.* Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. The 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, 2022, was 11.35% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town of Hertford were \$82,753 for the year ended June 30, 2022.

*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.

# TOWN OF HERTFORD, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022

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

At June 30, 2022, the Town reported a liability of \$251,814 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2021. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2020. The total pension liability was then rolled forward to the measurement date of June 30, 2021 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, 2021 (measurement date), the Town's proportion was 0.01642%, which was an increase of 0.00239% from its proportion measured as of June 30, 2020.

For the year ended June 30, 2022, the Town recognized pension expense of \$145,569. At June 30, 2022, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|  | <b>Deferred<br/>Outflows of<br/>Resources</b> | <b>Deferred<br/>Inflows of<br/>Resources</b> |
|--|---|--|
| Differences between expected and actual experience   | \$ 80,111                                     | \$ -   |
| Changes of assumptions   | 158,205                                       | -  |
| Net difference between projected and actual earnings<br>on pension plan investments                              | -   | 359,770                                      |
| Changes in proportion and differences between employer<br>contributions and proportionate share of contributions | 95,715  | 17,656                                       |
| Town contributions subsequent to the measurement date  | 82,753  | -  |
| Total  | \$ 416,784                                    | \$ 377,426                                   |

\$82,753 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, 2023. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

#### Year ending June 30:

|       |             |
|-------|-------------|
| 2023  | \$ 55,263   |
| 2024  | 25,515      |
| 2025  | (14,171)    |
| 2026  | (110,002)   |
| Total | \$ (43,395) |

## TOWN OF HERTFORD, NORTH CAROLINA

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022

*Actuarial Assumptions.* The total pension liability in the December 31, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

|                           |   |
|---------------------------|---|
| Inflation                 | 2.5 percent   |
| Salary increases          | 3.25 to 8.25 percent, including inflation and productivity factor         |
| Investment rate of return | 6.50 percent, net of pension plan investment expense, including inflation |

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

The actuarial assumptions used in the December 31, 2020 valuation with the exception of the discount rate were based on the results of an actuarial experience study for the period January 1, 2015 through December 31, 2019.

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2021 are summarized in the following table:

| <b>Asset Class</b>         | <b>Target<br/>Allocation</b> | <b>Long-Term<br/>Expected Real<br/>Rate of Return</b> |
|----------------------------|------------------------------|---|
| Fixed income               | 29.0%                        | 1.4%  |
| Global equity              | 42.0%                        | 5.3%  |
| Real estate                | 8.0%                         | 4.3%  |
| Alternatives               | 8.0%                         | 8.9%  |
| Opportunistic Fixed Income | 7.0%                         | 6.0%  |
| Inflation sensitive        | 6.0%                         | 4.0%  |
| Total                      | 100%                         |   |

# TOWN OF HERTFORD, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022

The information above is based on 30-year expectations developed with the consulting actuary as part of a study conducted in 2016, and is part of the asset, liability, and investment policy of the North Carolina Retirement Systems. 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 3.05%. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized.

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

*Sensitivity of the Town’s proportionate share of the net pension liability to changes in the discount rate.* The following presents the Town’s proportionate share of the net pension liability calculated using the discount rate of 6.50 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 (5.50 percent) or one percentage point higher (7.50 percent) than the current rate:

|  | <b>1%<br/>Decrease<br/>(5.50%)</b> | <b>Discount<br/>Rate<br/>(6.50%)</b> | <b>1%<br/>Increase<br/>(7.50%)</b> |
|--|------------------------------------|--------------------------------------|------------------------------------|
| Town's proportionate share of<br>the net pension liability (asset) | \$ 977,531                         | \$ 251,814                           | \$ (345,404)                       |

*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.

*b. Law Enforcement Officers Special Separation Allowance*

The Town contracted with the County for public safety for fiscal year June 30, 2022, therefore eliminating the Law enforcement officers special separation allowance.

*c. Supplemental Retirement Income Plan for General Employees*

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

# TOWN OF HERTFORD, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022

*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, 2022 were \$38,364, which consisted of \$25,826 from the Town and \$12,538 from the employees.

### 3. 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.

### 4. Deferred Inflows and Outflows of Resources

The Town has several deferred outflows of resources. Each deferral may be accounted for differently under the modified accrual basis of accounting and the full accrual basis of accounting. The following is a summary of each deferral under each basis of accounting:

|  | <b>Full<br/>Accrual</b> |
|--|-------------------------|
| <b>Deferred Outflows of Resources:</b> |                         |
| Governmental activities:               |                         |
| Pension - LGERS                        | \$ 162,039              |
| Business-type activities:              |                         |
| Pension - LGERS                        | 254,745                 |
| Total                                  | \$ 416,784              |

# TOWN OF HERTFORD, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022

|                                       | <b>Modified<br/>Accrual</b> | <b>Full<br/>Accrual</b> |
|---------------------------------------|-----------------------------|-------------------------|
| <b>Deferred Inflows of Resources:</b> |                             |                         |
| Governmental activities:              |                             |                         |
| Unavailable revenue:                  |                             |                         |
| Property taxes receivable             | \$ 75,110                   | \$ -                    |
| Prepaid property taxes                | 290                         | 290                     |
| Pension - LGERS                       | -                           | 146,737                 |
| Total governmental activities         | 75,400                      | 147,027                 |
| Business-type activities:             |                             |                         |
| Pension - LGERS                       | -                           | 230,689                 |
| Total                                 | \$ 75,400                   | \$ 377,716              |

### 5. Risk Management

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

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

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

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

# TOWN OF HERTFORD, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022

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.

### **6. 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.

### **7. Long-Term Obligations**

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

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

In July 2002, the Town entered into 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, 2022 is \$4,886.

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, 2022 is \$525,285 (\$175,095 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, 2022 is \$56,420.

# TOWN OF HERTFORD, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022

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, 2022 is \$309,455.

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, 2022 is \$16,967.

In August 2020, the Town entered into a \$128,000 direct borrowing installment note for \$128,000 to finance the purchase of Vac-Con Model 11 equipment. The finance contract requires 10 semi-annual payments of \$14,413, plus 4.435% interest and matures in 2026. The Town’s outstanding note from direct placement of the equipment related to water and sewer activities, contain a provision that in an event of default, the outstanding amounts become immediately due if the Town is unable to make payment. The note is secured by the equipment. The balance at June 30, 2022 is \$95,858.

The future minimum payments of the installment purchases as of June 30, 2022, including \$246,146 of interest, are as follows:

| Year Ending<br>June 30 | Governmental Activities |                   | Business-type Activities |                   | Total               |                   |
|------------------------|-------------------------|-------------------|--------------------------|-------------------|---------------------|-------------------|
|                        | Principal               | Interest          | Principal                | Interest          | Principal           | Interest          |
| 2023                   | \$ 47,119               | \$ 19,012         | \$ 49,419                | \$ 18,667         | \$ 96,538           | \$ 37,679         |
| 2024                   | 43,708                  | 17,304            | 51,084                   | 16,574            | 94,792              | 33,878            |
| 2025                   | 45,796                  | 15,775            | 52,807                   | 14,389            | 98,603              | 30,164            |
| 2026                   | 40,794                  | 14,191            | 40,182                   | 12,106            | 80,976              | 26,297            |
| 2027                   | 42,240                  | 12,745            | 27,056                   | 10,690            | 69,296              | 23,435            |
| 2028-2032              | 189,639                 | 42,798            | 153,535                  | 35,193            | 343,174             | 77,991            |
| 2033-2037              | 153,527                 | 12,148            | 71,965                   | 4,554             | 225,492             | 16,702            |
| 2038-2041              | -                       | -                 | -                        | -                 | -                   | -                 |
| Total                  | <u>\$ 562,823</u>       | <u>\$ 133,973</u> | <u>\$ 446,048</u>        | <u>\$ 112,173</u> | <u>\$ 1,008,871</u> | <u>\$ 246,146</u> |

### B. General Obligation Indebtedness

The Town’s general obligation bonds issued to finance the construction of facilities utilized in the operations of the Water and Sewer system and which are being retired by its resources are reported as long-term debt in the Water and Sewer Fund. All general obligation bonds are collateralized by the full faith, credit and taxing power of the Town. Principal and interest requirements are appropriated when due. 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, 2022

Bonds payable at June 30, 2022 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. | \$ 2,463,000               |
| \$1,063,000 2008 USDA - Water and Sewer serial bonds due in annual installments of \$31,318 to \$57,615 through June 2048; interest at 4.25%. Principal payments began in 2011.   | 879,000                    |
| \$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.    | <u>624,000</u>             |
| Total   | <u><u>\$ 3,966,000</u></u> |

The future minimum payments of the general obligation indebtedness as of June 30, 2022, including \$2,637,948 of interest, are as follows:

| Year Ending<br>June 30 | General Obligation<br>Indebtedness |                            |
|------------------------|------------------------------------|----------------------------|
|                        | Principal                          | Interest                   |
| 2023                   | \$ 89,000                          | \$ 170,812                 |
| 2024                   | 94,000                             | 166,989                    |
| 2025                   | 97,000                             | 162,951                    |
| 2026                   | 101,000                            | 158,781                    |
| 2027                   | 106,000                            | 154,440                    |
| 2028-2032              | 600,000                            | 700,028                    |
| 2033-2037              | 740,000                            | 559,296                    |
| 2038-2042              | 916,000                            | 385,324                    |
| 2043-2047              | 1,069,000                          | 172,674                    |
| 2048-2049              | <u>154,000</u>                     | <u>6,651</u>               |
| Total                  | <u><u>\$ 3,966,000</u></u>         | <u><u>\$ 2,637,946</u></u> |

### 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, 2022

Revolving loans payable at June 30, 2022 are comprised of the following individual issues:

|  |                            |
|--|----------------------------|
| \$300,000 - 2008 Sewer revolving loan due in annual installments of \$150,000 through May 2028; interest at 0.0%. Payments began in 2009.                                | \$ 900,000                 |
| \$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.                       | 150,363                    |
| \$2,441,165 - 2008 Drinking Water revolving loan due in annual installments of \$124,622 to \$241,933 through 2030; interest at 2.10%. Principal payments began in 2011. | 976,466                    |
| \$125,482 - 2008 Drinking Water revolving loan due in annual installments of \$6,559 to \$12,733 through 2030; interest at 2.10%. Principal payments began in 2011.      | 51,393                     |
| Total  | <u><u>\$ 2,078,222</u></u> |

The future minimum payments of the revolving loans as of June 30, 2022, including \$97,133 of interest, are as follows:

| Year Ending<br>June 30 | Revolving Loans |           |
|------------------------|-----------------|-----------|
|                        | Principal       | Interest  |
| 2023                   | \$ 297,278      | \$ 21,585 |
| 2024                   | 297,278         | 18,887    |
| 2025                   | 297,278         | 16,188    |
| 2026                   | 297,278         | 13,491    |
| 2027                   | 168,795         | 5,396     |
| 2028-2030              | 720,315         | 21,585    |
| Total                  | \$ 2,078,222    | \$ 97,132 |

At June 30, 2021, the Town of Hertford, North Carolina had a legal debt margin of \$9,695,512.

## TOWN OF HERTFORD, NORTH CAROLINA

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022

#### C. Changes in Long-Term Liabilities

|   | <u>Beginning<br/>Balance</u> | <u>Additions</u> | <u>Retirements</u> | <u>Ending<br/>Balance</u> | <u>Current<br/>Portion of<br/>Balance</u> |
|---|------------------------------|------------------|--------------------|---------------------------|---|
| <b>Governmental Activities:</b>                   |                              |                  |                    |                           |   |
| Installment purchases -                           |                              |                  |                    |                           |   |
| direct borrowings                                 | \$ 607,873                   | \$ -             | \$ 45,050          | \$ 562,823                | \$ 47,119                                 |
| Net pension liability (LGERS)                     | 308,545                      | -                | 210,644            | 97,901                    | -   |
| Total pension liability (LEOSSA)                  | 32,873                       | -                | 32,873             | -                         | -   |
| Compensated absences                              | <u>16,700</u>                | <u>4,867</u>     | <u>15,554</u>      | <u>6,013</u>              | <u>4,867</u>                              |
| Governmental activities<br>long-term liabilities  | <u>\$ 965,991</u>            | <u>\$ 4,867</u>  | <u>\$ 304,121</u>  | <u>\$ 666,737</u>         | <u>\$ 51,986</u>                          |
| <b>Business-Type Activities:</b>                  |                              |                  |                    |                           |   |
| Water and Sewer Fund:                             |                              |                  |                    |                           |   |
| Installment purchases -                           |                              |                  |                    |                           |   |
| direct borrowings                                 | \$ 307,331                   | \$ -             | \$ 36,378          | \$ 270,953                | \$ 37,966                                 |
| General obligation bonds                          | 4,052,000                    | -                | 86,000             | 3,966,000                 | 89,000                                    |
| Revolving loans                                   | 2,375,500                    | -                | 297,278            | 2,078,222                 | 297,278                                   |
| Net pension liability (LGERS)                     | 82,703                       | -                | 1,448              | 81,255                    | -   |
| Compensated absences                              | <u>10,105</u>                | <u>9,416</u>     | <u>4,557</u>       | <u>14,964</u>             | <u>9,416</u>                              |
| Water and Sewer Fund<br>long-term liabilities     | <u>6,827,639</u>             | <u>9,416</u>     | <u>425,661</u>     | <u>6,411,394</u>          | <u>433,660</u>                            |
| Electric Fund:                                    |                              |                  |                    |                           |   |
| Installment purchases -                           |                              |                  |                    |                           |   |
| direct borrowings                                 | 185,633                      | -                | 10,538             | 175,095                   | 11,453                                    |
| Net pension liability (LGERS)                     | 110,104                      | -                | 37,446             | 72,658                    | -   |
| Compensated absences                              | <u>21,091</u>                | <u>7,727</u>     | <u>16,878</u>      | <u>11,940</u>             | <u>7,727</u>                              |
| Electric Fund long-term liabilities               | <u>316,828</u>               | <u>7,727</u>     | <u>64,862</u>      | <u>259,693</u>            | <u>19,180</u>                             |
| Business-type activities<br>long-term liabilities | <u>\$ 7,144,467</u>          | <u>\$ 17,143</u> | <u>\$ 490,523</u>  | <u>\$ 6,671,087</u>       | <u>\$ 452,840</u>                         |

Compensated absences typically have been liquidated in the General Fund.

#### D. 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, 2022, the Town has accumulated \$87,580 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, 2022

### E. Interfund Balances and Activity

Balances due to/from other funds at June 30, 2022, consist of the following:

|  |                   |
|--|-------------------|
| Due from the General Fund to the Electric Fund for operations and administrative costs | \$ 75,638         |
| Due from the General Fund to the Water and Sewer Fund for operations                   | <u>339</u>        |
| Total due from General Fund  | <u>\$ 75,977</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 operations                          | <u>75,638</u>     |
| Total due to the Electric Fund   | <u>\$ 115,636</u> |
| Due from the Water and Sewer Fund to the Electric Fund for operations                  | \$ 39,998         |
| Due from the General Fund from the Water and Sewer Fund for operations                 | <u>75,638</u>     |
| Total due from the Water and Sewer Fund  | <u>\$ 115,636</u> |

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

Transfers to / from other funds at June 30, 2022, 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 | <u>\$ 84,000</u> |
| Total  | <u>\$ 84,000</u> |

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

**TOWN OF HERTFORD, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2022**

**F. Net Investment in Capital Assets**

The total net investment in capital assets at June 30, 2022 is composed of the following:

|                                  | <b>Governmental<br/>Activities</b> | <b>Business-Type<br/>Activities</b> |
|----------------------------------|------------------------------------|-------------------------------------|
| Capital assets                   | \$ 1,566,584                       | \$ 11,299,334                       |
| Long-term debt                   | (562,823)                          | (6,490,270)                         |
| Net investment in capital assets | \$ 1,003,761                       | \$ 4,809,064                        |

**G. Fund Balance**

|                                   |              |
|-----------------------------------|--------------|
| Total fund balance - General Fund | \$ 1,910,167 |
| Less:                             |              |
| Stabilization by state statute    | 430,181      |
| Streets - Powell Bill             | 127,439      |
| USDA                              | 87,580       |
| Remaining fund balance            | \$ 1,264,967 |

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

**NOTE IV – JOINTLY GOVERNED ORGANIZATION**

The Town, in conjunction with twenty other local governments, is a member of the North Carolina Town Electric Agency (Electric Agency). The Agency was formed to enable municipalities that own electric distribution systems to finance, construct, own, operate, and maintain generation and transmission facilities. Each participating government appoints one commissioner to the Electric Agency’s governing board. The twenty-one members, who receive power from the Electric Agency, have signed power sales agreements to purchase a specified share of the power generated by the Electric Agency. Except for the power sales purchase requirements, no local government participant has any obligation, entitlement, or residual interest. The Town’s purchases of power for the fiscal year ended June 30, 2022, were \$2,243,250.

**NOTE V – RELATED ORGANIZATIONS**

The five-member board of the Town of Hertford Housing Authority is appointed by the Mayor of the Town of Hertford. The Town is accountable for the Housing Authority because it appoints the governing board; however, the Town is not financially accountable for the Housing Authority. The Town of Hertford is also disclosed as a related organization in the notes to the financial statements for the Town of Hertford Housing Authority. 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, 2022

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

#### *Federal and State-Assisted Programs*

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

### NOTE VII – WINFALL SETTLEMENT

On July 20, 2015, the Town of Winfall began making payments to the Town of Hertford as a result of a legal settlement. This settlement was in response to disputes arising from a Wastewater Treatment Contract, dated March 1, 2001, which involved the construction of a 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, 2022 is \$195,000.

### NOTE VIII – AMERICAN RESCUE PLAN ACT

In FY 2020/21, the American Rescue Plan Act (ARPA) established the Coronavirus State and Local Fiscal Recovery Funds to support urgent COVID-19 response efforts and replace lost revenue for eligible state, local, territorial, and tribal governments. The Town was allocated \$673,408 of fiscal recovery funds to be paid in two equal installments. The first installment of \$336,704 was received in July 2021. The second installment of \$336,704 was received on July 29, 2022. Town staff and the Town Council are still exploring their options for the use of these funds.

### NOTE IX – RELATED PARTY TRANSACTIONS

|  |                   |
|--|-------------------|
| Transactions with the ABC Board:             |                   |
| Payment to the Town for profit distributions | \$ 110,831        |
| Payment to the Town for law enforcement      | 4,332             |
| Payment to the Town for alcohol education    | <u>1,106</u>      |
| Remaining fund balance                       | <u>\$ 116,269</u> |

# **TOWN OF HERTFORD, NORTH CAROLINA**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022**

### **NOTE X – RESTATEMENT PRIOR PERIOD ADJUSTMENT**

During the fiscal year ended June 30, 2022, the Town determined that Accounts Payable was overstated by \$178,888 in the Electric Fund for the year ended June 30, 2021. Also, during the fiscal year ended June 30, 2022, the Town determined that donated land had not been recorded, thus understating capital assets. Therefore, an adjustment to beginning fund balance has been recorded to account for the overstatement of accounts payable and understatement of capital assets, the net effect of which increased beginning net position by \$229,888.

### **NOTE XI – SUBSEQUENT EVENT**

The Town has been awarded an ARPA grant in the amount \$14,923,000 for water and wastewater projects in fiscal year ended June 30, 2023.

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**Town of Hertford, North Carolina**  
**Proportionate Share of Net Pension Liability (Asset)**  
**Required Supplementary Information**  
**Last Nine Fiscal Years\***

**Schedule 1**  
**Page 1 of 2**

| <b>Local Governmental Employees' Retirement System</b>   |              |              |             |              |              |
|--|--------------|--------------|-------------|--------------|--------------|
|  | <b>2022</b>  | <b>2021</b>  | <b>2020</b> | <b>2019</b>  | <b>2018</b>  |
| Hertford's proportion of the net pension liability (asset) (%)   | 0.01642%     | 0.01403%     | 0.00814%    | 0.01457%     | 0.01598%     |
| Hertford's proportion of the net pension liability (asset) (\$)  | \$ 251,814   | \$ 501,352   | \$ 222,297  | \$ 345,650   | \$ 244,130   |
| Hertford's covered payroll   | \$ 1,144,356 | \$ 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 | 22.00%       | 43.13%       | 24.97%      | 34.14%       | 24.28%       |
| Plan fiduciary net position as a percentage of the total pension liability **                              | 95.51%       | 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**  
**Proportionate Share of Net Pension Liability (Asset)**  
**Required Supplementary Information**  
**Last Nine Fiscal Years\***

**Schedule 1**  
**Page 2 of 2**

| <b>Local Governmental Employees' Retirement System</b>   |             |             |             |             |
|--|-------------|-------------|-------------|-------------|
|  | <b>2017</b> | <b>2016</b> | <b>2015</b> | <b>2014</b> |
| 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 Herford, North Carolina**  
**Contributions**  
**Required Supplementary Information**  
**Last Nine Fiscal Years**

**Schedule 2**  
**Page 1 of 2**

| <b>Local Governmental Employees' Retirement System</b>               |             |              |              |             |              |
|--|-------------|--------------|--------------|-------------|--------------|
|  | <b>2022</b> | <b>2021</b>  | <b>2020</b>  | <b>2019</b> | <b>2018</b>  |
| Contractually required contribution                                  | \$ 82,753   | \$ 119,660   | \$ 107,406   | \$ 71,303   | \$ 79,077    |
| Contributions in relation to the contractually required contribution | 82,753      | 119,660      | 107,406      | 71,303      | 79,077       |
| Contribution deficiency (excess)                                     | \$ -        | \$ -         | \$ -         | \$ -        | \$ -         |
| Town of Hertford's covered payroll                                   | \$ 720,428  | \$ 1,144,356 | \$ 1,162,522 | \$ 890,142  | \$ 1,012,509 |
| Contributions as a percentage of covered payroll                     | 11.49%      | 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 Herford, North Carolina**  
**Contributions**  
**Required Supplementary Information**  
**Last Nine Fiscal Years**

**Schedule 2**  
**Page 2 of 2**

**Local Governmental Employees' Retirement System**

|  | <u>2017</u>   | <u>2016</u>   | <u>2015</u>   | <u>2014</u>   |
|--|---------------|---------------|---------------|---------------|
| Contractually required contribution                                  | \$ 76,416     | \$ 63,220     | \$ 66,561     | \$ 63,115     |
| Contributions in relation to the contractually required contribution | <u>76,416</u> | <u>63,220</u> | <u>66,561</u> | <u>63,115</u> |
| Contribution deficiency (excess)                                     | <u>\$ -</u>   | <u>\$ -</u>   | <u>\$ -</u>   | <u>\$ -</u>   |
| 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**  
**Law Enforcement Officers' Special Separation Allowance**  
**Last Six Fiscal Years**

Schedule 3

| <b>Law Enforcement Officers' Special Separation Allowance</b> |              |                  |                  |                  |                   |                   |
|---|--------------|------------------|------------------|------------------|-------------------|-------------------|
|   | <b>2022*</b> | <b>2021</b>      | <b>2020</b>      | <b>2019</b>      | <b>2018</b>       | <b>2017</b>       |
| Beginning balance   | \$ 32,873    | \$ 46,902        | \$ 58,218        | \$ 170,095       | \$ 139,181        | \$ 131,324        |
| Service Cost  | -            | 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             |
| experience in the measurement of the total                    | -            | (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)           |
| Other changes   | (32,873)     | -                | -                | -                | -                 | -                 |
| Ending balance of the total pension liability                 | <u>\$ -</u>  | <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.

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.

\*The Town contracted with the County for public safety for fiscal year June 30, 2022, therefore eliminating the law enforcement officers special separation allowance.

**Town of Hertford, North Carolina**  
**Schedule of Total Pension Liability as a Percentage of Covered Employee Payroll**  
**Law Enforcement Officers' Special Separation Allowance**  
**Last Six Fiscal Years**

**Schedule 4**

|   | <u>2022*</u> | <u>2021</u> | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> |
|---|--------------|-------------|-------------|-------------|-------------|-------------|
| 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 | N/A          | 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.

\*The Town contracted with the County for public safety for fiscal year June 30, 2022, therefore eliminating the law enforcement officers special separation allowance.

**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, 2022**

**Schedule 5**  
**Page 1 of 3**

|   | <b>Final<br/>Budget</b> | <b>Actual</b>    | <b>Variance<br/>Positive<br/>(Negative)</b> |
|---|-------------------------|------------------|---|
| <b>REVENUES</b>                               |                         |                  |   |
| Ad valorem taxes:                             |                         |                  |   |
| Taxes   |                         | \$ 716,404       |   |
| Penalties and interest                        |                         | 8,463            |   |
| Total   | <u>\$ 723,162</u>       | <u>724,867</u>   | <u>\$ 1,705</u>                             |
| Other taxes and licenses:                     |                         |                  |   |
| Privilege licenses                            |                         | 3,300            |   |
| Vehicle tags                                  |                         | 31,940           |   |
| Total   | <u>27,300</u>           | <u>35,240</u>    | <u>7,940</u>                                |
| Unrestricted intergovernmental:               |                         |                  |   |
| Local option sales tax                        |                         | 722,761          |   |
| Utility franchise tax                         |                         | 28,445           |   |
| Solid waste disposal tax                      |                         | 118,827          |   |
| Payment in lieu of taxes                      |                         | 9,855            |   |
| Beer and wine tax                             |                         | 7,652            |   |
| ABC profit distributions                      |                         | 116,269          |   |
| Total   | <u>913,174</u>          | <u>1,003,809</u> | <u>90,635</u>                               |
| Restricted intergovernmental:                 |                         |                  |   |
| County fire department contribution           |                         | 77,500           |   |
| Powell Bill allocation                        |                         | 59,140           |   |
| Other local grants and matching contributions |                         | 26,408           |   |
| Total   | <u>172,106</u>          | <u>163,048</u>   | <u>(9,058)</u>                              |
| Sales and services:                           |                         |                  |   |
| DMV commissions                               |                         | 70,291           |   |
| Cemetery services                             |                         | 30,050           |   |
| Refuse services                               |                         | 14,967           |   |
| Miscellaneous fees and services               |                         | 16,387           |   |
| Total   | <u>144,410</u>          | <u>131,695</u>   | <u>(12,715)</u>                             |
| Investment earnings                           | <u>500</u>              | <u>1,357</u>     | <u>857</u>                                  |
| Miscellaneous:                                |                         |                  |   |
| Police revenue                                |                         | 253              |   |
| Miscellaneous                                 |                         | 6,724            |   |
| Total   | <u>68</u>               | <u>6,977</u>     | <u>6,909</u>                                |
| Total revenues                                | <u>1,980,720</u>        | <u>2,066,993</u> | <u>86,273</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, 2022**

**Schedule 5**  
**Page 2 of 3**

|                                | <b>Final<br/>Budget</b> | <b>Actual</b> | <b>Variance<br/>Positive<br/>(Negative)</b> |
|--------------------------------|-------------------------|---------------|---|
| <b>EXPENDITURES</b>            |                         |               |   |
| General Government:            |                         |               |   |
| Governing body:                |                         |               |   |
| Salaries and employee benefits |                         | 74,233        |   |
| Operating expenditures         |                         | 93,785        |   |
| Total                          |                         | 168,018       |   |
| Administration:                |                         |               |   |
| Salaries and employee benefits |                         | 151,917       |   |
| Operating expenditures         |                         | 155,031       |   |
| Total                          |                         | 306,948       |   |
| DMV:                           |                         |               |   |
| Salaries and employee benefits |                         | 30,483        |   |
| Operating expenditures         |                         | 846           |   |
| Total                          |                         | 31,329        |   |
| Total general government       | 562,071                 | 506,295       | 55,776                                      |
| Public Safety:                 |                         |               |   |
| Police:                        |                         |               |   |
| Salaries and employee benefits |                         | 5,660         |   |
| Operating expenditures         |                         | 352,667       |   |
| Total                          |                         | 358,327       |   |
| Fire:                          |                         |               |   |
| Operating expenditures         |                         | 117,209       |   |
| Total                          |                         | 117,209       |   |
| Dispatch:                      |                         |               |   |
| Operating expenses             |                         | 90            |   |
| Total                          |                         | 90            |   |
| Total public safety            | 670,557                 | 475,626       | 194,931                                     |
| Transportation:                |                         |               |   |
| Streets and highways:          |                         |               |   |
| Salaries and employee benefits |                         | 153,002       |   |
| Operating expenditures         |                         | 142,208       |   |
| Total transportation           | 441,215                 | 295,210       | 146,005                                     |

**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, 2022**

**Schedule 5**  
**Page 2 of 3**

|   | <b>Final<br/>Budget</b> | <b>Actual</b> | <b>Variance<br/>Positive<br/>(Negative)</b> |
|---|-------------------------|---------------|---|
| Economic and physical development:                        |                         |               |   |
| Salaries and employee benefits                            |                         | 30,488        |   |
| Operating expenditures                                    |                         | 2,664         |   |
| Total economic and physical development                   | 118,915                 | 33,152        | 85,763                                      |
| Sanitation:   |                         |               |   |
| Operating expenditures                                    |                         | 167,245       |   |
| Total sanitation  | 153,300                 | 167,245       | (13,945)                                    |
| Environmental protection:                                 |                         |               |   |
| Cemetery:   |                         |               |   |
| Operating expenditures                                    |                         | 44,075        |   |
| Total environmental protection                            | 58,000                  | 44,075        | 13,925                                      |
| Debt Service:   |                         |               |   |
| Principal   | 41,262                  | 45,050        | (3,788)                                     |
| Interest  | 19,400                  | 21,122        | (1,722)                                     |
| Total   | 60,662                  | 66,172        | (5,510)                                     |
| Total expenditures  | 2,064,720               | 1,587,775     | 476,945                                     |
| Revenues over (under) expenditures                        | (84,000)                | 479,218       | 563,218                                     |
| <b>OTHER FINANCING SOURCES (USES):</b>                    |                         |               |   |
| Sale of capital assets                                    | (34,700)                | 39,696        | (74,396)                                    |
| Transfer from electric fund                               | 84,000                  | 84,000        | -   |
| Total other financing sources (users)                     | 49,300                  | 123,696       | 74,396                                      |
| Appropriated fund balance                                 | 34,700                  | -             | (34,700)                                    |
| Revenues and other financing sources<br>over expenditures | \$ -                    | 602,914       | \$ 602,914                                  |
| Fund balances, beginning                                  |                         | 1,307,253     |   |
| Fund balances, ending                                     |                         | \$ 1,910,167  |   |

**Town of Hertford, North Carolina**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2022**

**Schedule 6**

|  | <b>Capital Project Funds</b>  |  | <b>Total<br/>Nonmajor<br/>Governmental Funds</b> |
|--|-------------------------------|--|--|
|  | <b>Waterfront<br/>Project</b> | <b>King Street<br/>Resurface<br/>Project</b> |  |
| <b>ASSETS:</b>                           |                               |  |  |
| Cash and cash equivalents                | \$ -                          | \$ 200                                       | \$ 200   |
| Due from other governments               | 113,025                       | -  | 113,025  |
| Total assets                             | \$ 113,025                    | \$ 200                                       | \$ 113,225                                       |
| <b>LIABILITIES AND FUND BALANCES:</b>    |                               |  |  |
| <b>LIABILITIES:</b>                      |                               |  |  |
| Accounts payable and accrued liabilities | \$ 110,795                    | \$ -   | \$ 110,795                                       |
| Total liabilities                        | 110,795                       | -  | 110,795  |
| <b>FUND BALANCES:</b>                    |                               |  |  |
| Restricted:                              |                               |  |  |
| Stabilization by state statute           | 113,025                       | -  | 113,025  |
| Assigned                                 | -                             | 200  | 200  |
| Unassigned                               | (110,795)                     | -  | (110,795)  |
| Total fund balance                       | 2,230                         | 200  | 2,430  |
| Total liabilities and fund balance       | \$ 113,025                    | \$ 200                                       | \$ 113,225                                       |

**Town of Hertford, North Carolina**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2022**

**Schedule 7**

|                                   | <b>Capital Project Funds</b>  |  | <b>Total<br/>Nonmajor<br/>Governmental Funds</b> |
|-----------------------------------|-------------------------------|--|--|
|                                   | <b>Waterfront<br/>Project</b> | <b>King Street<br/>Resurface<br/>Project</b> |  |
| <b>REVENUES</b>                   |                               |  |  |
| Restricted intergovernmental      | \$ 70,002                     | \$ -   | \$ 70,002  |
| Total revenues                    | <u>70,002</u>                 | <u>-</u>                                     | <u>70,002</u>                                    |
| <b>EXPENDITURES</b>               |                               |  |  |
| Economic and Physical Development | <u>67,772</u>                 | <u>-</u>                                     | <u>67,772</u>                                    |
| Total expenditures                | <u>67,772</u>                 | <u>-</u>                                     | <u>67,772</u>                                    |
| Net change in fund balance        | 2,230                         | -  | 2,230  |
| Fund balances, beginning of year  | <u>-</u>                      | <u>200</u>                                   | <u>200</u>                                       |
| Fund balances, end of year        | <u>\$ 2,230</u>               | <u>\$ 200</u>                                | <u>\$ 2,430</u>                                  |

**Town of Hertford, North Carolina**  
**Waterfront Project**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**From Inception and for the Year Ended June 30, 2022**

**Schedule 8**

|   | <b>Project<br/>Authorization</b> | <b>Prior<br/>Years</b> | <b>Current<br/>Year</b> | <b>Total<br/>to Date</b> | <b>Variance<br/>Positive<br/>(Negative)</b> |
|---|----------------------------------|------------------------|-------------------------|--------------------------|---|
| <b>REVENUES</b>   |                                  |                        |                         |                          |   |
| Restricted intergovernmental:                           |                                  |                        |                         |                          |   |
| Rural Development Water Front Grant                     |                                  |                        |                         |                          |   |
| Income  | \$ 145,200                       | \$ 75,198              | \$ 70,002               | \$ 145,200               | \$ -  |
| Total revenues  | 145,200                          | 75,198                 | 70,002                  | 145,200                  | -   |
| <b>EXPENDITURES</b>                                     |                                  |                        |                         |                          |   |
| Waterfront project                                      | 196,200                          | 126,198                | 67,772                  | 193,970                  | 2,230                                       |
| Total expenditures                                      | 196,200                          | 126,198                | 67,772                  | 193,970                  | 2,230                                       |
| Revenues under expenditures                             | (51,000)                         | (51,000)               | -                       | (48,770)                 | 2,230                                       |
| <b>OTHER FINANCING SOURCES (USES)</b>                   |                                  |                        |                         |                          |   |
| Transfer in - General Fund                              | 51,000                           | 51,000                 | -                       | 51,000                   | -   |
| Total other financing sources (uses)                    | 51,000                           | 51,000                 | -                       | 51,000                   | -   |
| Revenues and other sources over<br>(under) expenditures | \$ -                             | \$ -                   | 2,230                   | \$ 2,230                 | \$ 2,230                                    |
| Fund balance, beginning                                 |                                  |                        | -                       |                          |   |
| Fund balance, ending                                    |                                  |                        | \$ 2,230                |                          |   |

**Town of Hertford, North Carolina**  
**King Street Resurface Project**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**From Inception and for the Year Ended June 30, 2022**

Schedule 9

|   | <b>Project<br/>Authorization</b> | <b>Prior<br/>Years</b> | <b>Current<br/>Year</b> | <b>Total<br/>to Date</b> | <b>Variance<br/>Positive<br/>(Negative)</b> |
|---|----------------------------------|------------------------|-------------------------|--------------------------|---|
| <b>REVENUES</b>   |                                  |                        |                         |                          |   |
| Restricted intergovernmental:                           |                                  |                        |                         |                          |   |
| National League of Cities grant                         | \$ 5,000                         | \$ 18,800              | \$ -                    | \$ 18,800                | \$ (13,800)                                 |
| Total revenues  | 5,000                            | 18,800                 | -                       | 18,800                   | (13,800)                                    |
| <b>EXPENDITURES</b>                                     |                                  |                        |                         |                          |   |
| 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                                      | 258,862                          | 228,635                | -                       | 228,635                  | 30,227                                      |
| Revenues under expenditures                             | (253,862)                        | (209,835)              | -                       | (209,835)                | (44,027)                                    |
| <b>OTHER FINANCING SOURCES (USES)</b>                   |                                  |                        |                         |                          |   |
| Transfer in - General Fund Powell Bill                  | 253,862                          | 210,035                | -                       | 210,035                  | (43,827)                                    |
| Total other financing sources (uses)                    | 253,862                          | 210,035                | -                       | 210,035                  | (43,827)                                    |
| Revenues and other sources over<br>(under) expenditures | \$ -                             | \$ 200                 | -                       | \$ 200                   | \$ 200                                      |
| Fund balance, beginning                                 |                                  |                        | 200                     |                          |   |
| Fund balance, ending                                    |                                  |                        | \$ 200                  |                          |   |

**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, 2022**

**Schedule 10**

|   | <b>Budget</b> | <b>Actual</b> | <b>Variance<br/>Positive<br/>(Negative)</b> |
|---|---------------|---------------|---|
| <b>REVENUES</b>                                     |               |               |   |
| Operating revenues:                                 |               |               |   |
| Charges for services                                |               | \$ 1,838,866  |   |
| Winfall charges                                     |               | 76,715        |   |
| Water and sewer taps                                |               | 2,160         |   |
| Miscellaneous revenue                               |               | 9,299         |   |
| Total operating revenues                            | \$ 1,969,521  | 1,927,040     | \$ 42,481                                   |
| Nonoperating revenues:                              |               |               |   |
| Restricted intergovernmental revenues               |               | 59,570        | (59,570)                                    |
| Interest earnings                                   |               | 54            | (54)  |
| Total nonoperating revenues                         | -             | 59,624        | (59,624)                                    |
| Total revenues                                      | 1,969,521     | 1,986,664     | (17,143)                                    |
| <b>EXPENDITURES</b>                                 |               |               |   |
| Water and sewer operations:                         |               |               |   |
| Salaries and employee benefits                      |               | 370,569       |   |
| Vehicle   |               | 33,502        |   |
| Material and supplies                               |               | 33,678        |   |
| Maintenance and repairs                             |               | 86,430        |   |
| Other operating expenses                            |               | 298,647       |   |
| Utility fees  |               | 155,819       |   |
| Insurance   |               | 26,589        |   |
| Total water and sewer operations                    | 1,323,761     | 1,005,234     | 318,527                                     |
| Debt service:                                       |               |               |   |
| Interest and other charges                          |               | 209,009       |   |
| Principal retirement                                |               | 419,656       |   |
| Total debt service                                  | 645,760       | 628,665       | 17,095                                      |
| Total expenditures                                  | 1,969,521     | 1,633,899     | 335,622                                     |
| Revenues over (under) expenditures                  | \$ -          | 352,765       | \$ 352,765                                  |
| Reconciling items:                                  |               |               |   |
| Principal retirement                                |               | 419,656       |   |
| Change in compensated absences                      |               | (4,859)       |   |
| Change in deferred outflows of resources - pensions |               | 72,001        |   |
| Change in net pension liability                     |               | 1,448         |   |
| Change in deferred inflows of resources - pensions  |               | (117,318)     |   |
| Depreciation and amortization                       |               | (778,751)     |   |
| Total reconciling items                             |               | (407,823)     |   |
| Change in net position                              |               | \$ (55,058)   |   |

**Town of Hertford, North Carolina**  
**Electric Fund**  
**Schedule of Revenues and Expenditures**  
**Budget and Actual (Non-GAAP)**  
**For the Year Ended June 30, 2022**

Schedule 11  
Page 1 of 2

|                                       | <b>Budget</b> | <b>Actual</b> | <b>Variance<br/>Positive<br/>(Negative)</b> |
|---------------------------------------|---------------|---------------|---|
| <b>REVENUES</b>                       |               |               |   |
| Operating revenues:                   |               |               |   |
| Charges for services                  |               | \$ 2,912,178  |   |
| Miscellaneous revenue                 |               | 297,392       |   |
| Total operating revenues              | \$ 3,110,040  | 3,209,570     | \$ 99,530                                   |
| Nonoperating revenues:                |               |               |   |
| Operating income (loss)               |               |               |   |
| Restricted intergovernmental revenues |               | 43,500        |   |
| Interest earnings                     |               | 7             |   |
| Total nonoperating revenues           | -             | 43,507        | 43,507                                      |
| Total revenues                        | 3,110,040     | 3,253,077     | 99,530                                      |
| <b>EXPENDITURES</b>                   |               |               |   |
| Electric operations:                  |               |               |   |
| Salaries and employee benefits        |               | 334,413       |   |
| Vehicle                               |               | 17,594        |   |
| Material and supplies                 |               | 28,065        |   |
| Professional services                 |               | 122,869       |   |
| Maintenance and repairs               |               | 8,979         |   |
| Other operating expenses              |               | 363,211       |   |
| Electric power purchases              |               | 2,243,250     |   |
| Insurance                             |               | 35,161        |   |
| Total electric operations             | 2,905,706     | 3,153,542     | (247,836)                                   |
| Capital outlay:                       |               |               |   |
| Electric capital outlay               |               | 34,636        |   |
| Total capital outlay                  | 100,934       | 34,636        | 66,298                                      |
| Debt service:                         |               |               |   |
| Interest and other charges            |               | 7,994         |   |
| Principal retirement                  |               | 10,538        |   |
| Total debt service                    | 19,400        | 18,532        | 868   |
| Total expenditures                    | 3,026,040     | 3,206,710     | (180,670)                                   |
| Revenues over(under) expenditures     | 84,000        | 46,367        | 37,633                                      |

**Town of Hertford, North Carolina**  
**Electric Fund**  
**Schedule of Revenues and Expenditures**  
**Budget and Actual (Non-GAAP)**  
**For the Year Ended June 30, 2022**

**Schedule 11**  
**Page 2 of 2**

|  | <b>Budget</b> | <b>Actual</b> | <b>Variance<br/>Positive<br/>(Negative)</b> |
|--|---------------|---------------|---|
| <b>OTHER FINANCING SOURCES (USES)</b>                          |               |               |   |
| Transfer to the General Fund                                   | (84,000)      | (84,000)      |   |
| Total other financing sources and (uses)                       | (84,000)      | (84,000)      | -   |
| Revenues and other sources over<br>expenditures and other uses | \$ -          | (37,633)      | \$ (37,633)                                 |
| Reconciling items:   |               |               |   |
| Principal retirement   |               | 10,538        |   |
| Change in compensated absences                                 |               | 9,151         |   |
| Change in deferred outflows of resources - pensions            |               | 37,068        |   |
| Change in net pension liability                                |               | 37,446        |   |
| Change in deferred inflows of resources - pensions             |               | (102,953)     |   |
| Capital outlay   |               | 34,636        |   |
| Depreciation   |               | (87,219)      |   |
| Total reconciling items  |               | (61,333)      |   |
| Change in net position   |               | \$ (98,966)   |   |

**Town of Hertford, North Carolina**  
**Schedule of Ad Valorem Taxes Receivable**  
**June 30, 2022**

**Schedule 12**

| <b>Fiscal Year</b>                          | <b>Uncollected<br/>Balance<br/>July 1, 2021</b> | <b>Additions</b>  | <b>Collections<br/>And Credits</b> | <b>Uncollected<br/>Balance<br/>June 30, 2022</b> |
|---|---|-------------------|------------------------------------|--|
| 2021-2022                                   | \$ -  | \$ 726,819        | \$ 693,796                         | \$ 33,023  |
| 2020-2021                                   | 29,425  | -                 | 9,209                              | 20,216   |
| 2019-2020                                   | 17,079  | -                 | 2,210                              | 14,869   |
| 2018-2019                                   | 12,152  | -                 | 2,462                              | 9,690  |
| 2017-2018                                   | 9,354   | -                 | 1,377                              | 7,977  |
| 2016-2017                                   | 7,679   | -                 | 688                                | 6,991  |
| 2015-2016                                   | 7,926   | -                 | 749                                | 7,177  |
| 2014-2015                                   | 6,913   | -                 | 178                                | 6,735  |
| 2013-2014                                   | 7,322   | -                 | 1,583                              | 5,739  |
| 2012-2013                                   | 7,448   | -                 | 2,784                              | 4,664  |
| 2011-2012                                   | 5,987   | -                 | 5,987                              | -  |
| <b>Total</b>                                | <b>\$ 111,285</b>                               | <b>\$ 726,819</b> | <b>\$ 721,023</b>                  | <b>117,081</b>                                   |
| Less: allowance for uncollectible accounts: |   |                   |                                    |  |
| General Fund                                |   |                   |                                    | 41,971   |
| Ad valorem taxes receivable - net           |   |                   |                                    | <u>\$ 75,110</u>                                 |
| Ad valorem taxes - General Fund             |   |                   |                                    | \$ 724,867                                       |
| Reconciling items:                          |   |                   |                                    |  |
| Prior year releases                         |   |                   |                                    |  |
| Taxes written off                           |   |                   |                                    | 4,619  |
| Penalties and interest                      |   |                   |                                    | (8,463)  |
| Subtotal                                    |   |                   |                                    | <u>(3,844)</u>                                   |
| Total collections and credits               |   |                   |                                    | <u>\$ 721,023</u>                                |

**Town of Hertford, North Carolina**  
**Analysis of Current Tax Levy**  
**Town-Wide Levy**  
**For the Year Ended June 30, 2022**

**Schedule 13**

|                                    | Town - Wide           |       |               | Total Levy   |                                 |
|------------------------------------|-----------------------|-------|---------------|--|---------------------------------|
|                                    | Property<br>Valuation | Rate  | Total<br>Levy | Property<br>excluding<br>Registered<br>Motor<br>Vehicles | Registered<br>Motor<br>Vehicles |
|                                    | <b>ORIGINAL LEVY</b>  |       |               |  |                                 |
| Property taxed at current rate     | \$ 122,752,874        | 0.555 | \$ 696,426    | \$ 621,771   | \$ 74,655                       |
| Total                              | 122,752,874           |       | 696,426       | 621,771  | 74,655                          |
| <b>DISCOVERIES</b>                 |                       |       |               |  |                                 |
| Current year taxes                 | 5,476,315             | 0.555 | 30,393        | 30,393   | -                               |
| Total property valuation           | \$ 128,229,189        |       |               |  |                                 |
| Net levy                           |                       |       | 726,819       | 652,164  | 74,655                          |
| Uncollected taxes at June 30, 2022 |                       |       | (33,023)      | (33,023)   | -                               |
| Current year's taxes collected     |                       |       | \$ 693,796    | \$ 619,141   | \$ 74,655                       |
| Current levy collection percentage |                       |       | 95.46%        | 94.94%   | 100.00%                         |

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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 (*Government Auditing Standards*), 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, 2022, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated October 31, 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.

### **Report on 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, Responses and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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. We consider the deficiencies described in the accompanying Schedule of Findings, Responses, and Questioned Costs as items 2022-002, 2022-003, 2022-004 and 2022-005 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings, Responses and Questioned Costs as item 2022-001 to be a significant deficiency.

### **Report on 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, Responses, and Questioned Costs as items 2022-002, 2022-003 and 2022-004.

### **Town of Hertford's Responses to Findings**

*Government Auditing Standards* requires the auditor to perform limited procedures on the Town of Hertford's responses to the findings identified in our audit and described in the accompanying Schedule of Findings, Responses, and Questioned Costs. The Town's responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town'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 Town'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  
October 31, 2022

# MARTIN STARNES & ASSOCIATES, CPAs, P.A.

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

## **Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; Required by the Uniform Guidance and the State Single Audit Implementation Act**

### **Independent Auditor's Report**

To the Honorable Mayor and  
Members of the Town Council  
Town of Hertford, North Carolina

#### **Report on Compliance for Each Major Federal Program**

##### ***Opinion on Each Major Federal Program***

We have audited the Town of Hertford, North Carolina's, compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of the Town of Hertford's major federal programs for the year ended June 30, 2022. The Town of Hertford's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings, Responses, and Questioned Costs.

In our opinion, the Town of Hertford complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

##### ***Basis for Opinion on Each Major Federal Program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*); the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and the State Single Audit Implementation Act. Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Town of Hertford and to meet our other ethical responsibilities in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Town of Hertford's compliance with the compliance requirements referred to above.

### ***Responsibilities of Management for Compliance***

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

### ***Auditor's Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Town of Hertford's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, the Uniform Guidance and the State Single Audit Implementation Act will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgement made by a reasonable user of the report on compliance about the Town of Hertford's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, the Uniform Guidance, and the State Single Audit Implementation Act, we:

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

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

### **Report on Internal Control Over Compliance**

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, non-compliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal

program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

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

*Martin Starnes & Associates, CPAs, P.A.*

Martin Starnes & Associates, CPAs, P.A.  
Hickory, North Carolina  
October 31, 2022

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**TOWN OF HERTFORD, NORTH CAROLINA**

**SCHEDULE OF FINDINGS, RESPONSES, AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2022**

**1. Summary of Auditor's Results**

**Financial Statements**

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

Internal control over financial reporting:

- Material weaknesses identified? Yes
- Significant deficiencies identified? Yes

Non-compliance material to financial statements noted? Yes

**Federal Awards**

Internal control over major federal programs:

- Material weaknesses identified? No
- Significant deficiencies identified? None reported

Type of auditor's report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516 (a)? No

Identification of major federal programs:

| <b>Program Name</b>                           | <b>AL#</b> |
|---|------------|
| Community Facilities Loans and Grants Cluster | 10.766     |

Dollar threshold used to distinguish between Type A and Type B Programs: \$750,000

Auditee qualified as low-risk auditee? No

# TOWN OF HERTFORD, NORTH CAROLINA

## SCHEDULE OF FINDINGS, RESPONSES, AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2022

### 2. Findings Related to the Audit of the Basic Financial Statements

#### Significant Deficiency

##### **Finding 2022-001**

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

**Condition:** The Town did not properly review or timely identify errors in the reporting of payroll data.

**Effect:** Transactions could be mishandled.

**Cause:** Lack of internal controls over payroll processing.

**Recommendation:** Adequate controls over calculation of pay rates and approval of time sheets for all employees should be put in place and monitored.

**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, RESPONSES, AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2022

### 2. Findings Related to the Audit of the Basic Financial Statements (continued):

#### Material Weakness

#### Non-Compliance

#### **Finding 2022-002**

**Criteria:** N.C. General Statute 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 \$13,945 more in Sanitation and \$5,510 more in General Fund debt service expenses than appropriated in the annual budget ordinance. The Town expended \$255,563 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 were spent that had not been appropriated.

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

**Identification of Repeat Finding:** This is a modified and repeat finding from the immediate previous audit, 2021-004.

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

**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, RESPONSES, AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2022

#### 2. Findings Related to the Audit of the Basic Financial Statements (continued):

##### Material Weakness

##### Non-Compliance

##### **Finding 2022-003**

**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 escheat checks older than a year. A proposed 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. We have provided management with a report of these adjustments.

**Effect:** Errors in completing reconciliations greatly increases the risk of errors in financial reporting.

**Cause:** The Town is not preparing account reconciliations timely or properly reviewing their financial records.

**Identification of Repeat Finding:** This is a modified and repeated finding from the immediate previous audit, 2021-002.

**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 proposed audit adjustments in the future.

**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, RESPONSES, AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2022

#### 2. Findings Related to the Audit of the Basic Financial Statements (continued):

##### Material Weakness

##### Non-Compliance

##### **Finding 2022-004**

**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.

**Identification of Repeat Finding:** This is a modified and repeated finding from the immediate previous audit, 2021-006.

**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:** 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, RESPONSES, AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2022

#### 2. Findings Related to the Audit of the Basic Financial Statements (continued):

##### Material Weakness

##### **Finding 2022-005**

**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:** An accounts payable balance was improperly included in the prior year's financial statements. A donated land asset was improperly excluded 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 an Electric accounts payable balance in the prior year's financial statements. The Town improperly excluded donated land in the prior year's financial statements.

**Identification of Repeat Finding:** This is a modified and repeated finding from the immediate previous audit, 2021-005.

**Recommendation:** Care should be taken to ensure that accounts payable and capital asset 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:** 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, RESPONSES, AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2022**

**3. Findings and Questioned Costs Related to the Audit of Federal Awards**

None reported

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EARNELL BROWN  
MAYOR  
JANICE MCKENZIE COLE  
INTERIM TOWN MANAGER  
GINA M. DURANTE  
TOWN CLERK  
JOHN LEIDY  
TOWN ATTORNEY



COMMISSIONERS:  
ASHLEY HODGES  
MAYOR PRO TEM  
JERRY MIMLITSCH  
CONNIE BROTHERS  
SANDRA ANDERSON

**Corrective Action Plan**  
**Financial Statement Findings**

**Finding 2022-001**

**Name of Contact Person:** Janice Cole, Interim Town Manager

**Corrective Action:** All time sheets must be reviewed by the Town Manager.

**Proposed Completion Date:** January 1, 2022.

**Finding 2022-002**

**Name of Contact Person:** Janice Cole, Interim Town Manager

**Corrective Action:** Budget amendments are done in a timely manner to assure there is authorization for expenditures beyond those appropriated in the annual budget ordinance. At each monthly regular session, the Council receives a budget to actual report for all funds. The Town Manager reviews the budget to actual on a monthly basis as well.

**Proposed Completion Date:** July 1, 2022

**Finding 2022-003**

**Name of Contact Person:** Janice Cole, Interim Town Manager

**Corrective Action:** The Town Manager is now receiving monthly reconciliations and reviews them for accuracy. The Town is now on schedule to escheat checks once a year at the designated allowable time.

**Proposed Completion Date:** July 1, 2022.

EARNELL BROWN  
MAYOR  
JANICE MCKENZIE COLE  
INTERIM TOWN MANAGER  
GINA M. DURANTE  
TOWN CLERK  
JOHN LEIDY  
TOWN ATTORNEY



**COMMISSIONERS:**

ASHLEY HODGES  
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JERRY MIMLITSCH  
CONNIE BROTHERS  
SANDRA ANDERSON

**Corrective Action Plan  
Financial Statement Findings**

**Finding 2022-004**

**Name of Contact Person:** Janice Cole, Interim Town Manager

**Corrective Action:** The Town became aware of this deficiency in early June and immediately made application to our insurer for an individual bond for the finance officer. The process was not completed until August 2, 2022 when the bond was issued.

**Proposed Completion Date:** August 2, 2022.

**Finding 2022-005**

**Name of Contact Person:** Janice Cole, Interim Town Manager

**Corrective Action:** The new financial staff and the contracted CPA firm working with us is now able to deal with current activities that are recorded in a timely manner. A year has been spent trying to catch up, figure out what was and was not previously done, and correct it.

**Proposed Completion Date:** July 1, 2022

# TOWN OF HERTFORD, NORTH CAROLINA

## SCHEDULE OF PRIOR YEAR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2022

**Finding:** 2021-001

**Status:** Corrected.

**Finding:** 2021-002

**Status:** Modified and repeated as 2022-003.

**Finding:** 2021-003

**Status:** Corrected.

**Finding:** 2021-004

**Status:** Modified and repeated as 2022-002.

**Finding:** 2021-005

**Status:** Modified and repeated as 2022-005.

**Finding:** 2021-006

**Status:** Repeated as 2022-004.

**TOWN OF HERTFORD, NORTH CAROLINA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
FOR THE YEAR ENDED JUNE 30, 2022**

| <u>Grantor/Pass-Through Grantor/Program Title</u>   | <u>Federal<br/>AL<br/>Number</u> | <u>State/ Pass-<br/>through<br/>Grantor's<br/>Number</u> | <u>Fed.(Direct &amp;<br/>Pass-through)<br/>Expenditures</u> | <u>State<br/>Expenditures</u> | <u>Passed-through<br/>to<br/>Subrecipients</u> |
|---|----------------------------------|--|---|-------------------------------|--|
| <b>Federal Grants:</b>  |                                  |  |   |                               |  |
| <b>U.S. Department of Agriculture</b>   |                                  |  |   |                               |  |
| Food and Nutrition Service  |                                  |  |   |                               |  |
| Community Facilities Loans and Grants Cluster -<br>Direct Program                                       | 10.766                           |  | \$ 910,967  | \$ -                          | \$ -   |
| Total Community Facilities Loans and Grants Cluster   |                                  |  | 910,967   | -                             | -  |
| Rural Business Development Grant  | 10.351                           | 832239697  | 67,772  | -                             | -  |
| Part 1774 Special Evaluation Assistance for Rural<br>Communities and Households (SEARCH)                | 10.759                           |  | 59,570  | -                             | -  |
| Total Federal Expenditures  |                                  |  | <u>1,038,309</u>  | -                             | -  |
| <b>State Grants:</b>  |                                  |  |   |                               |  |
| NC Dept of Insurance - Office of the State Fire Marshall:<br>Fire/Rescue Grants and Relief Fund Program |                                  |  |   |                               |  |
| Total State Expenditures  |                                  |  |   | <u>23,208</u>                 | -  |
| Total Federal and State expenditures  |                                  |  | <u>\$ 1,038,309</u>   | <u>\$ 23,208</u>              | <u>\$ -</u>                                    |

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

**Note 1 - Basis of Presentation**

The accompanying Schedule of Expenditures of Federal and State Awards (SEFSA) includes the federal and state grant activity of the Town of Hertford, North Carolina under the programs of the federal government and the State of North Carolina for the year ended June 30, 2022. The information in this SEFSA is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit for Federal Awards* and the State Single Audit Implementation Act. Because the Schedule presents only a selected portion of the operations of the Town of Hertford, it is not intended to and does not present the financial position, changes in net position or cash flows of the Town of Hertford.

**Note 2 - Summary of Significant Accounting Policies**

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

**Note 3 - Indirect Cost Rate**

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