

**TOWN OF HERTFORD,
NORTH CAROLINA**

FINANCIAL STATEMENTS

As of and for the Fiscal Year Ended June 30, 2025

And Reports of Independent Auditor

TOWN OF HERTFORD, NORTH CAROLINA

TOWN COUNCIL MEMBERS

R. Ashley Hodges, Mayor

Sandra Anderson, Mayor Pro Tempore

Connie Brothers

Keith Rouse

Sara Winslow

TOWN MANAGER

Doris Walton

TOWN OF HERTFORD, NORTH CAROLINA
TABLE OF CONTENTS

FINANCIAL SECTION

Report of Independent Auditor 1
 Management’s Discussion and Analysis.....5

BASIC FINANCIAL STATEMENTS

EXHIBIT

Government-Wide Financial Statements:

1 Statement of Net Position 13
 2 Statement of Activities..... 14

Fund Financial Statements:

3 Balance Sheet – Governmental Funds 15
 3 Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position 15
 4 Statement of Revenues, Expenditures, and Changes in Fund Balances –
 Governmental Funds 16
 4 Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
 of Governmental Funds to the Statement of Activities 17
 5 Statement of Revenues, Expenditures, and Changes in Fund Balance –
 Annual Budget and Actual- General Fund..... 18
 6 Statement of Fund Net Position – Proprietary Funds 19
 7 Statement of Revenues, Expenses, and Changes in Fund Net Position –
 Proprietary Funds 20
 8 Statement of Cash Flows – Proprietary Funds 21
 Notes to the Financial Statements 22

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE

1 Schedule of the Proportionate Share of the Net Pension Liability (LGERS) 49
 2 Schedule of Contributions – (LGERS)..... 50

TOWN OF HERTFORD, NORTH CAROLINA
TABLE OF CONTENTS

INDIVIDUAL FUND SCHEDULES

SCHEDULE

3	Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund Consolidated	51
4	Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund	52
5	Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Fire Fund.....	55
6	Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – ARP Fund.....	56
7	Combining Balance Sheet – Nonmajor Governmental Funds.....	57
8	Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Nonmajor Governmental Funds	58
9	Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Economic Development Administration Capital Project Fund	59
10	Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Hyde Street Park Culvert Replacement Capital Project Fund.....	60
11	Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Waterfront Capital Project Fund	61
12	Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Miscellaneous Grants Capital Project Fund	62
<i>Enterprise Funds:</i>		
13	Schedule of Revenues and Expenditures – Budget and Actual – (Non-GAAP) – Water and Sewer Fund.....	63
14	Schedule of Revenues and Expenditures – Budget and Actual – (Non-GAAP) –CDBG-I Wastewater Treatment Plant (WWTP) Rehabilitation Capital Project Fund	65
15	Schedule of Revenues and Expenditures – Budget and Actual – (Non-GAAP) – Sewer System Rehabilitation Capital Project Fund	66
16	Schedule of Revenues and Expenditures – Budget and Actual – (Non-GAAP) – Water Treatment System Capital Project Fund	67
17	Schedule of Revenues and Expenditures – Budget and Actual – (Non-GAAP) – Waterline Replacement Capital Project Fund	68
18	Schedule of Revenues and Expenditures – Budget and Actual – (Non-GAAP) – Building Resilient Infrastructure & Communities (BRIC) Grant Project Fund.....	69
19	Schedule of Revenues and Expenditures –Budget and Actual – (Non-GAAP) – Miscellaneous Grants Capital Project Fund	70

TOWN OF HERTFORD, NORTH CAROLINA
TABLE OF CONTENTS

20	Schedule of Revenues and Expenditures –Budget and Actual – (Non-GAAP) – Electric Fund	71
----	--	----

OTHER SCHEDULES

21	Schedule of Ad Valorem Taxes Receivable.....	73
22	Analysis of Current Tax Levy – Town-Wide Levy.....	74

COMPLIANCE SECTION

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	75
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.....	77
Schedule of Findings, Responses, and Questioned Costs	80
Corrective Action Plan.....	83
Summary Schedule of Prior Audit Findings.....	84
Schedule of Expenditures of Federal and State Awards	85

This page left blank intentionally.

FINANCIAL SECTION

This page left blank intentionally.

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, 2025, 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, 2025, 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, which represents 100%, 100% and 100%, respectively, of the assets, net position, and revenues of the discretely presented component units as of June 30, 2025. 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*.

Change in Accounting Principle

As discussed in Note XI to the financial statements, in 2025 the Town adopted new accounting guidance, GASB Statement No. 101, *Compensated Absences*. Our opinion is not modified with respect to this matter.

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 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 March 6, 2026, 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
March 6, 2026

TOWN OF HERTFORD, NORTH CAROLINA MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2025

As management of the Town of Hertford, we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2025. 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.

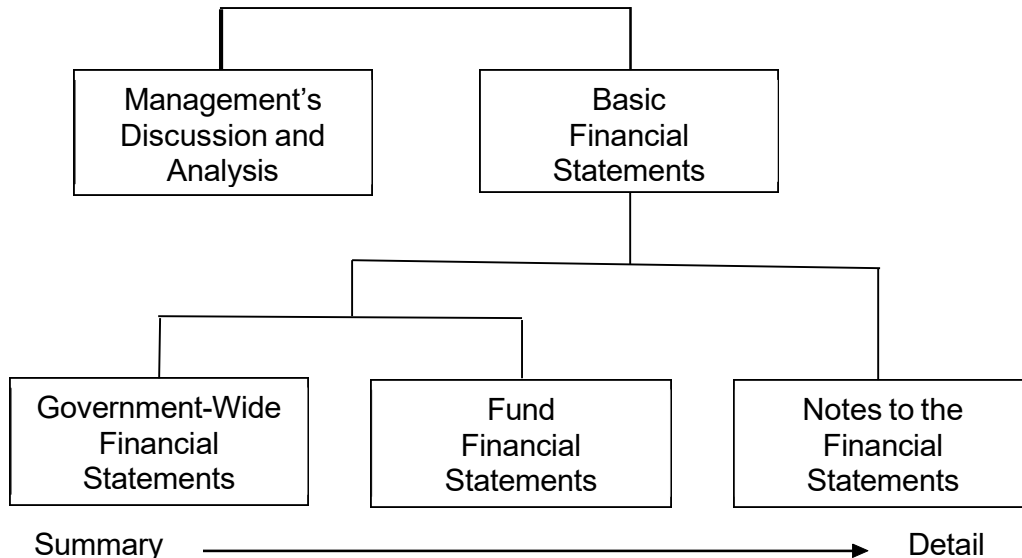
Financial Highlights

- The assets and deferred outflows of resources of the Town exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$13,432,769 (net position).
- The Town's total net position increased by \$1,249,660 with the increase in governmental activities and business-type activities being \$345,017 and \$904,643, respectively.
- At the end of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$2,036,942, with a net increase of \$25,825 in fund balance.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,328,357 or 53.5% of total general fund expenditures for the fiscal year.
- The Town's total debt decreased by \$521,680 during the current fiscal year, with the key factor in this decrease being 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's basic financial statements. The 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.

**Required Components of Annual Financial Report
Figure 1**



TOWN OF HERTFORD, NORTH CAROLINA MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2025

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 Statements

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

The two government-wide statements report the Town's net position and how it has changed. Net position is the difference between the Town's total assets and deferred outflows of resources 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 two categories: 1) governmental activities and 2) business-type activities. The governmental activities include most of the Town's basic services such as public safety, transportation, and general government. 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 services and the electric services offered by the Town.

The government-wide financial statements are 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 can be divided into two categories: governmental funds and proprietary funds.

TOWN OF HERTFORD, NORTH CAROLINA MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2025

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 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 Town Council about which services to provide and how to pay for them. It also authorizes the Town to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the Town complied with the budget ordinance and whether or not the Town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the council; 2) the final budget as amended by the council; 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 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 uses enterprise funds to account for its water and sewer operations 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.

Other Information

In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town's progress in funding its obligation to provide pension benefits to its employees.

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.

**TOWN OF HERTFORD, NORTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

JUNE 30, 2025

Government-Wide Financial Analysis

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

	Governmental Activities		Business-type Activities		Total	
	2025	2024	2025	2024	2025	2024
Assets:						
Current and other assets	\$ 2,470,966	2,370,389	\$ 3,157,208	\$ 2,766,538	\$ 5,628,174	\$ 5,136,927
Noncurrent assets	-	-	135,000	150,000	135,000	150,000
Capital assets, net	2,383,122	2,187,691	11,720,151	11,667,955	14,103,273	13,855,646
Total assets	<u>4,854,088</u>	<u>4,558,080</u>	<u>15,012,359</u>	<u>14,584,493</u>	<u>19,866,447</u>	<u>19,142,573</u>
Deferred Outflows	<u>138,981</u>	<u>169,172</u>	<u>199,424</u>	<u>242,841</u>	<u>338,405</u>	<u>412,013</u>
Liabilities:						
Current liabilities	113,309	103,713	861,593	867,918	974,902	971,631
Long-term liabilities	655,184	731,646	5,080,674	5,565,558	5,735,858	6,297,204
Total liabilities	<u>768,493</u>	<u>835,359</u>	<u>5,942,267</u>	<u>6,433,476</u>	<u>6,710,760</u>	<u>7,268,835</u>
Deferred Inflows	<u>25,181</u>	<u>34,469</u>	<u>36,142</u>	<u>49,479</u>	<u>61,323</u>	<u>83,948</u>
Net Position:						
Net investment in capital assets	1,921,713	1,673,608	6,563,005	6,055,745	8,484,718	7,729,353
Restricted	655,995	755,764	-	-	655,995	755,764
Unrestricted	1,621,687	1,428,052	2,670,369	2,288,634	4,292,056	3,716,686
Total net position	<u>\$ 4,199,395</u>	<u>3,857,424</u>	<u>\$ 9,233,374</u>	<u>\$ 8,344,379</u>	<u>\$13,432,769</u>	<u>\$ 12,201,803</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 exceeded liabilities and deferred inflows by \$13,432,769 as of June 30, 2025. The Town's net position increased by \$1,249,660 for the fiscal year ended June 30, 2025. However, the largest portion, \$8,484,718 (63.2%), reflects the Town's net investment in capital assets (e.g. land, buildings, machinery, and equipment). The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town'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's net position, \$655,995 (4.9%), represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$4,292,056 (31.9%) is unrestricted.

**TOWN OF HERTFORD, NORTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

JUNE 30, 2025

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

	Governmental Activities		Business-type Activities		Total	
	2025	2024	2025	2024	2025	2024
Revenues:						
Program revenues:						
Charges for services	\$ 308,037	\$ 247,868	\$ 4,959,098	\$ 5,171,387	\$ 5,267,135	\$ 5,419,255
Grants and contributions:						
Operating	221,225	277,223	119,075	235,575	340,300	512,798
Capital	442,081	673,408	660,434	897,748	1,102,515	1,571,156
General revenues:						
Ad valorem taxes	1,000,021	950,833	-	-	1,000,021	950,833
Other taxes, contributions not restricted to specific programs	1,009,006	962,764	-	-	1,009,006	962,764
Miscellaneous	28,495	89,655	222,908	23,082	285,113	112,737
Loss on disposal of capital asset	(1,267)	-	-	-	(1,267)	-
Investment earnings, unrestricted	69,083	93,135	64,818	72,072	100,191	165,207
Total Revenues	3,076,681	3,294,886	6,026,333	6,399,864	9,103,014	9,694,750
Expenses:						
General government	373,755	833,146	-	-	373,755	833,146
Public safety	648,897	550,606	-	-	648,897	550,606
Transportation	597,646	372,861	-	-	597,646	372,861
Economic and physical development	870,666	318,805	-	-	870,666	318,805
Environmental protection	229,726	222,777	-	-	229,726	222,777
Interest on long-term debt	10,974	32,443	-	-	10,974	32,443
Water and sewer	-	-	2,339,899	2,606,324	2,339,899	2,606,324
Electric	-	-	2,781,791	2,855,924	2,781,791	2,855,924
Total Expenses	2,731,664	2,330,638	5,121,690	5,462,248	7,853,354	7,792,886
Change in net position before transfers	345,017	964,248	904,643	937,616	1,249,660	1,901,864
Transfers	-	(13,814)	-	13,814	-	-
Change in net position	345,017	950,434	904,643	951,430	1,249,660	1,901,864
Net position, beginning	3,857,424	3,132,354	8,344,379	7,392,949	12,201,803	10,525,303
Restatement	(3,046)	(225,364)	(15,648)	-	(18,694)	(225,364)
Net position, restated	3,854,378	3,132,354	8,328,731	7,392,949	12,183,109	10,299,939
Net position, June 30	<u>\$ 4,199,395</u>	<u>3,857,424</u>	<u>\$ 9,233,374</u>	<u>\$ 8,344,379</u>	<u>\$13,432,769</u>	<u>\$ 12,201,803</u>

TOWN OF HERTFORD, NORTH CAROLINA MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2025

Financial Analysis of the Town's Funds

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

Governmental Funds

The focus of the Town'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's financing requirements. Specifically, fund balance available for appropriation can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of the Town. At the end of the current fiscal year, the Town's unassigned fund balance in the general fund was \$1,328,357 while total fund balance reached \$2,070,950. 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 53.5% of general fund expenditures, while total fund balance represents 83.3% of the same amount. Primary factors in the current year increase in fund balance are property taxes and refuse services exceeding budget and prior year amounts.

The American Rescue Plan (ARP) Fund represents response efforts and eligible revenue replacement related to the COVID-19 pandemic. At the end of the current fiscal year, the Town's fund balance in the ARP fund is \$34,031. This amount represents cumulative interest earned in the fund over its life and will be transferred in the following fiscal year to the General Fund for general governmental expenditures.

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.

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 Water and Sewer Fund and the Electric Fund at the end of the fiscal year amounted to \$1,299,870 and \$1,370,499, respectively. The total change in net position for each fund was \$702,098 and \$202,545, respectively. Net position was also impacted by the implementation of GASB Statement No. 101 in the amounts of (\$15,696) for Water and Sewer and \$48 for Electric.

Capital Asset and Debt Administration Capital Assets

The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2025 totals \$14,103,273 (net of accumulated depreciation/amortization). These assets include land, buildings and systems, machinery and equipment, improvements, vehicles, right-to-use leased equipment and software, and construction in progress.

**TOWN OF HERTFORD, NORTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

JUNE 30, 2025

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

	Governmental Activities		Business-type Activities		Total	
	2025	2024	2025	2024	2025	2024
Land	\$ 396,305	\$ 396,305	\$ 379,893	\$ 379,893	\$ 776,198	\$ 776,198
Buildings and systems	374,379	208,090	-	-	374,379	208,090
Machinery and equipment	228,085	231,140	344,503	369,637	572,588	600,777
Improvements	391,977	453,064	8,589,828	9,258,542	8,981,805	9,711,606
Vehicles	638,635	14,348	165,531	167,104	804,166	181,452
Right-to-use leased equipment	12,770	18,163	-	-	12,770	18,163
Right-to-use software	20,588	23,186	-	-	20,588	23,186
Construction in progress	320,383	843,395	2,240,396	1,492,779	2,560,779	2,336,174
Total	<u>\$ 2,383,122</u>	<u>2,187,691</u>	<u>\$11,720,151</u>	<u>\$ 11,667,955</u>	<u>\$14,103,273</u>	<u>\$ 13,855,646</u>

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

Long-term Debt

As of June 30, 2025, the Town had total debt outstanding of \$6,299,374.

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

	Governmental Activities		Business-Type Activities		Total	
	2025	2024	2025	2024	2025	2024
Net pension liability (LRS)	\$ 247,985	\$ 264,003	\$ 355,916	\$ 378,966	\$ 603,901	\$ 642,969
Compensated absences	22,292	20,680	54,626	31,112	76,918	51,792
General obligation bonds	-	-	3,686,000	3,783,000	3,686,000	3,783,000
Installment purchases	434,378	471,994	284,757	345,543	719,135	817,537
Revolving loans	-	-	1,186,389	1,483,667	1,186,389	1,483,667
Lease liabilities	13,828	18,546	-	-	13,828	18,546
Subscription liabilities	13,203	23,543	-	-	13,203	23,543
Total	<u>\$ 731,686</u>	<u>\$ 798,766</u>	<u>\$ 5,567,688</u>	<u>\$ 6,022,288</u>	<u>\$ 6,299,374</u>	<u>\$ 6,821,054</u>

The Town's total debt decreased by \$521,680 during the past fiscal year primarily due to repayment of principal of debt.

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to eight percent of the total assessed value of taxable property located within the government's boundaries. The legal debt margin for the Town is \$7,579,116.

Additional information regarding the Town's long-term debt can be found in the notes to the financial statements.

Accounting Change

During fiscal year 2025, the Town implemented Governmental Accounting Standards Board (GASB) Statement No. 101, Compensated Absences. This standard requires governments to recognize a liability for certain types of compensated absences when the leave is earned, rather than when it is taken. The application of GASB 101 resulted in a restatement of \$3,046 and \$15,648 to the beginning net position of the governmental activities and business-type activities, respectively. These amounts are reflected in the current year.

TOWN OF HERTFORD, NORTH CAROLINA MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2025

During fiscal year 2025, the Town made certain corrections to governmental construction in progress related to amounts capitalized not expected to become capital assets and corrections to prior year accounts receivable for the component unit. These changes have been adjusted throughout the report in the prior year amounts.

See Note XI for additional information regarding the impact of the GASB standard and the correction of errors on the current year's financial statements.

Economic Factors and Next Year's Budgets and Rates

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

- Significant investments have been made in the rehabilitation of commercial properties. The gas station and hardware store, two downtown businesses, are currently undergoing rehabilitation for future use. Additionally, an architect has been hired for the renovation and restoration of the historic former State Theatre downtown, with work expected to commence within the year.
- Our Marine Commerce Center, located within the Town limits, has successfully attracted a new business slated to relocate here within the next two years. This relocation is projected to bring 90 jobs to the area and offers potential for further expansion in the coming years. Furthermore, the infrastructure expansion work for the Marine Industrial Park, funded by grant dollars, will begin within this fiscal year.
- Regarding utility rates, Water and Sewer rates are reviewed each budget period to align with the 5-year rate study. Electric rates are also under review, and the basic fee charged to all customers has been increased to cover operating expenses.

Budget Highlights for the Fiscal Year Ending June 30, 2026

Governmental Activities

For fiscal year 2026, the Town's tax rate has been adopted at \$.52 per \$100 of assessed value, which remains the same as last year.

Business-Type Activities

In line with the recommendations from the 5-year study conducted by the NC Rural Water Association, sewer rates and basic charges have increased by 2.4%. Additionally, basic rate charges in the electric department will increase from \$18 to \$20 for residential customers and from \$30 to \$32 for commercial and municipal customers.

Grant Activities: The Town's infrastructure projects, funded by grants, have officially begun. Several significant water and sewer projects are underway this year to replace our aging infrastructure. We are actively seeking additional grant funding to continue these crucial improvement efforts.

Requests for Information

This report is designed to provide an overview of the Town of Hertford'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. Additional information may also be obtained via email to the Town Manager at dwalton@townofhertfordnc.com, or by calling 252-426-1969, or by visiting the Town website at townofhertfordnc.com.

BASIC FINANCIAL STATEMENTS

This page left blank intentionally.

TOWN OF HERTFORD, NORTH CAROLINA
STATEMENT OF NET POSITION

Exhibit 1

JUNE 30, 2025

	Primary Government			Town of Hertford ABC Board
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Current assets:				
Cash and investments	\$ 1,475,060	\$ 2,061,018	\$ 3,536,078	\$ 302,664
Property taxes receivable, net	130,271	-	130,271	-
Accounts receivable, net	35,322	600,798	636,120	-
Due from other governments	344,457	202,590	547,047	-
Due from component unit	130,579	-	130,579	-
Note receivable - Winfall settlement - current	-	15,000	15,000	-
Prepaid items	-	-	-	2,653
Inventories	-	856	856	279,406
Cash, restricted	355,277	276,946	632,223	-
Total current assets	<u>2,470,966</u>	<u>3,157,208</u>	<u>5,628,174</u>	<u>584,723</u>
Noncurrent assets:				
Capital assets:				
Land and construction in progress	716,688	2,620,289	3,336,977	5,472
Other capital assets, net	1,666,434	9,099,862	10,766,296	173,845
Capital assets, net	<u>2,383,122</u>	<u>11,720,151</u>	<u>14,103,273</u>	<u>179,317</u>
Notes receivable - Winfall settlement	-	135,000	135,000	-
Total assets	<u>4,854,088</u>	<u>15,012,359</u>	<u>19,866,447</u>	<u>764,040</u>
DEFERRED OUTFLOWS OF RESOURCES				
Pension deferrals	138,981	199,424	338,405	39,020
Total deferred outflows of resources	<u>138,981</u>	<u>199,424</u>	<u>338,405</u>	<u>39,020</u>
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	36,807	97,633	134,440	208,489
Liabilities to be paid from restricted assets:				
Advanced grant funds	-	142,181	142,181	-
Customer deposits	-	134,765	134,765	-
Due to primary government	-	-	-	151,126
Compensated absences, current	20,133	47,928	68,061	-
Notes payable, lease and IT subscription liabilities, current	56,369	439,086	495,455	18,246
Total current liabilities	<u>113,309</u>	<u>861,593</u>	<u>974,902</u>	<u>377,861</u>
Long-term liabilities:				
Net pension liability - LGERS	247,985	355,916	603,901	50,898
Due in more than one year	407,199	4,724,758	5,131,957	13,230
Total long-term liabilities	<u>655,184</u>	<u>5,080,674</u>	<u>5,735,858</u>	<u>64,128</u>
Total liabilities	<u>768,493</u>	<u>5,942,267</u>	<u>6,710,760</u>	<u>441,989</u>
DEFERRED INFLOWS OF RESOURCES				
Pension deferrals	25,181	36,142	61,323	9,014
Total deferred inflows of resources	<u>25,181</u>	<u>36,142</u>	<u>61,323</u>	<u>9,014</u>
NET POSITION				
Net investment in capital assets	1,921,713	6,563,005	8,484,718	147,841
Restricted for:				
Stabilization by state statute	300,718	-	300,718	-
USDA reserve	91,890	-	91,890	-
Streets	263,387	-	263,387	-
Working capital	-	-	-	60,628
Unrestricted	1,621,687	2,670,369	4,292,056	143,588
Total net position	<u>\$ 4,199,395</u>	<u>\$ 9,233,374</u>	<u>\$ 13,432,769</u>	<u>\$ 352,057</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF HERTFORD, NORTH CAROLINA
STATEMENT OF ACTIVITIES

Exhibit 2

YEAR ENDED JUNE 30, 2025

Functions/Programs	Program Revenues				Primary Government			Town of Hertford ABC Board
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Primary government:								
Governmental Activities:								
General government	\$ 373,755	\$ 122,752	\$ -	-	\$ (251,003)	\$ -	\$ (251,003)	
Public safety	648,897	-	-	-	(648,897)	-	(648,897)	
Transportation	597,646	-	221,225	-	(376,421)	-	(376,421)	
Economic and physical development	870,666	-	-	442,081	(428,585)	-	(428,585)	
Environmental protection	229,726	185,285	-	-	(44,441)	-	(44,441)	
Interest on long-term debt	10,974	-	-	-	(10,974)	-	(10,974)	
Total governmental activities	<u>2,731,664</u>	<u>308,037</u>	<u>221,225</u>	<u>442,081</u>	<u>(1,760,321)</u>	<u>-</u>	<u>(1,760,321)</u>	
Business-Type Activities:								
Water and sewer	2,339,899	2,201,771	119,075	660,434	-	641,381	641,381	
Electric	2,781,791	2,757,327	-	-	-	(24,464)	(24,464)	
Total business-type activities	<u>5,121,690</u>	<u>4,959,098</u>	<u>119,075</u>	<u>660,434</u>	<u>-</u>	<u>616,917</u>	<u>616,917</u>	
Total primary government	<u>\$ 7,853,354</u>	<u>\$ 5,267,135</u>	<u>\$ 340,300</u>	<u>\$ 1,102,515</u>	<u>\$ (1,760,321)</u>	<u>\$ 616,917</u>	<u>\$ (1,143,404)</u>	
Component Unit:								
ABC Board	<u>2,042,570</u>	<u>2,038,927</u>	<u>-</u>	<u>-</u>				<u>\$ (3,643)</u>
General revenues:								
Ad valorem taxes					1,000,021	-	1,000,021	-
Other taxes					1,009,006	-	1,009,006	-
Grants and contributions, not restricted to specific programs								
Miscellaneous					28,495	222,908	251,403	-
Disposal of capital assets					(1,267)	-	(1,267)	-
Investment earnings, unrestricted					69,083	64,818	133,901	1,569
Total general revenues					<u>2,105,338</u>	<u>287,726</u>	<u>2,393,064</u>	<u>1,569</u>
Change in net position					345,017	904,643	1,249,660	(2,074)
Net position, beginning					4,082,788	8,344,379	12,427,167	354,131
Restatement					(228,410)	(15,648)	(244,058)	-
Net position, beginning, as restated					<u>3,854,378</u>	<u>8,328,731</u>	<u>12,183,109</u>	<u>354,131</u>
Net position, ending					<u>\$ 4,199,395</u>	<u>\$ 9,233,374</u>	<u>\$ 13,432,769</u>	<u>\$ 352,057</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF HERTFORD, NORTH CAROLINA
BALANCE SHEET – GOVERNMENTAL FUNDS

Exhibit 3

JUNE 30, 2025

	<u>Major Funds</u>		<u>Non-major</u>	<u>Total</u>
	<u>General Fund</u>	<u>ARP Fund</u>	<u>Other Governmental Funds</u>	
ASSETS				
Cash and investments	\$ 1,441,029	\$ 34,031	\$ -	\$ 1,475,060
Receivables, net:				
Taxes	130,271	-	-	130,271
Accounts	35,322	-	-	35,322
Due from other governments	276,418	-	68,039	344,457
Due from other funds	68,039	-	-	68,039
Due from component unit	130,579	-	-	130,579
Restricted cash and cash equivalents	355,277	-	-	355,277
Total assets	<u>\$ 2,436,935</u>	<u>\$ 34,031</u>	<u>\$ 68,039</u>	<u>\$ 2,539,005</u>
LIABILITIES				
Accounts payable and accrued liabilities	\$ 26,074	\$ -	\$ -	\$ 26,074
Due to other funds	-	-	68,039	68,039
Total liabilities	<u>26,074</u>	<u>-</u>	<u>68,039</u>	<u>94,113</u>
DEFERRED INFLOWS OF RESOURCES				
Other receivable	209,640	-	68,039	277,679
Property taxes receivable, net	130,271	-	-	130,271
Total deferred inflows of resources	<u>339,911</u>	<u>-</u>	<u>68,039</u>	<u>407,950</u>
FUND BALANCE				
Restricted:				
Stabilization by state statute	300,718	-	-	300,718
USDA Reserve	91,890	-	-	91,890
Streets - Powell bill	263,387	-	-	263,387
Assigned:				
General Government	-	34,031	-	34,031
Public Safety	24,098	-	-	24,098
Subsequent year's expenditures	62,500	-	-	62,500
Unassigned	1,328,357	-	(68,039)	1,260,318
Total fund balance	<u>2,070,950</u>	<u>34,031</u>	<u>(68,039)</u>	<u>2,036,942</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 2,436,935</u>	<u>\$ 34,031</u>	<u>\$ 68,039</u>	<u>\$ 2,539,005</u>

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

Total fund balance	\$ 2,036,942
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the funds.	2,383,122
Deferred outflows of resources related to pensions are not reported in the funds.	138,981
Earned revenues considered deferred inflows of resources in fund statements are not financial resources and, therefore, are not reported in the funds.	407,950
Deferred inflows of resources related to pensions are not reported in the funds.	(25,181)
The following long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	
Net pension liability - LGERS	(247,985)
Accrued interest	(10,733)
Gross long-term debt	(461,409)
Compensated absences	(22,292)
Net position of governmental activities	<u>\$ 4,199,395</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF HERTFORD, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
GOVERNMENTAL FUNDS

Exhibit 4

YEAR ENDED JUNE 30, 2025

	<u>Major Funds</u>		<u>Non-major</u>	<u>Total</u>
	<u>General Fund</u>	<u>ARP Fund</u>	<u>Other Governmental Funds</u>	
REVENUES				
Ad valorem taxes	\$ 994,186	\$ -	\$ -	\$ 994,186
Other taxes and licenses	28,496	-	-	28,496
Unrestricted intergovernmental revenues	980,992	-	-	980,992
Restricted intergovernmental revenues	221,225	-	374,042	595,267
Sales and services	308,037	-	-	308,037
Investment earnings	68,762	321	-	69,083
Miscellaneous	28,495	-	-	28,495
Total revenues	<u>2,630,193</u>	<u>321</u>	<u>374,042</u>	<u>3,004,556</u>
EXPENDITURES				
Current:				
General government	710,206	-	-	710,206
Public safety	557,494	-	-	557,494
Transportation	556,492	-	-	556,492
Economic and physical development	368,585	-	502,081	870,666
Environmental protection	229,726	-	-	229,726
Debt service:				
Principal	52,674	-	-	52,674
Interest and other charges	9,828	-	-	9,828
Total expenditures	<u>2,485,005</u>	<u>-</u>	<u>502,081</u>	<u>2,987,086</u>
Excess of revenues over (under) expenditures	145,188	321	(128,039)	17,470
OTHER FINANCIAL SOURCES (USES)				
Transfers from other funds	2,230	-	60,000	62,230
Transfers to other funds	(60,000)	-	(2,230)	(62,230)
Sale of capital assets	8,355	-	-	8,355
Total other financing sources (uses)	<u>(49,415)</u>	<u>-</u>	<u>57,770</u>	<u>8,355</u>
Net change in fund balance	95,773	321	(70,269)	25,825
Fund balance, beginning, as previously reported	2,216,693	33,710	2,230	2,252,633
Correction of error (Note XI)	<u>(241,516)</u>	<u>-</u>	<u>-</u>	<u>(241,516)</u>
Fund balance, beginning, as restated	1,975,177	33,710	2,230	2,011,117
Fund balance, ending	<u>\$ 2,070,950</u>	<u>\$ 34,031</u>	<u>\$ (68,039)</u>	<u>\$ 2,036,942</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF HERTFORD, NORTH CAROLINA

Exhibit 4 (cont.)

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2025

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)	\$ 25,825
---	-----------

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 other revenues	67,557
Change in unavailable revenue for tax revenues	5,835

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	401,149
Disposal of capital assets	(9,622)
Depreciation expense for governmental assets	(188,103)
Amortization expense for governmental assets	(11,627)

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	37,616
Principal payments on lease liabilities	4,718
Principal payments on subscription liabilities	10,340

Contributions to the pension plan in the current fiscal year not included in the statement of activities	57,498
--	--------

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	(1,146)
Pension expense - LGERS	(53,589)
Compensated absences	(1,434)

Total changes in net position of governmental activities	<u>\$ 345,017</u>
--	-------------------

The notes to the financial statements are an integral part of this statement.

TOWN OF HERTFORD, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
ANNUAL BUDGET AND ACTUAL - GENERAL FUND

Exhibit 5

YEAR ENDED JUNE 30, 2025

	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget - Over (Under)</u>
REVENUES				
Ad valorem taxes	\$ 933,213	\$ 951,513	\$ 994,186	\$ 42,673
Other taxes and licenses	27,400	27,400	28,496	1,096
Unrestricted intergovernmental	754,000	754,000	980,992	226,992
Restricted intergovernmental	205,000	80,850	73,559	(7,291)
Sales and services	293,140	293,140	308,037	14,897
Investment earnings	40,000	40,000	68,762	28,762
Miscellaneous	-	-	28,495	28,495
Total revenues	<u>2,252,753</u>	<u>2,146,903</u>	<u>2,482,527</u>	<u>335,624</u>
EXPENDITURES				
Current:				
General government	734,195	764,125	710,206	53,919
Public safety	593,017	375,000	375,000	-
Transportation	459,836	649,197	556,492	92,705
Economic and physical development	174,593	438,346	368,585	69,761
Environmental protection	239,140	239,140	229,726	9,414
Debt service:				
Principal retirement	-	26,197	26,197	-
Interest and other charges	-	190	189	1
Total expenditures	<u>2,200,781</u>	<u>2,492,195</u>	<u>2,266,395</u>	<u>225,800</u>
Revenues over (under) expenditures	51,972	(345,292)	216,132	561,424
OTHER FINANCING SOURCES				
Transfers from (to) other funds	(51,972)	(197,542)	(152,812)	44,730
Sales of capital assets	-	-	8,355	8,355
Total other financing sources	<u>(51,972)</u>	<u>(197,542)</u>	<u>(144,457)</u>	<u>53,085</u>
Fund balance appropriated		542,834	-	(542,834)
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	71,675	<u>\$ 71,675</u>
Fund balance, beginning, as previously reported			2,216,693	
Correction of error (Note XI)			(241,516)	
Fund balance, beginning, as restated			<u>1,975,177</u>	
Fund balance, ending			<u>\$ 2,046,852</u>	

The notes to the financial statements are an integral part of this statement.

TOWN OF HERTFORD, NORTH CAROLINA
STATEMENT OF FUND NET POSITION -
PROPRIETARY FUNDS

Exhibit 6

JUNE 30, 2025

	Major Enterprise Funds		
	Water and Sewer Fund	Electric Fund	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 931,573	\$ 1,129,445	\$ 2,061,018
Accounts receivable, net	276,183	324,615	600,798
Due from other governments	178,268	24,322	202,590
Note receivable - Winfall settlement - current	15,000	-	15,000
Inventories	856	-	856
Restricted cash and cash equivalents	142,181	134,765	276,946
Total current assets	<u>1,544,061</u>	<u>1,613,147</u>	<u>3,157,208</u>
Noncurrent assets:			
Note Receivable - Winfall settlement	135,000	-	135,000
Capital assets:			
Land and construction in progress	2,389,525	230,764	2,620,289
Other capital assets, net of depreciation	8,685,016	414,846	9,099,862
Capital assets	<u>11,074,541</u>	<u>645,610</u>	<u>11,720,151</u>
Total noncurrent assets	<u>11,209,541</u>	<u>645,610</u>	<u>11,855,151</u>
Total assets	<u>12,753,602</u>	<u>2,258,757</u>	<u>15,012,359</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension deferrals	146,971	52,453	199,424
Total deferred outflows of resources	<u>146,971</u>	<u>52,453</u>	<u>199,424</u>
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	59,178	38,455	97,633
Compensated absences, current	30,804	17,124	47,928
Current portion of long-term debt	426,108	12,978	439,086
Liabilities to be paid from restricted assets:			
Advance grant funds	142,181	-	142,181
Customer deposits	-	134,765	134,765
Total current liabilities	<u>658,271</u>	<u>203,322</u>	<u>861,593</u>
Noncurrent liabilities:			
Compensated absences	4,770	1,928	6,698
Revolving loans	889,111	-	889,111
Installment loan payable	126,106	117,843	243,949
Bonds payable	3,585,000	-	3,585,000
Net pension liability	262,566	93,350	355,916
Total long-term liabilities	<u>4,867,553</u>	<u>213,121</u>	<u>5,080,674</u>
Total liabilities	<u>5,525,824</u>	<u>416,443</u>	<u>5,942,267</u>
DEFERRED INFLOWS OF RESOURCES			
Pension deferrals	26,663	9,479	36,142
Total deferred inflows of resources	<u>26,663</u>	<u>9,479</u>	<u>36,142</u>
NET POSITION			
Net investment in capital assets	6,048,216	514,789	6,563,005
Unrestricted	1,299,870	1,370,499	2,670,369
Total net position	<u>\$ 7,348,086</u>	<u>\$ 1,885,288</u>	<u>\$ 9,233,374</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF HERTFORD, NORTH CAROLINA

Exhibit 7

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION –
PROPRIETARY FUNDS**

YEAR ENDED JUNE 30, 2025

	Major Enterprise Funds		
	Water and Sewer Fund	Electric Fund	Total
OPERATING REVENUES			
Charges for services	\$ 2,201,771	\$ 2,757,327	\$ 4,959,098
Restricted intergovernmental revenues	119,075	-	119,075
Miscellaneous revenue	25,152	161,506	186,658
Total operating revenues	<u>2,345,998</u>	<u>2,918,833</u>	<u>5,264,831</u>
OPERATING EXPENSES			
Water and sewer operations	1,330,937	-	1,330,937
Electric operations	-	2,695,764	2,695,764
Depreciation and amortization	821,744	76,172	897,916
Total operating expenses	<u>2,152,681</u>	<u>2,771,936</u>	<u>4,924,617</u>
Operating income (loss)	193,317	146,897	340,214
NONOPERATING REVENUES (EXPENSES)			
Investment earnings	26,315	38,503	64,818
Restricted intergovernmental revenues	660,434	-	660,434
Insurance recoveries	-	-	-
Sale of capital assets	9,250	27,000	36,250
Interest and other charges	(187,218)	(9,855)	(197,073)
Total nonoperating revenue (expenses)	<u>508,781</u>	<u>55,648</u>	<u>564,429</u>
Change in net position	702,098	202,545	904,643
Total net position, beginning	6,661,684	1,682,695	8,344,379
Restatement	(15,696)	48	(15,648)
Total net position, as restated	<u>6,645,988</u>	<u>1,682,743</u>	<u>8,328,731</u>
Total net position, ending	<u>\$ 7,348,086</u>	<u>\$ 1,885,288</u>	<u>\$ 9,233,374</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF HERTFORD, NORTH CAROLINA
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS

Exhibit 8

YEAR ENDED JUNE 30, 2025

	Major Enterprise Funds		
	Water and Sewer Fund	Electric Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 2,250,042	\$ 3,133,823	\$ 5,383,865
Cash paid for goods and services	(750,607)	(2,476,716)	(3,227,323)
Cash paid to employees	(608,909)	(403,346)	(1,012,255)
Proceeds from operating grants	19,751	-	19,751
Cash received from Winfall settlement	15,000	-	15,000
Net cash provided by operating activities	<u>925,277</u>	<u>253,761</u>	<u>1,179,038</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal paid of long-term debt	(434,184)	(20,880)	(455,064)
Proceeds from capital grants	802,615	-	802,615
Acquisition of capital assets	(759,347)	(190,767)	(950,114)
Proceeds from sale of capital assets	9,250	27,000	36,250
Interest and other charges	(187,218)	(9,855)	(197,073)
Net cash used by capital and related financing activities	<u>(568,884)</u>	<u>(194,502)</u>	<u>(763,386)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends	26,316	38,504	64,820
Net cash provided by investing activities	<u>26,316</u>	<u>38,504</u>	<u>64,820</u>
Net increase in cash and cash equivalents	382,709	97,763	480,472
Cash and cash equivalents, July 1	691,045	1,166,447	1,857,492
Cash and cash equivalents, June 30	<u>\$ 1,073,754</u>	<u>\$ 1,264,210</u>	<u>\$ 2,337,964</u>
Reconciliation of operating income to net cash provided by operating activities			
Operating income	\$ 193,317	\$ 146,897	\$ 340,214
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	821,744	76,172	897,916
Changes in assets, deferred outflows of resources, and liabilities:			
(Increase) decrease in accounts receivable, net	48,271	188,758	237,029
(Increase) decrease in due from other governments	(175,144)	27,917	(147,227)
(Increase) decrease in note receivable - Winfall settlement	15,000	-	15,000
(Increase) decrease in deferred outflows of resources of pensions	32,296	11,121	43,417
Increase (decrease) in accounts payable and accrued liabilities	19,939	(197,044)	(177,105)
Increase (decrease) in customer deposits	-	(1,685)	(1,685)
Increase (decrease) in compensated absences	(3,093)	10,959	7,866
Increase (decrease) in net pension liability	(17,190)	(5,860)	(23,050)
Increase (decrease) in deferred inflows of resources for pensions	(9,863)	(3,474)	(13,337)
Total adjustments	<u>731,960</u>	<u>106,864</u>	<u>838,824</u>
Net cash provided by operating activities	<u>\$ 925,277</u>	<u>\$ 253,761</u>	<u>\$ 1,179,038</u>

The notes to the financial statements are an integral part of this statement.

This page left blank intentionally.

TOWN OF HERTFORD, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2025

I. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Town of Hertford (the "Town") 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. 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.

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. Non-operating revenues, such as subsidies result from non-exchange transactions. Other non-operating revenues are ancillary activities such as investment earnings.

TOWN OF HERTFORD, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2025

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, and various other taxes and licenses. The primary expenditures are for public safety, street maintenance and construction, and sanitation services. The City has legally adopted a Fire Fund. Under GASB 54 guidance, the Fire Fund is consolidated in the General Fund. The budgetary comparison for the Fire Fund has been included in the supplemental information.

ARP Fund. This fund accounts for transactions related to the American Rescue Plan Funds.

The Town reports the following non-major governmental funds:

Economic Development Administration Project Fund. This fund accounts for detailed design and construction drawings for Phase One of the Hertford Community and Riverfront Plan retaining wall and boardwalk.

Hyde Park Street Culvert Replacement Grant Project Fund. This fund accounts for Golden Leaf grant proceeds to be used for the Hyde Park Street Culvert replacement.

Waterfront Project Fund. This fund accounts for a study to generate visitation and jobs to improve the economy for the community.

Miscellaneous Grants Project Fund. This fund accounts for transactions for miscellaneous grant-funded economic and physical development projects.

The Town reports the following major enterprise funds:

Water and Sewer Fund. This fund is used to account for the Town's water and sewer operations. The water and sewer capital project funds have been consolidated into the water and sewer fund for financial reporting purposes.

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

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

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

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

TOWN OF HERTFORD, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2025

Proprietary funds distinguish operating revenues and expenses from non-operating 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 non-operating 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, including lease and information technology subscriptions (SBITA) liabilities, 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. Issuance of general long-term debt and acquisitions under leases and IT subscriptions are reported as other financing sources.

The Town considers all revenues available if they are collected within 60 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 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 is 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 general revenues.

D. BUDGETARY DATA

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund, Fire Fund, and the Enterprise Funds. All annual appropriations lapse at the fiscal year end. Project ordinances are adopted for the ARP Fund, Economic Development Administration Fund, Hyde Street Park Culvert Replacement Fund, Waterfront Capital Project Fund, Miscellaneous Grants Capital Project Fund, and the Water and Sewer Capital Project Funds. 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 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 immaterial 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.

TOWN OF HERTFORD, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2025

E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND FUND EQUITY

1. Deposits and Investments

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

State law [G.S. 159-30(c)] authorizes the Town and the ABC Board to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and mutual fund shares when the mutual fund is certified by the Local Government Commission. The Town's and the ABC Board's investments are reported at fair value. The NCCMT Government Portfolio, a SEC-registered money market mutual fund that is currently certified by the Local Government Commission under the provisions of G.S. 159-30(c)(8) and the North Carolina administrative code. The Government Portfolio is a 2a7 fund that invests in treasuries, government agencies, and repurchase agreements collateralized by treasuries. It is rated AAAm by S&P and AAA-mf by Moody's Investor Services and reported at fair value.

2. Cash and Cash Equivalents

The Town pools money from several funds to facilitate disbursement and investment and to maximize investment income 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, 2025, the Town has accumulated \$91,890 in this account and it is shown as restricted assets for 'USDA Reserve'. Customer deposits held by the Town before any services are supplied are restricted to the service for which the deposit was collected. Powell Bill funds are also classified as restricted cash because it can be expended only for the purposes outlined in G.S. 136-41.1 through 136-41.4. Advanced grant funds represent monies received in advance and restricted for expenditures for the purpose of the grants - waterline replacement, water treatment system project, and wastewater/sewer system asset inventory.

Governmental activities:

General Fund:	
USDA reserve	91,890
Streets - Powell Bill	<u>263,387</u>
Total governmental activities	<u>355,277</u>

Business-type activities:

Water and Sewer Fund:	
Advanced grant funds	142,181
Electric Fund:	
Customer deposits	<u>134,765</u>
Total business-type activities	<u>276,946</u>
Total restricted cash	<u>\$ 632,223</u>

TOWN OF HERTFORD, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2025

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, 2024. 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. **Allowance 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**

All fund-type inventories are valued at cost, which approximates market. The costs of these inventories are expensed when consumed rather than when purchased.

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 financial statements and expensed as the items are used.

7. **Capital Assets**

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.

The Town's capital assets also include certain right to use assets. These right to use assets arise in association with agreements where the Town reports a lease (only applies when the Town is the lessee) or agreements where the Town reports an Information Technology (IT) Subscription in accordance with the requirements of GASB 87 and GASB 96, respectively.

The right to use lease assets are initially measured at an amount equal to the initial measurement of the related lease liability plus any lease payments made at or prior to the start of the lease term, less lease incentives received from the lessor at or prior to the start of the lease term, and plus ancillary charges necessary to place the lease asset into service. The right to use lease assets are amortized on a straight-line basis over the life of the related lease.

The right to use IT subscription assets are initially measured at an amount equal to the initial measurement of the subscription liability plus any subscription payments made at the start of the subscription term, if applicable, plus capitalizable initial implementation costs at the start of the subscription term, less any incentives received from the IT subscription vendor at the start of the subscription term. Subscription payments, as well as payments for capitalizable implementation costs

TOWN OF HERTFORD, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2025

made before the start of the subscription term should be reported as a prepayment (asset). Such prepayments should be reduced by any incentives received from the same vendor before the start of the subscription term if a right of offset exists. The net amount of the prepayments and incentives should be reported as an asset or liability, as appropriate, before the start of the subscription term at which time the amount should be included in the initial measurement of the subscription asset. The right to use subscription assets are amortized on a straight-line basis over the subscription term.

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	50
Buildings	30
Other improvements	25
Equipment and furniture	10
Vehicles	6
Computers	3

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	20
Equipment and furniture	10
Vehicles	3-5
Computers	3

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 2025 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 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 – property taxes receivable and pension deferrals.

9. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts 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

TOWN OF HERTFORD, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2025

expensed in the reporting period in which they are incurred. Prepaid insurance costs are expensed over the life of the debt.

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

10. Compensated Absences

The vacation policies of the Town and the ABC Board provide for the accumulation of up to 30 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's and the ABC Board's sick leave policies provides 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. In the current fiscal year, Governmental Accounting Standards Board (GASB) Statement No. 101, *Compensated Absences*, was implemented which resulted in a liability for sick leave.

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 four classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent.

The governmental fund types classify fund balances as follows:

Non Spendable 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 had no amounts that met this criteria.

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

TOWN OF HERTFORD, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2025

(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, prepaids and lease receivables in excess of deferred inflows of resources for leases, as they are classified as nonspendable. RSS is included as a component of Restricted Net position and Restricted fund balance on the face of the balance sheet.

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

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 unexpended Powell Bill funds.

Committed Fund Balance – portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of Town of Hertford's governing body (highest level of decision-making authority). The governing body can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation. The Town had no amounts that met this criteria.

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

Assigned for General government - portion of fund balance that the Town intends to use for general government functions.

Assigned for Public Safety - portion of fund balance that the Town intends to use for fire functions.

Subsequent Year's Expenditures - portion of fund balance that is appropriated in the next year's budget that is not already classified as restricted or committed.

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

The Town has a revenue spending policy that provides guidance for programs with multiple revenue sources. The Finance Officer will use resources in the following hierarchy: bond proceeds, federal funds, State funds, local non-town funds, town funds. For purposes of fund balance classification expenditures are to be spent from restricted fund balance first, followed in order by committed fund balance, assigned fund balance and lastly unassigned fund balance. The Finance Officer has the authority to deviate from this policy if it is in the best interest of the Town.

The Town 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.

TOWN OF HERTFORD, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2025

12. Defined Benefit Cost-Share Plan

For purposes of measuring the net pension liability, 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's employer contributions are recognized when due and the Town has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of LGERS. Investments are reported at fair value.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

At June 30, 2025, the Economic Development Administration Project Fund, Hyde Street Park Culvert Replacement Project Fund, and Miscellaneous Grants Capital Project Funds had deficit fund balances representing the portion of funds expended for project activities that will be funded through grant proceeds, not received within the period of collectability. The deficits will be eliminated as proceeds are obtained.

In the Economic Development Administration Project Fund, expenditures exceeded budget by \$50,000 for engineering and design due to the delayed grant award for the Great Trails State Program Grant.

III. DETAIL NOTES ON ALL FUNDS

A. ASSETS

1. Deposits

All the deposits of the Town and the ABC Board are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Town's or the ABC Board's agents in these units' names. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town and the ABC Board, these deposits are considered to be held by the Town's and the ABC Board's agents in their names. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits.

Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town, the ABC Board, or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town and the ABC Board under the Pooling Method, the potential exists for under-collateralization. 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.

TOWN OF HERTFORD, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2025

At June 30, 2025, the Town's deposits had a carrying amount of \$1,172,297 and a bank balance of \$1,279,140. Of the bank balance, \$250,000 was covered by federal depository insurance and the remainder was covered by collateral held under the Pooling Method. At June 30, 2025, the ABC Board's deposits had a carrying amount of \$301,314 and a bank balance of \$301,551. Of the bank balance, \$250,000 was covered by federal depository insurance, and the remainder was covered by collateral held under the Pooling Method. At June 30, 2025, the Town's petty cash fund totaled \$735 and the ABC Board's petty cash fund totaled \$1,350.

2. Investments

At June 30, 2025, the Town had \$2,995,269 invested with the North Carolina Capital Management Trust's Government Portfolio which carried a credit rating of AAAM by Standard and Poor's (S&P) and AAAMf by Moody's Investor Services. The Town has no formal policy regarding interest rate 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.

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, 2025, are net of the following allowances for doubtful accounts:

<u>Fund</u>	
General Fund:	
Accounts receivable	\$ 9,190
Taxes receivable	63,165
Enterprise Funds:	
Water and sewer accounts receivable	97,465
Electric fund accounts receivable	<u>95,063</u>
Total	\$ <u>264,883</u>

TOWN OF HERTFORD, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2025

4. Capital Assets

Primary Government

Capital asset activity for the Primary Government for the year ended June 30, 2025 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers/ Retirements</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 396,305	\$ -	\$ -	\$ 396,305
Construction in progress	843,395	188,207	(711,219)	320,383
Total capital assets not being depreciated	<u>1,239,700</u>	<u>188,207</u>	<u>(711,219)</u>	<u>716,688</u>
Capital assets being depreciated/amortized:				
Buildings	1,067,044	183,203	-	1,250,247
Equipment and furniture	615,086	29,739	(27,948)	616,876
Other improvements	1,319,084	-	(9,300)	1,309,784
Vehicles and motorized equipment	1,477,217	-	669,610	2,146,827
Right-to-use leased equipment	24,223	-	-	24,223
Right-to-use software	44,018	-	-	44,018
Total capital assets being depreciated/amortized	<u>4,546,672</u>	<u>212,942</u>	<u>632,362</u>	<u>5,391,975</u>
Less accumulated depreciation/amortization for:				
Buildings	858,954	16,915	-	875,868
Equipment and furniture	383,946	32,792	(27,948)	388,791
Other improvements	866,020	53,089	(1,303)	917,807
Vehicles and motorized equipment	1,462,869	85,307	(39,984)	1,508,192
Right-to-use leased equipment	6,060	1,211	(3,636)	3,635
Right-to-use software	20,832	10,416	-	31,248
Total accumulated depreciation/amortization	<u>3,598,681</u>	<u>199,730</u>	<u>(72,871)</u>	<u>3,725,541</u>
Total governmental activities capital assets, net	<u>\$ 2,187,691</u>			<u>\$ 2,383,122</u>

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

General government	\$ 37,434
Public safety	91,403
Transportation	<u>70,893</u>
Total	<u>\$ 199,730</u>

TOWN OF HERTFORD, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2025

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Business-type activities:				
Water and Sewer Fund:				
Capital assets not being depreciated:				
Land	\$ 379,893	\$ -	\$ -	\$ 379,893
Construction in progress	1,330,770	678,861	-	2,009,632
Total capital assets not being depreciated	<u>1,710,663</u>	<u>678,861</u>	<u>-</u>	<u>2,389,525</u>
Capital assets being depreciated:				
Buildings	1,700	-	-	1,700
Equipment	662,885	-	(368)	662,517
Vehicles	240,681	-	-	240,681
Improvements	23,459,016	80,486	-	23,539,502
Total capital assets being depreciated	<u>24,364,282</u>	<u>80,486</u>	<u>(368)</u>	<u>24,444,400</u>
Less accumulated depreciation for:				
Buildings	1,700	-	-	1,700
Equipment	475,989	14,770	(368)	490,391
Vehicles	158,211	37,960	-	196,171
Improvements	14,302,106	769,015	-	15,071,122
Total accumulated depreciation	<u>14,938,006</u>	<u>821,744</u>	<u>(368)</u>	<u>15,759,384</u>
Total capital assets being depreciated, net	<u>9,426,276</u>			<u>8,685,016</u>
Water and Sewer Fund capital assets, net	<u>11,136,939</u>			<u>11,074,541</u>
Electric Fund:				
Capital assets not being depreciated:				
Construction in progress	162,009	68,756	-	230,764
Total capital assets not being depreciated	<u>162,009</u>	<u>68,756</u>	<u>-</u>	<u>230,764</u>
Capital assets being depreciated:				
Equipment	424,709	5,904	(22,245)	408,368
Vehicles	351,382	55,326	-	406,708
Improvements	2,406,470	60,781	-	2,467,251
Total capital assets being depreciated	<u>3,182,561</u>	<u>122,011</u>	<u>(22,245)</u>	<u>3,282,327</u>
Less accumulated depreciation for:				
Equipment	241,968	16,268	(22,245)	235,991
Vehicles	266,748	18,940	-	285,687
Improvements	2,304,838	40,964	-	2,345,802
Total accumulated depreciation	<u>2,813,554</u>	<u>76,172</u>	<u>(22,245)</u>	<u>2,867,480</u>
Total capital assets being depreciated, net	<u>369,007</u>			<u>414,846</u>
Electric Fund capital assets, net	<u>531,016</u>			<u>645,610</u>
Total business-type activities capital assets, net	<u>\$ 11,667,954</u>			<u>\$ 11,720,151</u>

TOWN OF HERTFORD, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2025

Construction commitments.

The Town has active construction projects as of June 30, 2025. All of the projects are water and sewer projects. At June 30, 2025, the Town's commitments are as follows:

<u>Project</u>	<u>Spent-to-date</u>	<u>Remaining Commitment</u>
Sewer system rehabilitation	\$ 347,464	\$ 3,399,026
Water treatment system	270,517	1,883,433
Waterline replacement	<u>1,230,886</u>	<u>7,864,964</u>
Total	<u>\$ 1,848,867</u>	<u>\$ 13,147,423</u>

Discretely presented component units.

Capital asset activity for the ABC Board for the year ended June 30, 2025, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 5,472	\$ -	\$ -	\$ 5,472
Construction in progress	15,000	-	15,000	-
Total capital assets not being depreciated	<u>20,472</u>	<u>-</u>	<u>15,000</u>	<u>5,472</u>
Capital assets being depreciated:				
Buildings	36,310	125,445	-	161,755
Furniture and equipment	266,070	-	-	266,070
Improvements	11,871	-	-	11,871
Total capital assets being depreciated	<u>314,251</u>	<u>125,445</u>	<u>-</u>	<u>439,696</u>
Less accumulated depreciation for				
Buildings	36,310	16,300	-	52,610
Furniture and equipment	189,835	11,535	-	201,370
Improvements	11,871	-	-	11,871
Total accumulated depreciation	<u>238,016</u>	<u>27,835</u>	<u>-</u>	<u>265,851</u>
Total capital assets being depreciated, net	<u>76,235</u>			<u>173,845</u>
ABC Board capital assets, net	<u>\$ 96,707</u>			<u>\$ 179,317</u>

TOWN OF HERTFORD, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2025

B. LIABILITIES

1. Payables

Payables at the government-wide level at June 30,2025, were as follows:

	<u>Vendors</u>	<u>Other</u>	<u>Total</u>
Governmental activities	\$ 28,443	\$ 8,364	\$ 36,807
Business-type activities:			
Water and sewer	\$ 30,207	\$ 28,971	\$ 59,178
Electric	4,068	34,387	38,455
Total business-type activities	\$ 34,275	\$ 63,358	\$ 97,633

2. Pension Plan and Postemployment Obligations

a. Local Governmental Employees' Retirement System

Plan Description. The Town and the ABC Board are a participating employer in the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS membership is comprised of general employees and local law enforcement officers ("LEOs") of participating local governmental entities, firefighters and rescue squad workers. 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 ("ACFR") for the State of North Carolina. The State's ACFR 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, or by calling (919) 981-5454, or at www.osc.nc.gov.

Benefits Provided. LGERS provides retirement, disability 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. General employee plan members are eligible to retire with unreduced 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. General employee plan members are eligible to retire with reduced 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 and rescue squad workers). Disabled members may qualify for disability benefits at earlier ages. Survivor benefits are available to eligible beneficiaries of general employee plan 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 workers 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 in lieu of the return of the member's contributions that is generally available to beneficiaries of deceased members. The plan does not provide for automatic post-retirement benefit increases. Cost of living benefit increases are contingent upon investment gains of the plan at the discretion of the LGERS Board of Trustees, except as authorized by the General Assembly.

TOWN OF HERTFORD, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2025

LGERS plan members who are LEOs are eligible to retire with unreduced retirement benefits at age 55 with five years of creditable service as an officer, or at any age with 30 years of creditable service. LEO plan members are eligible to retire with reduced retirement benefits at age 50 with 15 years of creditable service as an officer. LEOs who complete 25 years of creditable service with 15 years as an officer are eligible to retire with unreduced retirement benefits. Survivor benefits are available to eligible beneficiaries of LEO members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed 15 years of service as a LEO and have reached age 50, or have completed five years of creditable service as a LEO and have reached age 55, or have completed 15 years of creditable services as a LEO if killed in the line of duty. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life in lieu of the return of the member's contributions that is generally available to beneficiaries of deceased members.

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Town 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's contractually required contribution rate for the year ended June 30, 2025 was 13.67% of compensation 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 were \$140,239 for the year ended June 30, 2025.

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 include interest (currently 4% per year) regardless of the number of years of retirement service credit or for the reason for separation from service. State law requires a 60 day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's right to employer contributions or any other benefit provided by LGERS.

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

At June 30, 2025, the Town reported a liability of \$603,901 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2024. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2023. The total pension liability was then rolled forward to the measurement date of June 30, 2024 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, 2024 (measurement date), the Town's proportion was 0.00896% which was a decrease of 0.00075% from its proportion measured as of June 30, 2023.

For the year ended June 30, 2025, the Town recognized pension expense of \$152,153. At June 30, 2025, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

TOWN OF HERTFORD, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2025

	<u>Deferred Outflows of Resources</u>	<u>Deferred Outflows of Resources</u>
Differences between expected and actual experience	\$ 105,826	\$ 712
Changes in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	82,100	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	10,240	60,611
Town contributions subsequent to the measurement date	<u>140,239</u>	<u>-</u>
Total	<u>\$ 338,405</u>	<u>\$ 61,323</u>

The \$140,239 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, 2026. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ending June 30:</u>	
2026	\$ 15,797
2027	117,310
2028	13,020
2029	<u>(9,284)</u>
Total	<u>\$ 136,843</u>

Actuarial Assumptions. The total pension liability in the December 31, 2023 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	3.25% to 8.25%, including inflation and productivity factor
Investment rate of return	6.50%, 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 mortality improvements.

The actuarial assumptions used in the December 31, 2023 valuation were based on the results of an actuarial experience study for the period as of December 31, 2019 and adopted by the Board of Trustees on January 28, 2021.

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

TOWN OF HERTFORD, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2025

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, 2024 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed income	33.0%	2.4%
Global equity	38.0%	6.9%
Real estate	8.0%	6.0%
Alternatives	8.0%	8.6%
Opportunistic fixed income	7.0%	5.3%
Inflation sensitive	6.0%	4.3%
	<u>100.0%</u>	

The information above is based on 30-year expectations developed with an investment consulting firm as part of a study that was completed in early 2022, 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 2.38%. 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%, 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%) or one percentage point higher (7.50%) than the current rate:

	<u>1% Decrease (5.50%)</u>	<u>Discount Rate (6.50%)</u>	<u>1% Increase (7.50%)</u>
Town's proportionate share of the net pension liability (asset)	<u>\$ 1,070,130</u>	<u>\$ 603,901</u>	<u>\$ 220,363</u>

TOWN OF HERTFORD, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2025

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 (ACFR) for the State of North Carolina.

b. 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. The Plan provides retirement benefits to general employees employed by the Town. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

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. The employees may also make voluntary contributions to the plan. Contributions for the year ended June 30, 2025 were \$53,957, which consisted of \$38,473 from the Town and \$15,484 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 Outflows and Inflows of Resources

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

<u>Source</u>	<u>Statement of Net Position</u>
Governmental activities:	
Pension - LGERS	\$ 138,981
Business-type activities:	
Pension - LGERS	<u>199,424</u>
Total	<u>\$ 338,405</u>

TOWN OF HERTFORD, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2025

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

Source	Statement of Net Position	Governmental Activities Balance Sheet
Governmental activities:		
Taxes receivable	\$ -	\$ 130,271
Unavailable receivable	-	277,679
Pension - LGERS	25,181	-
Total governmental activities	25,181	407,950
Business-type activities:		
Pension - LGERS	36,142	-
Total business-type activities	36,142	-
Total	\$ 61,323	\$ 407,950

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 MedCost. 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 finance officer is bonded for \$1,000,000 in order to comply with S.L. 2022-53, Section 9(a). The remaining employees that have access to funds are bonded under a blanket bond for \$30,000 per occurrence.

Town of Hertford ABC Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The ABC Board has commercial property, general liability, auto liability, workers' compensation, and employee health coverage. The ABC Board also has liquor legal liability coverage.

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

TOWN OF HERTFORD, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2025

6. Claims, Judgements 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. Leases

The Town has entered into an arrangement to lease certain office equipment. The lease agreement qualifies as an other than short-term lease under GASB 87 and, therefore, has been recorded at the present value of the future minimum lease payments as of the date of inception.

The agreement began on April 15, 2023, for two copiers and requires sixty monthly payments of \$439. There are no variable payment components of the agreement. A right-to-use leased equipment capital asset was recorded in the amount of \$24,223. Accumulated amortization at June 30, 2025 was \$3,635. The lease liability is measured at a discount rate of 3.39%. The liability balance at June 30, 2025 was \$13,828.

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2025, were as follows:

<u>Year ending June 30:</u>	<u>Principal</u>	<u>Interest</u>
2026	\$ 4,880	\$ 393
2027	5,048	225
2028	<u>3,900</u>	<u>56</u>
Total	<u>\$ 13,828</u>	<u>\$ 674</u>

b. Subscriptions

The Town has entered into two software agreements that qualify as subscription-based information technology arrangements (subscriptions) under GASB 96 and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of inception.

One agreement was in place at June 30, 2022. The subscription is for Office 365 software. The subscription has a term of 60 months and requires monthly payments of \$423. There are no variable payment components of the agreement. The subscription does not have a stated interest rate. Accordingly, the Town's estimated incremental borrowing rate of 3.39% was used to discount the subscription payments. A right-to-use software capital asset was recorded in the amount of \$21,192. Accumulated amortization at June 30, 2025 was \$14,106. The liability balance at June 30, 2025 was \$7,404.

The second agreement began on January 1, 2023 for website management software. The subscription has a term of four years and requires annual payments of \$5,995. There are no variable payment components of the agreement. The subscription does not have a stated interest rate. Accordingly, the Town's estimated incremental borrowing rate of 3.39% was used to discount the subscription payments. A right-to-use software capital asset was recorded in the amount of \$22,826. Accumulated amortization at June 30, 2025 was \$17,142. The liability

TOWN OF HERTFORD, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2025

balance at June 30, 2025 was \$5,799.

The future minimum subscription obligations and the net present value of these minimum lease payments as of June 30, 2025, are as follows:

<u>Year ending June 30:</u>	<u>Principal</u>	<u>Interest</u>
2026	\$ 10,693	\$ 372
2027	<u>2,510</u>	<u>25</u>
Total	<u>\$ 13,203</u>	<u>\$ 397</u>

c. Installment Purchase

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

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 contains 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 from the General Fund, the Electric Fund, and the Water and Sewer Fund. The balance at June 30, 2025 is \$416,304.

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 contains 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, 2025 is \$30,347.

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 \$25,481, plus 2.75% interest and matures in 2036. The Town's outstanding note from direct placement for the fire truck related to governmental activities contains 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, 2025 is \$257,632.

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 contains a

TOWN OF HERTFORD, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2025

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, 2025 is \$14,852.

The future minimum payments of the installment purchases as of June 30, 2025, including \$144,544 of interest, are as follows:

<u>Years Ending June 30,</u>	<u>Direct Borrowings</u>					
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2026	\$ 40,796	\$ 14,198	\$ 40,808	\$ 12,120	\$ 81,604	\$ 26,318
2027	42,242	12,752	27,060	10,703	69,302	23,455
2028	44,657	11,251	28,211	9,552	72,868	20,803
2029	34,667	9,696	29,411	8,352	64,078	18,048
2030	35,841	8,521	30,663	7,101	66,504	15,622
2031-2035	187,073	23,474	128,604	14,794	315,677	38,268
2036-2037	49,102	2,030	-	-	49,102	2,030
Total	\$ 434,378	\$ 81,922	\$ 284,757	\$ 62,622	\$ 719,135	\$ 144,544

d. 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.

Bonds payable at June 30, 2025 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.	\$2,293,000
\$1,063,000 2008 USDA-Water and Sewer serial bonds due in annual installments of \$32,318 to \$57,615 through June 2048, interest at 4.25%. Principal payments began in 2011.	816,000
\$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>577,000</u>
Total	<u><u>\$3,686,000</u></u>

TOWN OF HERTFORD, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2025

The future minimum payments of the general obligation indebtedness as of June 30, 2025, including \$2,137,195 of interest, are as follows:

<u>Years Ending June 30,</u>	<u>General Obligation Indebtedness</u>	
	<u>Principal</u>	<u>Interest</u>
2026	\$ 101,000	\$ 158,781
2027	106,000	154,440
2028	110,000	149,885
2029	115,000	145,153
2030	119,000	140,206
2031-2035	681,000	619,196
2036-2040	841,000	459,420
2041-2045	1,022,000	261,910
2046-2048	591,000	48,204
Total	<u>\$ 3,686,000</u>	<u>\$ 2,137,195</u>

e. Revolving Loans

The Town's revolving loans issued to finance the construction of facilities utilized in the operations of the Water and Sewer system are reported as long-term debt in the Water and Sewer Fund. All revolving loans are collateralized by the full faith, credit and taxing power of the Town. Principal and interest requirements are appropriated when due. Revolving loans payable at June 30, 2025 are comprised of the following individual issues:

\$3,000,000 - 2008 Sewer revolving loan due in annual installments of \$150,000 through May 2028, interest at 0.0%. Payments began in 2009.	\$450,000
\$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.	93,977
\$2,441,165 - 2008 Drinking Water revolving loan due in annual installments of \$124,622 to \$241,933 through May 2030, interest at 2.10%. Principal payments began in 2011.	610,291
\$128,482 - 2008 Drinking Water revolving loan due in annual installments of \$6,559 to \$12,733 through May 2030, interest at 2.10%. Principal payments began in 2011.	<u>32,121</u>
Total	<u>\$1,186,389</u>

TOWN OF HERTFORD, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2025

The future minimum payments of the revolving loans as of June 30, 2025, including \$40,472 interest are as follows:

<u>Years Ending June 30,</u>	<u>Revolving Loans</u>	
	<u>Principal</u>	<u>Interest</u>
2026	\$ 297,278	\$ 13,491
2027	297,278	10,793
2028	297,278	8,094
2029	147,278	5,396
2030	147,277	2,698
Total	<u>\$ 1,186,389</u>	<u>\$ 40,472</u>

At June 30, 2025, the Town had a legal debt margin of \$7,579,116.

f. Changes in Long-Term Liabilities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Current Portion of Balance</u>
Governmental Activities:					
Installment purchases-					
direct borrowings	\$ 471,994	\$ -	\$ 37,616	434,378	\$ 40,796
Lease liabilities	18,546	-	4,718	13,828	4,880
Subscription liabilities	23,543	-	10,340	13,203	10,693
Net pension liability (LGERS)	264,003	-	16,018	247,985	-
Compensated absences	23,726	-	1,434	22,292	20,133
Governmental activities long-term liabilities	<u>\$ 801,812</u>	<u>\$ -</u>	<u>\$ 70,126</u>	<u>731,686</u>	<u>\$ 76,502</u>
Business-Type Activities:					
Water and Sewer Fund:					
Installment purchases-					
direct borrowings	193,842	-	39,906	153,936	27,830
General obligations bonds	3,783,000	-	97,000	3,686,000	101,000
Revolving loans	1,483,667	-	297,278	1,186,389	297,278
Net pension liability (LGERS)	279,756	-	17,190	262,566	-
Compensated absences	38,667	-	3,093	35,574	30,804
Water and Sewer Fund long-term liabilities	<u>\$ 5,778,932</u>	<u>\$ -</u>	<u>\$ 454,467</u>	<u>\$ 5,324,465</u>	<u>\$ 456,912</u>
Electric Fund:					
Installment purchases-					
direct borrowings	151,701	-	20,880	130,821	12,978
Net pension liability (LGERS)	99,210	-	5,860	93,350	-
Compensated absences	8,093	10,959	-	19,052	17,124
Electric Fund long-term liabilities	<u>259,004</u>	<u>10,959</u>	<u>26,740</u>	<u>243,223</u>	<u>30,102</u>
Business-type activities long-term liabilities	<u>\$ 6,037,936</u>	<u>\$ 10,959</u>	<u>\$ 481,207</u>	<u>\$ 5,567,688</u>	<u>\$ 487,014</u>

TOWN OF HERTFORD, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2025

g. 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, 2025, the Town has accumulated \$91,890 in this account and it is shown as restricted assets for "USDA Reserve."

B. INTERFUND BALANCES AND ACTIVITY

Transfers to / from other funds during the year ended June 30, 2025, consist of the following:

From General Fund to Economic Development Administration Project Fund	\$ 60,000
From Waterfront Capital Project Fund to General Fund	<u>(2,230)</u>
Total	<u>\$ 57,770</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. Grant expenditures advanced ahead of receiving funds are shown as due to / from other funds in the amount of \$68,039.

Transfers from the General Fund to the Economic Development Administration Project Fund represent matching contributions required for grant programs. Transfers from the Waterfront Capital Project Fund to the General Fund represents a closeout of that project in the current fiscal year.

C. NET INVESTMENT IN CAPITAL ASSETS

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Capital assets	\$ 2,383,122	\$ 11,720,151
Long-term debt	<u>(461,409)</u>	<u>(5,157,146)</u>
Net investment in capital assets	<u>\$ 1,921,713</u>	<u>\$ 6,563,005</u>

D. FUND BALANCE

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

Total fund balance - General Fund	\$ 2,070,950
Less:	
Stabilization by state statute	300,718
USDA reserve	91,890
Streets - Powell bill	263,387
Public Safety	24,098
Subsequent year's expenditures	<u>62,500</u>
Remaining fund balance	<u>\$ 1,328,357</u>

The Town 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.

TOWN OF HERTFORD, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2025

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, 2025, were \$2,169,697.

V. RELATED ORGANIZATION

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. The Town received \$8,817 for payment in lieu of tax in the current fiscal year.

VI. SUMMARY 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.

VII. WINFALL SETTLEMENT

On July 20, 2015, the Town of Winfall began making payments to the Town 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. 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, 2025 is \$150,000.

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 in July 2022. During the prior fiscal year, \$659,594 of ARPA funds were expended for the purchase a Fire Truck, and the remaining \$13,814 was expended towards the construction of the Public Works building.

TOWN OF HERTFORD, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2025

IX. RELATED PARTY TRANSACTIONS

Transactions with the ABC Board:	
Payment to the Town for profit distributions	\$ 79,543
Total	<u>\$ 79,543</u>

X. SIGNIFICANT EFFECTS OF SUBSEQUENT EVENTS

In September 2025, the Town was awarded an \$1,719,200 grant from the 2023 Appropriation Act, Session Law 2023-134, administered through the Drinking Water Reserve and Wastewater Reserve from the North Carolina Department of Environmental Quality. Funds will be used for the Marine Industrial Park Water and Sewer System extensions.

In January 2026, the Town was awarded a Great Trails State Program Grant in the amount of \$160,000 to be used in conjunction with grant funding from the Economic Development Administration for the Hertford Riverfront Boardwalk Plan.

XI. ADJUSTMENTS AND RESTATEMENTS OF BEGINNING BALANCES IN NET POSITION

For the year ended June 30, 2025, the Town of Hertford implemented GASB Statement No. 101, *Compensated Absences*. In addition to a liability for unused vacation and compensatory time, the Town now recognizes an estimated amount of sick leave earned as of year-end that will be used by employees as time off in future years.

For the year ended June 30, 2025, the financial statements included a restatement to beginning net position for the General Fund in the amount of \$241,516. The restatement is from corrections to the accounts receivable balances and deferred revenue related to the ABC Board. The financial statements also include a restatement to beginning net position for the Government-Wide in the amount of \$193,970. This restatement is from a prior year's water front study that will not result in an asset and should be removed from construction in progress.

The effects of the change in accounting principle and correction of errors are shown below:

	Reporting Units Affected by Adjustments to and Restatements of Beginning Balances				
	Funds			Government-Wide	
	General Fund	Water and Sewer Fund	Electric Fund	Governmental Activities	Business-Type Activities
6/30/24, as previously reported	\$ 2,216,693	\$ 6,661,684	\$ 1,682,695	\$ 4,082,788	\$ 8,344,379
Correction of error	(241,516)	-	-	(225,364)	-
Change in accounting principle	-	(15,696)	48	(3,046)	(15,648)
6/30/24, restated	<u>\$ 1,975,177</u>	<u>\$ 6,645,988</u>	<u>\$ 1,682,743</u>	<u>\$ 3,854,378</u>	<u>\$ 8,328,731</u>

This page left blank intentionally.

REQUIRED SUPPLEMENTARY INFORMATION

This page left blank intentionally.

TOWN OF HERTFORD, NORTH CAROLINA

Schedule 1

**SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET) –
LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM**

*LAST TEN FISCAL YEARS**

	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>
Hertford's proportion of the net pension liability (asset) (%)	0.00896%	0.00971%	0.00917%	0.01642%	0.01403%
Hertford's proportion of the net pension liability (asset) (\$)	\$ 603,901	\$ 642,969	\$ 517,319	\$ 251,814	\$ 501,352
Hertford's covered payroll	\$ 868,808	\$ 853,122	\$ 720,428	\$ 1,144,356	\$ 1,162,522
Hertford's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	69.51%	75.37%	71.81%	22.00%	43.13%
Plan fiduciary net position as a percentage of the total pension liability **	83.30%	82.49%	84.14%	95.51%	88.61%
	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Hertford's proportion of the net pension liability (asset) (%)	0.00814%	0.01457%	0.01598%	0.01412%	0.00177%
Hertford's proportion of the net pension liability (asset) (\$)	\$ 222,297	\$ 345,650	\$ 244,130	\$ 299,674	\$ 79,391
Hertford's covered payroll	\$ 890,142	\$ 1,012,509	\$ 1,005,643	\$ 918,096	\$ 927,393
Hertford's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	24.97%	34.14%	24.28%	32.64%	8.56%
Plan fiduciary net position as a percentage of the total pension liability **	90.86%	91.63%	94.18%	91.47%	98.09%

* 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
SCHEDULE OF CONTRIBUTIONS -
LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM

Schedule 2

LAST TEN FISCAL YEARS

	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>
Contractually required contribution	\$ 140,239	\$ 112,250	\$ 103,739	\$ 82,753	\$ 119,660
Contributions in relation to the contractually required contribution	<u>140,239</u>	<u>112,250</u>	<u>103,739</u>	<u>82,753</u>	<u>119,660</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town of Hertford's covered payroll	1,025,886	\$ 868,808	\$ 853,122	\$ 720,428	\$ 1,144,356
Contributions as a percentage of covered payroll	13.67%	12.92%	12.16%	11.49%	10.46%
	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually required contribution	\$ 107,406	\$ 71,303	\$ 79,077	\$ 76,416	\$ 63,220
Contributions in relation to the contractually required contribution	<u>107,406</u>	<u>71,303</u>	<u>79,077</u>	<u>76,416</u>	<u>63,220</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town of Hertford's covered payroll	\$ 1,162,522	\$ 890,142	\$ 1,012,509	\$ 1,005,643	\$ 918,096
Contributions as a percentage of covered payroll	9.24%	8.01%	7.81%	7.60%	6.89%

INDIVIDUAL FUND SCHEDULES

This page left blank intentionally.

TOWN OF HERTFORD, NORTH CAROLINA

Schedule 3

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL - GENERAL FUND CONSOLIDATED**

YEAR ENDED JUNE 30, 2025

	General Fund	Fire Fund	Eliminations	Total General Fund
REVENUES				
Ad valorem taxes	\$ 994,186	\$ -	\$ -	\$ 994,186
Other taxes and licenses	28,496	-	-	28,496
Unrestricted intergovernmental revenues	980,992	-	-	980,992
Restricted intergovernmental revenues	73,559	147,666	-	221,225
Sales and services	308,037	-	-	308,037
Investment earnings	68,762	-	-	68,762
Miscellaneous	28,495	-	-	28,495
Total revenues	<u>2,482,527</u>	<u>147,666</u>	<u>-</u>	<u>2,630,193</u>
EXPENDITURES				
Current:				
General government	710,206	-	-	710,206
Public safety	375,000	182,494	-	557,494
Transportation	556,492	-	-	556,492
Economic and physical development	368,585	-	-	368,585
Environmental protection	229,726	-	-	229,726
Debt service:				
Principal	26,197	26,477	-	52,674
Interest and other charges	189	9,639	-	9,828
Total expenditures	<u>2,266,395</u>	<u>218,610</u>	<u>-</u>	<u>2,485,005</u>
Excess of revenues over (under) expenditures	216,132	(70,944)	-	145,188
OTHER FINANCIAL SOURCES (USES)				
Transfers from other funds	2,230	95,042	(95,042)	2,230
Transfers to other funds	(155,042)	-	95,042	(60,000)
Sale of capital assets	8,355	-	-	8,355
Total other financing sources (uses)	<u>(144,457)</u>	<u>95,042</u>	<u>-</u>	<u>(49,415)</u>
Net change in fund balance	71,675	24,098	-	95,773
Fund balance, beginning, as previously reported	2,216,693	-	-	2,216,693
Correction of error (Note XI)	(241,516)	-	-	(241,516)
Fund balance, beginning, as restated	<u>1,975,177</u>	<u>-</u>	<u>-</u>	<u>1,975,177</u>
Fund balance, ending	<u>\$ 2,046,852</u>	<u>\$ 24,098</u>	<u>\$ -</u>	<u>\$ 2,070,950</u>

TOWN OF HERTFORD, NORTH CAROLINA

Schedule 4

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-

BUDGET AND ACTUAL - GENERAL FUND

YEAR ENDED JUNE 30, 2025

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES			
Ad valorem taxes:			
Taxes		\$ 920,184	
Penalties and interest		74,002	
Total	<u>\$ 951,513</u>	<u>\$ 994,186</u>	<u>\$ 42,673</u>
Other taxes and licenses:			
Privilege licenses		1,725	
Vehicle tags		26,771	
Total	<u>27,400</u>	<u>28,496</u>	<u>1,096</u>
Unrestricted intergovernmental:			
Local option sales taxes		857,879	
Utility franchise tax		25,389	
Solid waste disposal tax		1,515	
Payments in lieu of taxes		8,817	
Beer and wine tax		7,849	
ABC profit distribution		79,543	
Total	<u>754,000</u>	<u>980,992</u>	<u>226,992</u>
Restricted intergovernmental:			
Powell Bill allocation		73,559	
Total	<u>80,850</u>	<u>73,559</u>	<u>(7,291)</u>
Sales and services:			
DMV commissions		77,668	
DMV services		24,272	
Cemetery services		12,000	
Refuse services		173,285	
Miscellaneous fees and services		20,812	
Total	<u>293,140</u>	<u>308,037</u>	<u>14,897</u>
Investment earnings	<u>40,000</u>	<u>68,762</u>	<u>28,762</u>
Miscellaneous:			
Miscellaneous		28,495	28,495
Total revenues	<u>2,146,903</u>	<u>2,482,527</u>	<u>335,624</u>

TOWN OF HERTFORD, NORTH CAROLINA

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL – GENERAL FUND (continued)

YEAR ENDED JUNE 30, 2025

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
EXPENDITURES			
General Government:			
Governing body:			
Salaries and employee benefits		37,089	
Operating expenditures		40,900	
Total	<u>93,349</u>	<u>77,989</u>	<u>15,360</u>
Administration:			
Salaries and employee benefits		320,389	
Operating expenditures		225,469	
Total	<u>556,880</u>	<u>545,858</u>	<u>11,022</u>
DMV license plate agency:			
Salaries and employee benefits		81,819	
Operating expenditures		4,540	
Total	<u>113,896</u>	<u>86,359</u>	<u>27,537</u>
Total general government	<u>764,125</u>	<u>710,206</u>	<u>53,919</u>
Public Safety:			
Police:			
Contractual services	375,000	375,000	-
Total public safety	<u>375,000</u>	<u>375,000</u>	<u>-</u>
Transportation:			
Streets:			
Salaries and employee benefits		197,942	
Operating expenditures		112,433	
Capital outlay		217,634	
Total	<u>568,347</u>	<u>528,009</u>	<u>40,338</u>
Powell bill:			
Maintenance and repairs	80,850	28,483	52,367
Total transportation	<u>649,197</u>	<u>556,492</u>	<u>92,705</u>

TOWN OF HERTFORD, NORTH CAROLINA

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL – GENERAL FUND (concluded)

YEAR ENDED JUNE 30, 2025

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Economic and physical development:			
Planning and development:			
Salaries and employee benefits		24,781	
Operating expenditures		120,449	
Capital outlay		183,515	
Total	386,374	328,745	57,629
Main street planning and development:			
Salaries and employee benefits		39,840	
Total	51,972	39,840	12,132
Total economic and physical development	438,346	368,585	69,761
Environmental protection:			
Cemetery:			
Contractual services		45,560	
Operating expenditures		26	
Total	55,000	45,586	9,414
Solid Waste:			
Contractual services	184,140	184,140	-
Total environmental protection	239,140	229,726	9,414
Debt Service:			
Principal		26,197	
Interest		189	
Total debt service	26,387	26,386	1
Total expenditures	2,492,195	2,266,395	225,880
Revenues under expenditures	(345,292)	216,132	561,424
OTHER FINANCING SOURCES:			
Transfers (to) from other funds:			
Special revenue fund	(197,542)	(155,042)	42,500
Special revenue fund	-	2,230	2,230
Sale of capital assets	-	8,355	8,355
Total	(197,542)	(144,457)	53,085
Appropriated fund balance	542,834	-	(542,834)
Revenues and other financing sources over expenditures	<u>\$ -</u>	71,675	<u>\$ 71,675</u>
Fund balance, beginning, as previously reported		2,216,693	
Correction of error (Note XI)		(241,516)	
Fund balance, beginning, as restated		1,975,177	
Fund balance, ending		<u>\$ 2,046,852</u>	

TOWN OF HERTFORD
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL – Fire Fund
FOR THE YEAR ENDED JUNE 30, 2025

Schedule 5

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
REVENUES			
Restricted intergovernmental:			
County fire department contributions		110,000	
Other local grants and matching contributions		37,666	
Total	<u>150,000</u>	<u>147,666</u>	<u>(2,334)</u>
EXPENDITURES			
Fire:			
Salaries and employee benefits		22,217	
Operating expenditures		160,277	
Total	<u>208,926</u>	<u>182,494</u>	<u>26,432</u>
Debt Service:			
Principal		26,477	
Interest		9,639	
Total debt service	<u>36,116</u>	<u>36,116</u>	<u>-</u>
Total expenditures	<u>245,042</u>	<u>218,610</u>	<u>26,432</u>
Revenues under expenditures	<u>(95,042)</u>	<u>(70,944)</u>	<u>24,098</u>
OTHER FINANCING SOURCES:			
Transfers (to) from other funds:			
General fund		95,042	
Total	<u>95,042</u>	<u>95,042</u>	<u>-</u>
Revenues and other financing sources over expenditures	<u>\$ -</u>	<u>24,098</u>	<u>\$ 24,098</u>
Fund balance, beginning		-	
Fund balance, ending		<u>\$ 24,098</u>	

TOWN OF HERTFORD, NORTH CAROLINA

Schedule 6

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-
 BUDGET AND ACTUAL - ARP Fund
 FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2025

	Project				Variance
	Authorization	Prior Years	Actual	Total to Date	Positive (Negative)
REVENUES					
Restricted intergovernmental:					
ARP funds	\$ 673,408	\$ 673,408	\$ -	\$ 673,408	\$ -
Investment earnings	17,500	47,960	321	48,281	30,781
Total revenues	<u>690,908</u>	<u>721,368</u>	<u>321</u>	<u>721,689</u>	<u>30,781</u>
EXPENDITURES					
Environmental protection:					
Public works building	8,500	5,250	-	5,250	3,250
Total expenditures	<u>8,500</u>	<u>5,250</u>	<u>-</u>	<u>5,250</u>	<u>3,250</u>
Revenues over expenditures	<u>682,408</u>	<u>716,118</u>	<u>321</u>	<u>716,439</u>	<u>34,031</u>
OTHER FINANCING USES					
Transfer to other fund:					
General fund	(668,594)	(668,594)	-	(668,594)	-
Water and sewer fund	(13,814)	(13,814)	-	(13,814)	-
Total other financing uses	<u>(682,408)</u>	<u>(682,408)</u>	<u>-</u>	<u>(682,408)</u>	<u>-</u>
Revenues over expenditures and other financing uses	<u>\$ -</u>	<u>\$ 33,710</u>	<u>321</u>	<u>\$ 34,031</u>	<u>\$ 34,031</u>
Fund balance, beginning			<u>33,710</u>		
Fund balance, ending			<u>\$ 34,031</u>		

TOWN OF HERTFORD, NORTH CAROLINA
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2025

Schedule 7

	Capital Project Funds				
	Economic Development Administration Project Fund	Hyde Street Park Culvert Replacement Project Fund	Waterfront Project Fund	Miscellaneous Grants Project Fund	Total Non-major Governmental Funds
ASSETS					
Due from other governments	\$ 50,000	\$ 8,739	\$ -	\$ 9,300	\$ 68,039
Total assets	<u>\$ 50,000</u>	<u>\$ 8,739</u>	<u>\$ -</u>	<u>\$ 9,300</u>	<u>\$ 68,039</u>
LIABILITIES					
Due to other funds	\$ 50,000	\$ 8,739	\$ -	\$ 9,300	\$ 68,039
Total liabilities	<u>\$ 50,000</u>	<u>\$ 8,739</u>	<u>\$ -</u>	<u>\$ 9,300</u>	<u>\$ 68,039</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable grant receivable	\$ 50,000	\$ 8,739	\$ -	\$ 9,300	\$ 68,039
Total deferred inflows of resources	<u>\$ 50,000</u>	<u>\$ 8,739</u>	<u>\$ -</u>	<u>\$ 9,300</u>	<u>\$ 68,039</u>
FUND BALANCES					
Unassigned	\$ (50,000)	\$ (8,739)	\$ -	\$ (9,300)	\$ (68,039)
Total fund balance	<u>\$ (50,000)</u>	<u>\$ (8,739)</u>	<u>\$ -</u>	<u>\$ (9,300)</u>	<u>\$ (68,039)</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 50,000</u>	<u>\$ 8,739</u>	<u>\$ -</u>	<u>\$ 9,300</u>	<u>\$ 68,039</u>

TOWN OF HERTFORD, NORTH CAROLINA
COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE – NON-MAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2025

Schedule 8

	Capital Project Funds				
	Economic Development Administration Project Fund	Hyde Street Park Culvert Replacement Project Fund	Waterfront Project Fund	Miscellaneous Grants Project Fund	Total Non-major Governmental Funds
REVENUES					
Restricted intergovernmental	\$ 180,000	\$ -	\$ -	\$ 40,725	\$ 220,725
Local grants and contributions	60,000	93,317	-	-	153,317
Total revenues	<u>240,000</u>	<u>93,317</u>	<u>-</u>	<u>40,725</u>	<u>374,042</u>
EXPENDITURES					
Economic and physical development	350,000	102,056	-	50,025	502,081
Total expenditures	<u>350,000</u>	<u>102,056</u>	<u>-</u>	<u>50,025</u>	<u>502,081</u>
Revenues over (under) expenditures	<u>(110,000)</u>	<u>(8,739)</u>	<u>-</u>	<u>(9,300)</u>	<u>(128,039)</u>
OTHER FINANCING SOURCES (USES)					
Transfer (to) from General Fund	60,000	-	(2,230)	-	57,770
Total other financing uses	<u>60,000</u>	<u>-</u>	<u>(2,230)</u>	<u>-</u>	<u>57,770</u>
Revenues over expenditures and other financing uses	(50,000)	(8,739)	(2,230)	(9,300)	(70,269)
Fund balances, beginning	-	-	2,230	-	2,230
Fund balances, ending	<u>\$ (50,000)</u>	<u>\$ (8,739)</u>	<u>\$ -</u>	<u>\$ (9,300)</u>	<u>\$ (68,039)</u>

TOWN OF HERTFORD, NORTH CAROLINA

Schedule 9

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL – ECONOMIC DEVELOPMENT ADMINISTRATION
CAPITAL PROJECT FUND**

FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2025

	Project Authorization	Prior Years	Actual	Total to Date	Variance Positive (Negative)
REVENUES					
Restricted intergovernmental					
EDA grant proceeds	\$ 180,000	\$ -	\$ 180,000	\$ 180,000	\$ -
County contribution	<u>60,000</u>	<u>-</u>	<u>60,000</u>	<u>60,000</u>	<u>-</u>
Total revenues	<u>240,000</u>	<u>-</u>	<u>240,000</u>	<u>240,000</u>	<u>-</u>
EXPENDITURES					
Economic and physical development					
Engineering and design	<u>300,000</u>	<u>-</u>	<u>350,000</u>	<u>350,000</u>	<u>(50,000)</u>
Total expenditures	<u>300,000</u>	<u>-</u>	<u>350,000</u>	<u>350,000</u>	<u>(50,000)</u>
Revenues over expenditures	<u>(60,000)</u>	<u>-</u>	<u>(110,000)</u>	<u>(110,000)</u>	<u>(50,000)</u>
OTHER FINANCING SOURCES (USES)					
Transfer from (to) other fund:					
General fund	<u>60,000</u>	<u>-</u>	<u>60,000</u>	<u>60,000</u>	<u>-</u>
Total other financing uses	<u>60,000</u>	<u>-</u>	<u>60,000</u>	<u>60,000</u>	<u>-</u>
Revenues over expenditures and other financing uses	<u>\$ -</u>	<u>\$ -</u>	<u>(50,000)</u>	<u>\$ (50,000)</u>	<u>\$ (50,000)</u>
Fund balance, beginning			<u>-</u>		
Fund balance, ending			<u>\$ (50,000)</u>		

TOWN OF HERTFORD, NORTH CAROLINA

Schedule 10

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL –HYDE STREET PARK CULVERT REPLACEMENT
CAPITAL PROJECT FUND
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2025**

	Project Authorization	Prior Years	Actual	Total to Date	Variance Positive (Negative)
REVENUES					
Restricted intergovernmental					
Grant proceeds	\$ 160,475	\$ -	\$ 93,317	\$ 93,317	\$ (67,158)
Total revenues	<u>160,475</u>	<u>-</u>	<u>93,317</u>	<u>93,317</u>	<u>(67,158)</u>
EXPENDITURES					
Economic and physical development					
Engineering and design	160,475	-	102,056	102,056	58,419
Total expenditures	<u>160,475</u>	<u>-</u>	<u>102,056</u>	<u>102,056</u>	<u>58,419</u>
Revenues over expenditures and other financing uses	<u>\$ -</u>	<u>\$ -</u>	(8,739)	<u>\$ (8,739)</u>	<u>\$ (8,739)</u>
Fund balance, beginning			-		
Fund balance, ending			<u>\$ (8,739)</u>		

TOWN OF HERTFORD, NORTH CAROLINA

Schedule 11

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
 BUDGET AND ACTUAL – WATERFRONT CAPITAL PROJECT FUND
 FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2025

	Project Authorization	Prior Years	Actual	Total to Date	Variance Positive (Negative)
REVENUES					
Restricted intergovernmental					
Rural Development waterfront grant	\$ 145,200	\$ 145,200	\$ -	\$ 145,200	\$ -
Total revenues	<u>145,200</u>	<u>145,200</u>	<u>-</u>	<u>145,200</u>	<u>-</u>
EXPENDITURES					
Economic and physical development					
Waterfront project	196,200	193,970	-	193,970	2,230
Total expenditures	<u>196,200</u>	<u>193,970</u>	<u>-</u>	<u>193,970</u>	<u>2,230</u>
Revenues over expenditures	<u>(51,000)</u>	<u>(48,770)</u>	<u>-</u>	<u>(48,770)</u>	<u>2,230</u>
OTHER FINANCING SOURCES (USES)					
Transfer from (to) other fund:					
General fund	51,000	51,000	(2,230)	48,770	2,230
Total other financing uses	<u>51,000</u>	<u>51,000</u>	<u>(2,230)</u>	<u>48,770</u>	<u>2,230</u>
Revenues over expenditures and other financing uses	<u>\$ -</u>	<u>\$ 2,230</u>	<u>(2,230)</u>	<u>\$ -</u>	<u>\$ -</u>
Fund balance, beginning			<u>2,230</u>		
Fund balance, ending			<u>\$ -</u>		

TOWN OF HERTFORD, NORTH CAROLINA

Schedule 12

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL – MISCELLANEOUS GRANTS CAPITAL PROJECT FUND
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2025**

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Actual</u>	<u>Total to Date</u>	<u>Variance Positive (Negative)</u>
REVENUES					
Restricted intergovernmental:					
Downtown connectivity plan grant	\$ 750,000	\$ 24,300	\$ 40,725	\$ 65,025	\$ (684,975)
Total revenues	<u>750,000</u>	<u>24,300</u>	<u>40,725</u>	<u>65,025</u>	<u>(684,975)</u>
EXPENDITURES					
Economic and physical development					
Downtown connectivity plan grant	750,000	24,300	50,025	74,325	675,675
Total expenditures	<u>750,000</u>	<u>24,300</u>	<u>50,025</u>	<u>74,325</u>	<u>675,675</u>
Revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (9,300)</u>	<u>\$ (9,300)</u>	<u>\$ (9,300)</u>
Fund balance, beginning			-		
Fund balance, ending			<u>\$ (9,300)</u>		

TOWN OF HERTFORD, NORTH CAROLINA
SCHEDULE OF REVENUES AND EXPENDITURES – BUDGET AND ACTUAL –
(NON-GAAP) – WATER AND SEWER FUND (continued)
YEAR ENDED JUNE 30, 2025

Schedule 13

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
REVENUES			
Operating revenues:			
Charges for services		\$ 2,201,771	
Miscellaneous revenue		25,152	
Total operating revenues	<u>\$ 2,256,842</u>	<u>\$ 2,226,923</u>	<u>\$ (29,919)</u>
Nonoperating revenues:			
Sale of capital assets		9,250	
Interest earnings		26,315	
Total nonoperating revenues	<u>20,000</u>	<u>35,565</u>	<u>15,565</u>
Total revenues	<u>2,276,842</u>	<u>2,262,488</u>	<u>(14,354)</u>
EXPENDITURES			
Water and sewer operations:			
Salaries and employee benefits		583,295	
Contract and professional services		121,324	
Maintenance and repairs		93,872	
Other operating expenses		198,332	
Utility and communication fees		178,943	
Insurance		32,000	
Capital outlay		100,024	
Debt Service:			
Principal retirement		434,184	
Interest and other charges		188,277	
Total expenditures	<u>2,286,007</u>	<u>1,930,251</u>	<u>355,756</u>
Revenues over (under) expenditures	(9,165)	332,237	341,402
OTHER FINANCING SOURCES (USES)			
Transfer (to) from other funds:			
Project fund	(835)	(835)	-
Appropriated fund balance	10,000	-	(10,000)
Total other financing sources (uses)	<u>9,165</u>	<u>(835)</u>	<u>(10,000)</u>
Revenues and other financing sources over expenditures	<u>-</u>	331,402	<u>331,402</u>

TOWN OF HERTFORD, NORTH CAROLINA
SCHEDULE OF REVENUES AND EXPENDITURES – BUDGET AND ACTUAL –
(NON-GAAP) – WATER AND SEWER FUND (concluded)
YEAR ENDED JUNE 30, 2025

Schedule 13

Reconciling items:

Principal retirement	434,184
Capital outlay	100,024
Capital outlay - capital project funds	659,323
(Increase) decrease in accrued interest	1,059
(Increase) decrease in compensated absences	3,093
Increase (decrease) in deferred outflows of resources - pensions	(32,296)
(Increase) decrease in net pension liability	17,190
(Increase) decrease in deferred inflows of resources - pensions	9,863
Depreciation	<u>(821,744)</u>
Total reconciling items	<u>370,696</u>
Change in net position	<u><u>\$ 702,098</u></u>

TOWN OF HERTFORD, NORTH CAROLINA

Schedule 14

**SCHEDULE OF REVENUES AND EXPENDITURES – BUDGET AND ACTUAL (NON-GAAP) –
CDBG-I WASTEWATER TREATMENT PLANT (WWTP) REHABILITATION
CAPITAL PROJECT FUND**

FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2025

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Current Year</u>	<u>Total to Date</u>	<u>Variance Positive (Negative)</u>
REVENUES					
Restricted intergovernmental:					
Grant proceeds	\$ 3,000,000	\$ -	\$ 106,111	\$ 106,111	\$ (2,893,889)
Total revenues	<u>3,000,000</u>	<u>-</u>	<u>106,111</u>	<u>106,111</u>	<u>(2,893,889)</u>
EXPENDITURES					
WWTP rehabilitation project:					
Engineering, administration, and construction	3,000,000	-	106,946	106,946	2,893,054
Total expenditures	<u>3,000,000</u>	<u>-</u>	<u>106,946</u>	<u>106,946</u>	<u>2,893,054</u>
Revenues over (under) expenditures	-	-	(835)	(835)	(835)
OTHER FINANCING SOURCES					
Transfer from Water Sewer Fund	-	-	835	835	835
Total other financing sources	<u>-</u>	<u>-</u>	<u>835</u>	<u>835</u>	<u>835</u>
Revenue and other financing sources over (under) expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

TOWN OF HERTFORD, NORTH CAROLINA

Schedule 15

**SCHEDULE OF REVENUES AND EXPENDITURES – BUDGET AND ACTUAL (NON-GAAP) –
SEWER SYSTEM REHABILITATION CAPITAL PROJECT FUND
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2025**

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Current Year</u>	<u>Total to Date</u>	<u>Variance Positive (Negative)</u>
REVENUES					
Restricted intergovernmental:					
ARP funds	\$ 3,673,200	\$ 288,582	\$ 58,881	\$ 347,463	\$ (3,325,737)
Total revenues	<u>3,673,200</u>	<u>288,582</u>	<u>58,881</u>	<u>347,463</u>	<u>(3,325,737)</u>
EXPENDITURES					
Sewer system rehabilitation project:					
Engineering, administration, and construction	3,746,490	288,582	58,881	347,463	3,399,027
Total expenditures	<u>3,746,490</u>	<u>288,582</u>	<u>58,881</u>	<u>347,463</u>	<u>3,399,027</u>
Revenues over (under) expenditures	(73,290)	-	-	-	73,290
OTHER FINANCING SOURCES					
State Revolving Loan proceeds	73,290	-	-	-	(73,290)
Total other financing sources	<u>73,290</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(73,290)</u>
Revenue and other financing sources over (under) expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

TOWN OF HERTFORD, NORTH CAROLINA

Schedule 16

**SCHEDULE OF REVENUES AND EXPENDITURES – BUDGET AND ACTUAL (NON-GAAP) –
WATER TREATMENT SYSTEM CAPITAL PROJECT FUND
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2025**

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Current Year</u>	<u>Total to Date</u>	<u>Variance Positive (Negative)</u>
REVENUES					
Restricted intergovernmental:					
ARP funds	\$ 2,153,950	\$ 192,610	\$ 77,907	\$ 270,517	\$ (1,883,433)
Total revenues	<u>2,153,950</u>	<u>192,610</u>	<u>77,907</u>	<u>270,517</u>	<u>(1,883,433)</u>
EXPENDITURES					
Water treatment system project:					
Engineering, administration, and construction	<u>2,153,950</u>	<u>192,610</u>	<u>77,907</u>	<u>270,517</u>	<u>1,883,433</u>
Total expenditures	<u>2,153,950</u>	<u>192,610</u>	<u>77,907</u>	<u>270,517</u>	<u>1,883,433</u>
Revenues over (under) expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

TOWN OF HERTFORD, NORTH CAROLINA

Schedule 17

**SCHEDULE OF REVENUES AND EXPENDITURES – BUDGET AND ACTUAL (NON-GAAP) –
WATERLINE REPLACEMENT CAPITAL PROJECT FUND
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2025**

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Current Year</u>	<u>Total to Date</u>	<u>Variance Positive (Negative)</u>
REVENUES					
Restricted intergovernmental:					
ARP funds	\$ 9,095,850	\$ 840,350	\$ 390,535	\$ 1,230,885	\$ (7,864,965)
Total revenues	<u>9,095,850</u>	<u>840,350</u>	<u>390,535</u>	<u>1,230,885</u>	<u>(7,864,965)</u>
EXPENDITURES					
Waterline replacement project:					
Engineering, administration, and construction	<u>9,095,850</u>	<u>840,350</u>	<u>390,535</u>	<u>1,230,885</u>	<u>7,864,965</u>
Total expenditures	<u>9,095,850</u>	<u>840,350</u>	<u>390,535</u>	<u>1,230,885</u>	<u>7,864,965</u>
Revenues over (under) expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

TOWN OF HERTFORD, NORTH CAROLINA

Schedule 18

**SCHEDULE OF REVENUES AND EXPENDITURES – BUDGET AND ACTUAL (NON-GAAP) –
BUILDING RESILIENT INFRASTRUCTURE AND COMMUNITIES (BRIC) GRANT PROJECT FUND
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2025**

	Project Authorization	Prior Years	Actual	Total to Date	Variance Positive (Negative)
REVENUES					
Restricted intergovernmental					
BRIC grant proceeds	\$ 132,000	\$ -	\$ 27,000	\$ 27,000	\$ (105,000)
Total revenues	<u>132,000</u>	<u>-</u>	<u>27,000</u>	<u>27,000</u>	<u>(105,000)</u>
EXPENDITURES					
Economic and physical development					
Engineering and design	107,000	-	27,000	27,000	80,000
Miscellaneous	25,000	-	-	-	25,000
Total expenditures	<u>132,000</u>	<u>-</u>	<u>27,000</u>	<u>27,000</u>	<u>105,000</u>
Revenues over expenditures and other financing uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

TOWN OF HERTFORD, NORTH CAROLINA

Schedule 19

**SCHEDULE OF REVENUES AND EXPENDITURES – BUDGET AND ACTUAL (NON-GAAP) –
MISCELLANEOUS GRANTS CAPITAL PROJECTS FUND
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2025**

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Current Year</u>	<u>Total to Date</u>	<u>Variance Positive (Negative)</u>
REVENUES					
Restricted intergovernmental:					
Wastewater feasibility study VUR grant	\$ 75,000	\$ 18,450	\$ 40,850	\$ 59,300	\$ (15,700)
Water system AIA grant	150,000	104,075	45,925	150,000	-
Wastewater/sewer system AIA grant	150,000	115,450	32,300	147,750	(2,250)
Total revenues	<u>375,000</u>	<u>237,975</u>	<u>119,075</u>	<u>357,050</u>	<u>(17,950)</u>
EXPENDITURES					
Engineering and design:					
Wastewater feasibility study VUR grant	76,125	19,575	40,850	60,425	15,700
Water system AIA grant	152,250	106,325	45,725	152,050	200
Wastewater/sewer system AIA grant	152,250	117,700	32,500	150,200	2,050
Total expenditures	<u>380,625</u>	<u>243,600</u>	<u>119,075</u>	<u>362,675</u>	<u>17,950</u>
Revenues over (under) expenditures	(5,625)	(5,625)	-	(5,625)	-
OTHER FINANCING SOURCES					
Transfer from water and sewer fund:					
Wastewater feasibility study VUR grant	1,125	1,125	-	1,125	-
Water system AIA grant	2,250	2,250	-	2,250	-
Wastewater/sewer system AIA grant	2,250	2,250	-	2,250	-
Total other financing sources	<u>5,625</u>	<u>5,625</u>	<u>-</u>	<u>5,625</u>	<u>-</u>
Revenues over expenditures and other financing uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

TOWN OF HERTFORD, NORTH CAROLINA
SCHEDULE OF REVENUES AND EXPENDITURES – BUDGET AND ACTUAL –
(NON-GAAP) – ELECTRIC FUND (continued)
YEAR ENDED JUNE 30, 2025

Schedule 20

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES			
Operating revenues:			
Charges for services		\$ 2,757,327	
Miscellaneous revenue		161,506	
Total operating revenues	<u>\$ 3,117,447</u>	<u>2,918,833</u>	<u>\$ (198,614)</u>
Nonoperating revenues:			
Sale of capital assets		27,000	
Interest earnings		38,503	
Total nonoperating revenues	<u>52,000</u>	<u>65,503</u>	<u>13,503</u>
Total revenues	<u>3,169,447</u>	<u>2,984,336</u>	<u>(185,111)</u>
EXPENDITURES			
Electric operations:			
Salaries and employee benefits		403,346	
Professional services		10,365	
Maintenance and repairs		26,332	
Other operating expenses		73,278	
Electric power purchases		2,169,697	
Capital outlay		190,767	
Debt Service:			
Principal retirement		20,880	
Interest and other charges		9,943	
Total expenditures	<u>3,273,864</u>	<u>2,904,608</u>	<u>369,256</u>
Revenues over (under) expenditures	(104,417)	79,728	184,145
OTHER FINANCING SOURCES (USES)			
Appropriated fund balance	<u>104,417</u>	-	<u>(104,417)</u>
Total other financing sources (uses)	<u>104,417</u>	<u>-</u>	<u>(104,417)</u>
Revenues and other financing sources over expenditures	<u>\$ -</u>	<u>79,728</u>	<u>\$ 79,728</u>

TOWN OF HERTFORD, NORTH CAROLINA
SCHEDULE OF REVENUES AND EXPENDITURES – BUDGET AND ACTUAL –
(NON-GAAP) – ELECTRIC FUND (concluded)
YEAR ENDED JUNE 30, 2025

Schedule 20

Reconciling items:

Principal retirement	20,880
Capital outlay	190,767
(Increase) decrease in accrued interest	88
(Increase) decrease in compensated absences	(10,959)
Increase (decrease) in deferred outflows of resources - pensions	(11,121)
(Increase) decrease in net pension liability	5,860
(Increase) decrease in deferred inflows of resources - pensions	3,474
Depreciation	<u>(76,172)</u>
Total reconciling items	<u>122,817</u>
Change in net position	<u>\$ 202,545</u>

OTHER SCHEDULES

This page left blank intentionally.

TOWN OF HERTFORD, NORTH CAROLINA
SCHEDULE OF AD VALOREM TAXES RECEIVABLE

Schedule 21

JUNE 30, 2025

Fiscal Year	Uncollected Balance June 30, 2024	Additions	Collections and Credits	Uncollected Balance June 30, 2025
2024-2025	\$ -	\$ 955,827	\$ 879,131	\$ 76,696
2023-2024	87,792	-	33,057	54,735
2022-2023	26,538	-	10,525	16,013
2021-2022	15,578	-	4,109	11,469
2020-2021	13,529	-	4,146	9,383
2019-2020	9,430	-	3,393	6,037
2018-2019	5,706	-	482	5,224
2017-2018	5,168	-	361	4,807
2016-2017	4,602	-	361	4,241
2015-2016	5,146	-	315	4,831
2014-2015	4,890	-	4,890	-
	<u>\$ 178,379</u>	<u>\$ 955,827</u>	<u>\$ 940,770</u>	<u>\$ 193,436</u>

Less: allowance for uncollectible accounts:

General Fund

Delinquent Reserve	53,944
Current Year Reserve	9,221
Total Reserves	<u>63,165</u>

Ad valorem taxes receivable - net

\$ 130,271

Reconciliation with revenues:

Ad valorem taxes - General Fund

\$ 994,186

Reconciling items:

Penalties and interest collected	(74,002)
Taxes written off	20,586
	<u>20,586</u>

Total collections and credits

\$ 940,770

TOWN OF HERTFORD, NORTH CAROLINA
ANALYSIS OF CURRENT TAX LEVY - TOWN-WIDE LEVY

Schedule 22

YEAR ENDED JUNE 30, 2025

	Property Valuation	Town-Wide Rate	Total Levy	Total Levy	
				Property excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed at current year's rate	\$ 158,574,691	\$ 0.52	\$ 924,323	\$ 824,588	\$ 99,735
Discoveries:					
Current year taxes	6,314,808	\$ 0.52	32,837	32,837	-
Abatements, releases, and credits:					
Current year taxes	(83,235)	\$ 0.52	(433)	(433)	-
Credits	(173,269)	\$ 0.52	(901)	(901)	-
	(256,504)		(1,334)	(1,334)	-
Total property valuation	<u>\$ 164,632,995</u>				
Net levy			955,827	856,092	99,735
Uncollected taxes at June 30, 2025			(76,696)	(76,696)	-
Current year's taxes collected			<u>879,131</u>	<u>779,396</u>	<u>99,735</u>
Current levy collection percentage			<u>91.98%</u>	<u>91.04%</u>	<u>100.00%</u>

COMPLIANCE SECTION

This page left blank intentionally.

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, 2025, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated March 6, 2026. 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 compliance and other matters associated with the Town of Hertford ABC Board or that are reported on separately by those auditors who audited the financial statements of 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 first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 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 deficiency described in the accompanying Schedule of Findings, Responses, and Questioned Costs as item 2025-001 to be a material weakness.

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 2025-002 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 2025-001 and 2025-002.

Town of Hertford's Responses to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Town'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 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
March 6, 2026

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, 2025. 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, 2025.

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 non-compliance 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 non-compliance when it exists. The risk of not detecting material non-compliance 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. Non-compliance 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 non-compliance, 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 non-compliance 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
March 6, 2026

This page left blank intentionally.

TOWN OF HERTFORD, NORTH CAROLINA

**SCHEDULE OF FINDINGS, RESPONSES, AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2025**

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:

Program Name	AL#
Community Facilities Loans and Grants	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, 2025

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

Material Weakness Non-Compliance

Finding 2025-001

Criteria: North Carolina General Statute 159-34 requires the Town to have its accounts audited as soon as possible after the close of each fiscal year. Additionally, management should have system in place to reduce the likelihood of errors in financial statements and timely reconciliation of subsidiary ledgers to the general ledger.

Condition: The annual audit was delayed due to a transition in financial personnel during the fiscal year. The involvement of new personnel in completing the financial statements, year-end journal entries and reconciliations required additional time, restatements, and material audit adjustments in total.

Effect: Delays of timely reporting and errors in financial reporting could occur. Financial reports used for budget monitoring throughout the year may not properly reflect account balances and material misstatements may occur and not be detected and corrected in a timely manner.

Cause: Transition in financial personnel, combined with the lack of timely reconciliation of subsidiary ledgers and preparation of year-end entries, contributed to the delayed audit completion, restatements, and the material audit adjustments.

Recommendation: Management should evaluate the adequacy of staffing and oversight within the finance function to ensure timely year-end entries, reconciliations, and financial reporting. Documented year-end closing procedures would help mitigate the impact of any future staff turnover.

Name of Contact Person: Ashley Eure, Finance Director

Views of Responsible Officials and Corrective Action Plan: 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, 2025

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

Significant Deficiency Non-Compliance

Finding 2025-002

Criteria: North Carolina General Statute 159-8 requires that obligations of the unit be pre-audited in accordance with the Local Government Budget and Fiscal Control Act. The statutes require that funds be appropriated before incurring the obligation of funds and that amounts be pre-audited prior to the expenditure being made.

Condition: For fiscal year ended June 30, 2025, actual expenditures exceeded the authorized appropriations made by the governing board for the Town of Hertford for the Economic Development Administration Capital Project Fund.

Effect: The Town was in violation of North Carolina State Statutes.

Cause: The Town expended more than what had been appropriated because budget amendments were not made for those items.

Recommendation: Before an obligation is incurred that will exceed the amount that was previously approved in the budget ordinance, an amendment to the budget should be adopted.

Name of Contact Person: Ashley Eure, Finance Director

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

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

None reported

ASHLEY HODGES
MAYOR

DORIS WALTON
TOWN MANAGER

GINA M. DURANTE
TOWN CLERK

JOHN LEIDY
TOWN ATTORNEY



COMMISSIONERS:

CONNIE BROTHERS
MAYOR PRO TEM

KEITH ROUSE

SARA WINSLOW

EVAN COPELAND

TOWN OF HERTFORD, NORTH CAROLINA

**CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2025**

**Material Weakness
Non-Compliance**

Finding 2025-001

Name of Contact Person: Ashley Eure, Finance Director

Corrective Action: Staffing has since been stabilized, and we have implemented improved internal timelines and tracking procedures to ensure timely reconciliations, year-end entries and submissions going forward.

Proposed Completion Date: Immediately.

**Significant Deficiency
Non-Compliance**

Finding 2025-002

Name of Contact Person: Ashley Eure, Finance Director

Corrective Action: The town will implement a checklist of procedures for all budget amendments.

Proposed Completion Date: Immediately.

TOWN OF HERTFORD, NORTH CAROLINA

**SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2025**

None reported

TOWN OF HERTFORD, NORTH CAROLINA
 SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
 YEAR ENDED JUNE 30, 2025

<u>Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal Assistance Listing No.</u>	<u>State/ Pass-through Grantor's Number</u>	<u>Fed.(Direct & Pass-through) Expenditures</u>	<u>State Expenditures</u>	<u>Pass-through to Subrecipients</u>
Federal Grants:					
<u>U.S. Department of Agriculture</u>					
Food and Nutrition Service:					
Direct Program					
Community Facilities Loans and Grants	10.766		\$ 773,312	\$ -	\$ -
Total Community Facilities Loans and Grants			773,312	-	-
<u>U.S. Department of Treasury</u>					
Passed-through N.C. Department of Environmental Quality:					
COVID 19 - Coronavirus State and Local Fiscal Recovery Funds	21.027	VUR-W-ARP-0068	58,881	-	-
COVID 19 - Coronavirus State and Local Fiscal Recovery Funds	21.027	VUR-D-ARP-0061	77,907	-	-
COVID 19 - Coronavirus State and Local Fiscal Recovery Funds	21.027	VUR-D-ARP-0051	390,535	-	-
Total Coronavirus State and Local Fiscal Recovery Funds			527,323	-	-
<u>U.S. Department of Housing and Urban Development (HUD)</u>					
Passed-through N.C. Department of Commerce					
Community Development Block Grant Cluster					
Community Development Entitlement/Special Purpose Grants	14.218	CDBG 23-I-4156	106,111	-	-
Total Community Development Block Grant Cluster			106,111	-	-
<u>U.S. Department of Commerce</u>					
Economic Development Technical Assistance	11.303	04-06-07888	180,000	-	-
<u>U.S. Department of Homeland Security</u>					
Federal Emergency Management Agency					
Passed-through N.C. Department of Emergency Management					
Building Resilient Infrastructure and Communities (BRIC)	97.047	EMA-2021-BR-005-00	27,000	-	-
Total Assistance - Federal Awards			<u>\$ 1,613,746</u>	<u>\$ -</u>	<u>\$ -</u>
State Grants:					
<u>NC Department of Insurance - Office of the State Fire Marshal:</u>					
Fire/Rescue Grants and Relief Fund Program			\$ -	\$ 37,666	\$ -
<u>NC Dept of Environmental Quality - Division of Water Infrastructure:</u>					
Merger/Regionalization Feasibility Grant Program		MRF-W-VUR-0005	-	40,850	-
Water System Asset Inventory and Assessment		AIA-D-0259	-	45,725	-
Sewer System Asset Inventory and Assessment		AIA-W-0260	-	32,500	-
Total NC Department of Environmental Quality			-	119,075	-
<u>N.C. Department of Transportation:</u>					
Powell Bill		38570	-	28,483	-
<u>N.C. Department of Commerce</u>					
Rural Downtown Economic Development Grant		SA-0362	-	50,025	-
<u>Golden Leaf Foundation</u>					
Flood Mitigation and Recovery Program		G-202412-08848	-	102,056	-
Total Assistance - State Programs			<u>\$ -</u>	<u>\$ 337,305</u>	<u>\$ -</u>
Total Federal and State Assistance			<u>\$ 1,613,746</u>	<u>\$ 337,305</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, 2025. 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

Note 4 - Loans Outstanding

The Town of Hertford had the following loan balances outstanding at June 30, 2025 for loans that the grantor/pass-through grantor has still imposed continuing compliance requirements. Loans outstanding at the beginning of the year and loans made during the year are included in the SEFSA. The balance of loans outstanding at June 30, 2025 consist of:

Program Title	Federal AL Number	Pass-through Grantor's Number	Amount Outstanding
Community Facilities Loans and Grants Cluster	10.766	N/A	703,158

This page left blank intentionally.