

TOWN OF DUCK,
NORTH CAROLINA
FINANCIAL STATEMENTS
For the Year Ended
June 30, 2013

Town Council Members

Don Kingston, Mayor
Monica Thibodeau, Mayor Pro Tempore
Nancy Caviness
Chuck Burdick
Jon Britt

Administrative Staff

Christopher Layton, Town Manager
Lori Kopec, Town Clerk

TOWN OF DUCK, NORTH CAROLINA

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FINANCIAL SECTION



**JOHNSON, BURGESS,
MIZELLE & STRAUB, LLP**
CERTIFIED PUBLIC ACCOUNTANTS

Partners:
Debbie J. Burgess, CPA
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INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and
Members of the Town Council
Town of Duck, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Town of Duck, North Carolina, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation of the financial statements.

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

MEMBERS OF AICPA AND NCACPA

Opinions

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Town of Duck, North Carolina as of June 30, 2013, and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a required 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 have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Town of Duck, North Carolina. The individual fund statements, budgetary schedules, and other schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The individual fund statements, budgetary schedules and other schedules are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit and the procedures performed as described above, the individual fund statements, budgetary schedules and other schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Town of Duck
Page Three

JOHNSON, BURGESS, MIZELLE & STRAUB, LLP
Certified Public Accountants

Johnson, Burgess, Mizelle & Straub

Kitty Hawk, North Carolina
October 8, 2012



Management's Discussion and Analysis

As management of the Town of Duck, we offer readers of the Town of Duck's financial statements this narrative overview and analysis of the financial activities of the Town of Duck for the fiscal year ended June 30, 2013. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

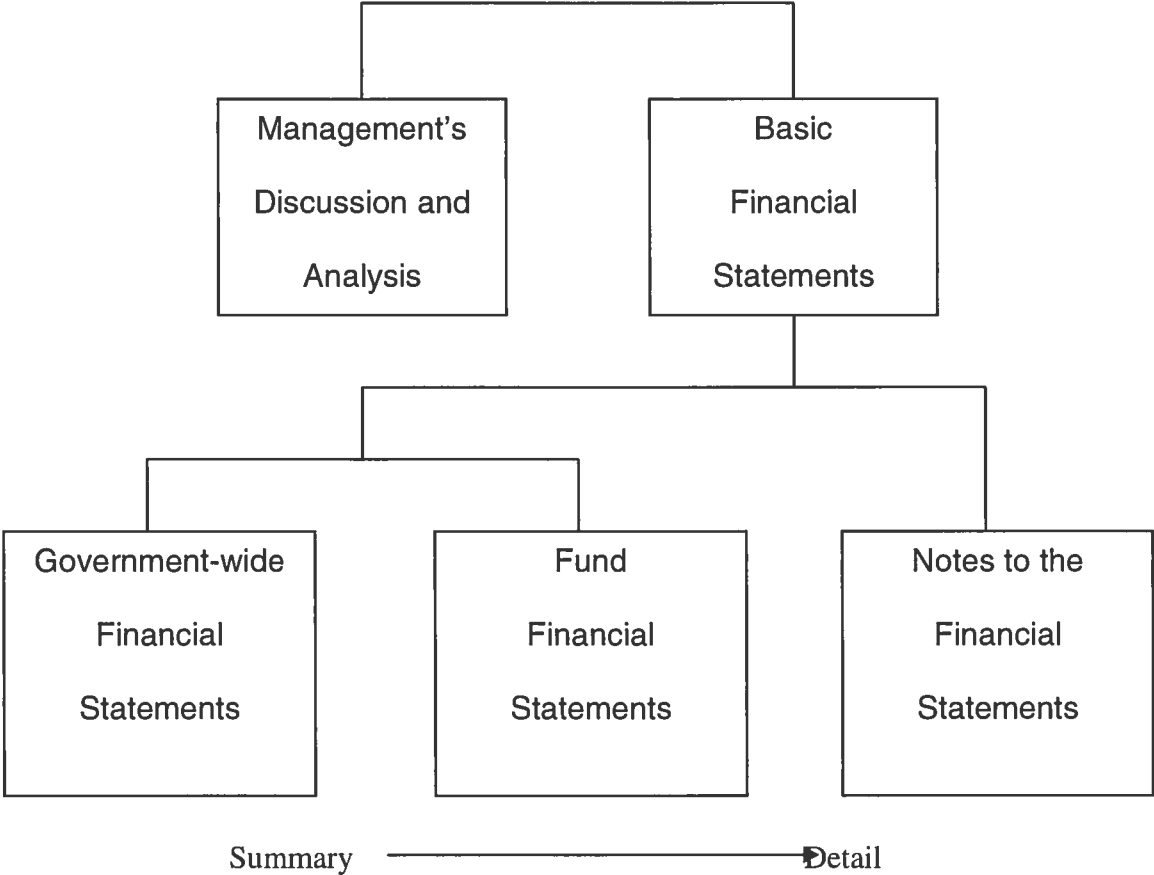
Financial Highlights

- The assets and deferred outflows of resources of the Town of Duck exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$7,811,793 (*net position*).
- The government's total net position increased by \$571,391, primarily due to increases in the government-type activities net position.
- As of the close of the current fiscal year, the Town of Duck's governmental funds reported combined ending fund balances of \$2,544,202 with a net change of \$283,312 in fund balance. Approximately 18.5 percent of this total amount, or \$470,726, is non spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$2,073,476, or 39.46 percent of total general fund expenditures for the fiscal year.
- The Town of Duck's total debt decreased by \$477,860 (10.6%) during the current fiscal year. The key factor in this decrease was the retirement of \$624,968 in debt related to previous real property, vehicle and equipment purchases. This decrease was offset slightly by additional debt of \$132,912 in the form of an installment purchase contract for three vehicles (two for the Police Department and one for the Fire Department) and additional compensated absences of \$14,196.

Overview of the Financial Statements

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

Required Components of Annual Financial Report
Figure 1



Basic Financial Statements

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

The next statements (Exhibits 3 through 5) 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 four parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; 3) the proprietary fund statements; and 4) the fiduciary fund statements.

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

Government-Wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the Town'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 three categories: 1) governmental activities; 2) business-type activities; and 3) component units. The governmental activities include most of the Town's basic services such as public safety, parks, and general administration. Property taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the Town charges customers to provide. In many areas, these include the water and sewer and electric services as well as permits. In the Town of Duck, these charges are comprised almost exclusively of permit fees related to building. The final category is the component unit. The Town of Duck currently does not have any component units; therefore, these financial statements will not include this information.

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 Duck, 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. There are three types of funds that can be utilized by the Town of Duck: governmental funds, proprietary funds, and fiduciary funds. The Town of Duck currently only utilizes governmental funds.

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

Management Discussion and Analysis
Town of Duck, NC

The Town of Duck 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 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 board; 2) the final budget as amended by the board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges.

Proprietary Funds – There are two different kinds of proprietary funds. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. For example, enterprise funds can be used to account for water and sewer activities and for 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. *Internal Service Funds* are an accounting device used to accumulate and allocate costs internally among the functions; for example, central garage operations or information technology services. Because these operations benefit predominantly governmental rather than business-type activities, the internal service fund has been included within the governmental activities in the government-wide financial statements. The Town of Duck currently does not use proprietary funds.

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The Town of Duck does not currently use fiduciary funds.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found after the Exhibits section of this report.

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

Interdependence with Other Entities: The Town depends on financial resources flowing from, or associated with, both the Federal Government and the State of North Carolina. Because of this dependency, the Town is subject to changes in specific flows of intergovernmental revenues based on modifications to Federal and State laws and Federal and State appropriations. It is also subject to changes in investment earnings and asset values associated with U.S. Treasury Securities because of actions by foreign government and other holders of publicly held U.S. Treasury Securities.

Government-Wide Financial Analysis

Town of Duck's Net Position

Figure 2

| | Activities | |
|-----------------------------------|---------------------|---------------------|
| | 2013 | 2012 |
| Current and other assets | \$ 2,615,865 | \$ 2,354,337 |
| Capital assets | 9,847,451 | 10,042,679 |
| Total assets | <u>12,463,316</u> | <u>12,397,016</u> |
| Long-term liabilities outstanding | 4,504,451 | 4,982,311 |
| Other liabilities | 147,072 | 174,303 |
| Total liabilities | <u>4,651,523</u> | <u>5,156,614</u> |
| Net position: | | |
| Net investment in capital assets | | |
| related debt | 5,413,713 | 5,116,885 |
| Restricted | 343,855 | 398,309 |
| Unrestricted | 2,054,225 | 1,725,208 |
| Total net position | <u>\$ 7,811,793</u> | <u>\$ 7,240,402</u> |

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of the Town of Duck exceeded liabilities and deferred inflows by \$7,811,793 as of June 30, 2013. The Town's net position increased by \$571,391 over the fiscal year ended June 30, 2012. However, the largest portion (69.3%) reflects the Town's net investment in capital assets (e.g. land, buildings, machinery, and equipment). The Town of Duck uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Duck's net investment in capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town of Duck's net position, \$343,855, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$2,054,225 is unrestricted.

Several particular aspects of the Town's financial operations positively influenced the total unrestricted governmental net position:

Management Discussion and Analysis
Town of Duck, NC

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 99.87% (99.88% property excluding registered motor vehicles; 94.12% for registered motor vehicles).
- Increased sales tax revenues of \$62,853.
- Increased land transfer tax revenues of \$11,176.
- Increased occupancy tax revenues of \$54,770.
- Increased building permit fees of \$59,985.

Town of Duck's Changes in Net Position
Figure 3

| | Governmental Activities | |
|---|------------------------------------|---------------------|
| | 2013 | 2012 |
| Revenues: | | |
| Program revenues: | | |
| Charges for services | \$ 197,985 | \$ 142,654 |
| Operating grants and contributions | 59,937 | 337,073 |
| Capital grants and contributions | 160,595 | 485,238 |
| General revenues: | | |
| Property taxes | 2,701,390 | 2,698,847 |
| Other taxes | 2,193,475 | 2,162,170 |
| Grants and contributions not restricted to specific programs | 2,085 | - |
| Other | 83,965 | 66,909 |
| Total revenues | <u>5,399,432</u> | <u>5,892,891</u> |
| Expenses: | | |
| General government | 910,912 | 1,167,505 |
| Public safety | 2,082,740 | 1,991,951 |
| Transportation | 86,390 | 71,194 |
| Environmental protection | 1,032,818 | 1,154,426 |
| Economic and physical development | 229,330 | 189,807 |
| Parks | 334,603 | 299,956 |
| Interest on long-term debt | 151,248 | 171,258 |
| Total expenses | <u>4,828,041</u> | <u>5,046,097</u> |
| Increase in net position | 571,391 | 846,794 |
| Net position, beginning | <u>7,240,402</u> | <u>6,393,608</u> |
| Net position, ending | <u>\$ 7,811,793</u> | <u>\$ 7,240,402</u> |

Governmental activities. Governmental activities increased the Town's net position by \$571,391, accounting for all of the total growth in the net position of the Town of Duck. Key elements of this increase are as follows:

- Building permit fees were up significantly due to two large projects in the Town.

Management Discussion and Analysis
Town of Duck, NC

- Grant revenues were received for general Town operations, specifically the Duck Jazz Festival, grants for the Police Department, and grants for dune management.
- Grant revenues related to the construction of the Town's Soundside Boardwalk were received.
- Tax revenues remained at worst steady and at best increased from anticipated totals in the key revenue sources of sales, land transfer and occupancy taxes.

Financial Analysis of the Town's Funds

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

Governmental Funds. The focus of the Town of Duck'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.

The general fund is the chief operating fund of the Town of Duck. At the end of the current fiscal year, Town of Duck's fund balance available in the General Fund was \$2,073,476, while total fund balance reached \$2,544,202. The Town Council of the Town of Duck has determined that the Town should strive to maintain an unassigned fund balance of 75% to 100% 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 39.09% of general fund expenditures, while total fund balance represents 48.42% of the same amount. The Town Council raised taxes as a part of the FY 2014 Budget process to assist in meeting their goal of an unassigned fund balance of 75% to 100% of general fund expenditures. As a "beach" community, subject to annual storms, such as hurricanes and nor'easters, the Town Council believes that a healthy unassigned fund balance is necessary to protect the Town's finances.

At June 30, 2013, the governmental funds of the Town of Duck reported a combined fund balance of \$2,544,202 with a net increase in fund balance of \$283,312. This increase is due to the receipt of outstanding grant revenues and increases in sales, land transfer and occupancy tax revenues above budgeted amounts. The Town currently only utilizes a General Fund, so this amount represents all funds utilized by the Town at this time.

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. The Town Council approved amendments to the FY 2013 Budget seven times during the budget year. These amendments included the appropriation of grant funding for the grant funding for beach planting and sand fencing projects, a comprehensive pedestrian study, revenues and expenditures related to the state unauthorized substance excise tax, and federal public safety grants and transfers from the contingency fund to cover various costs, such as the beach erosion study and beach debris clean-up costs associated with Hurricane Sandy. In addition, the budget amendments covered the appropriation of debt funding for the purchase of three public safety

Management Discussion and Analysis
Town of Duck, NC

vehicles and the appropriation of proceeds related to the trade in of police vehicles to cover the costs of an additional public safety vehicle. Lastly, the budget amendments also included transfers from the unassigned fund balance to cover end of year expenditures in various departments.

Revenues were greater than the budgeted amounts for FY 2013 primarily because the Town received grant revenue related to the construction of the Duck Soundside Boardwalk. In addition, land transfer taxes, occupancy taxes and sales taxes, were higher than budgeted amounts, which helped to offset, lower than expected revenues in ad valorem taxes and miscellaneous revenues. Expenditures were generally held in check to comply with budgetary requirements; however, due to an error in the calculation of the accruals related to salaries and benefits, the Town experienced minor budgetary overruns in the Administration, Police, Inspections, and Planning and Zoning Departments.

Capital Asset and Debt Administration

Capital assets. The Town of Duck’s investment in capital assets for its governmental activities as of June 30, 2013, totals \$9,847,451 (net of accumulated depreciation). These assets include buildings, land, machinery and equipment, park facilities, and vehicles.

Major capital asset transactions during the year include the following:

- Purchase of three vehicles and associated equipment for the Police department in the amount of \$123,452.
- Purchase of one vehicle for the Fire Department in the amount of \$41,990.

**Town of Duck’s Capital Assets
(net of depreciation)
Figure 4**

| | Governmental Activities | |
|-----------------------------------|----------------------------|----------------------|
| | 2013 | 2012 |
| Land | \$ 6,187,436 | \$ 6,187,436 |
| Buildings and systems | 2,239,490 | 2,326,281 |
| Improvements other than buildings | - | - |
| Equipment and furniture | 199,000 | 258,266 |
| Infrastructure | 1,018,006 | 987,864 |
| Vehicles and motorized equipment | 203,519 | 102,298 |
| Construction in progress | - | 180,534 |
| Total | \$ 9,847,451 | \$ 10,042,679 |

Additional information on the Town’s capital assets can be found Notes of this report.

Long-term Debt. As of June 30, 2013, the Town of Duck had total debt outstanding of \$4,504,451. Of this, \$4,433,738 is debt in the form of installment purchase contracts. The remainder of the Town’s debt represents compensated absences.

**Debt in the form of Installment Purchase Contracts, Etc.
Figure 5**

| | Governmental Activities | |
|--------------------------------|----------------------------|-------------|
| | 2013 | 2012 |
| Installment Purchase Contracts | \$4,433,738 | \$4,925,794 |
| Compensated Absences | 70,713 | 56,517 |
| Total | \$4,504,451 | \$4,982,311 |

Town of Duck’s Outstanding Debt

The Town of Duck’s total debt decreased by \$477,860 (9.6%) during the past fiscal year, due to retirements on debt in the amount of \$624,968 and additions of \$147,108. The majority of this was the payment of debt on real property installment purchase contracts (\$516,667). The remaining amount that was retired was related to installment purchase contracts for the purchase of police vehicles (\$51,655) and the purchase of 800 MHz radios for the Police and Fire Departments (\$56,646).

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government’s boundaries. The legal debt margin for Town of Duck is \$168,447,351.

Additional information regarding the Town of Duck’s long-term debt can be found in the Notes of this report.

Economic Factors and Next Year’s Budgets and Rates

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

- Continued high occupancy rates of retail spaces in the Town, keeping sales tax revenues consistent; although county-wide the number of vacant retail spaces is high.
- Continued strong occupancy of vacation rental homes, resulting in consistent occupancy tax revenues.
- A slight uptick in the sales of homes county-wide, thus increasing land transfer revenues.
- Continued prominent construction projects in the Town, particularly commercial.

Budget Highlights for the Fiscal Year Ending June 30, 2014

The FY 2014 Budget includes a 12.8% increase in revenues. The increase is due to a \$0.0366 increase in the ad valorem tax rate and grant revenues, specifically, a Shoreline Management Grant (\$250,000) to assist with engineering and permitting costs associated with the Town's erosion mitigation project and a Tourism Bureau Grant (\$137,500) for the final phase of the Duck Soundside Boardwalk project.

Ad valorem revenues are derived from taxes placed on the property in the Town. Earlier this year, Dare County completed a county-wide revaluation of real property in the county. This revaluation resulted in the assessed values of the Town of Duck decreasing 27.96% from a 2012 value of \$2,112,503,200 to a 2013 value of \$1,536,809,500. Commercial properties dropped in value the most with a -40% change, followed by oceanfront property (-31%), soundfront property (-27%), ocean influenced and non-influenced properties (-26%) and then condominiums/townhouses (-6%).

The current ad valorem tax rate, based on 2012 property values is \$0.125. As a part of the revaluation process, a revenue neutral rate must be calculated. The revenue neutral rate is the ad valorem tax rate that, when applied to the revalued property values, derives the same amount of revenue as the previous rate derived from the previous property values. Based on the 2013 property values the ad valorem (revenue neutral) tax rate for the Town would be \$0.1734. While the revenue neutral rate for the Town is \$0.1734, an ad valorem tax rate of \$0.21 was adopted by the Town Council, producing \$571,652 in new revenue. It should be noted that even with this tax increase, a \$0.21 ad valorem tax rate would still be lower than the revenue neutral rates of Dare County's other five towns, whose revenue neutral tax rates are as follows: Kill Devil Hills (\$0.3209), Kitty Hawk (\$0.32), Nags Head (\$0.24), Southern Shores (\$0.235), and Manteo (\$0.3367). Of the \$0.0366 ad valorem tax rate increase, \$0.026 would go towards funding beach-related projects (\$75,000 for expanded beach planting, fertilization and sand fencing, \$300,000 for engineering and permitting for the erosion mitigation project, and \$31,650 for legal services to obtain easements for the erosion mitigation project) and \$0.0106 would go towards general Town operations, including an appropriation to the fund balance of \$126,871.

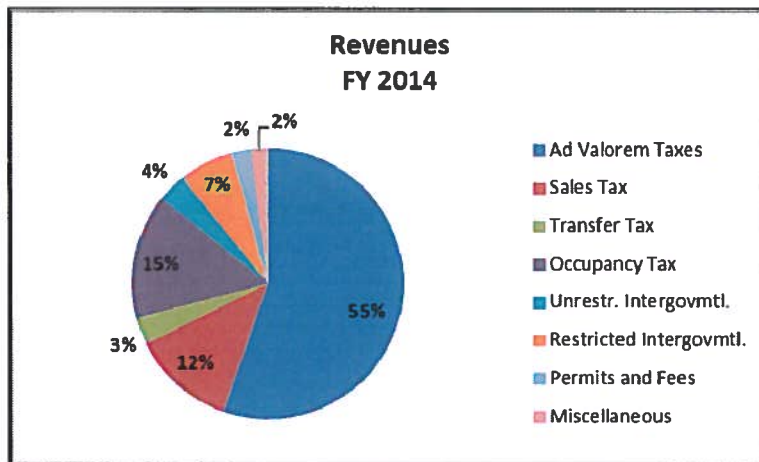
Shared revenues (sales, occupancy, and land transfer taxes) are expected to decrease by less than one percent (-0.65%) for FY 2014 when compared to the FY 2013 Amended Budget. This decrease is a direct result of ad valorem tax rate increases of several of the other Dare County Towns in FY 2013 that will result in an increase in their proportionate share of these revenue sources in FY 2014. In FY 2013 the Town of Duck received 12% of the occupancy and land transfer taxes returned to the Dare County Towns and 3.42% of sales tax revenues. For FY 2014 these percentages will decrease to 11.41% of occupancy and land transfer tax revenues and 3.34% of sales tax revenues. Fortunately, all three shared revenue sources are expected to remain strong for FY 2014, with an estimated increase in gross occupancy tax revenues of 0.5%, and estimated increase in gross land transfer tax revenues of 3%, and 0.5% increase in estimated gross sales tax revenues.

Of the remaining revenue sources of the Town, all are expected to be the same or slightly above or below, within 1%, in FY 2014 as was budgeted for in FY 2013. It is anticipated that the North Carolina General Assembly will implement changes that will eliminate proceeds from beer and wine taxes from being returned to the Town; however, this would only equate to a loss of \$2,000.

Management Discussion and Analysis
Town of Duck, NC

Building related permits and fees are expected to remain strong in FY 2014, but are not expected to reach actual FY 2013 levels. The Town expects to receive two significant grants in FY 2014, a \$137,500 grant from the Outer Banks Visitors Bureau for the construction of the Duck Soundside Boardwalk and \$250,000 from Dare County to assist with erosion mitigation/beach nourishment engineering and permitting. The Town also anticipates receiving \$24,000 from Dare County to assist in dune planting and sand fencing projects, which will be appropriated when it is awarded.

As is shown in the accompanying chart, the vast majority of the Town of Duck’s revenues are



derived from ad valorem taxes (55%). Shared revenues make up 30% of the Town’s revenues with proceeds from the occupancy tax comprising 15% of revenues, sales tax 12% and land transfer tax 3%. Restricted Intergovernmental, i.e. grants, make up 7% of revenues. Unrestricted intergovernmental sources, i.e. the utility franchise tax makes up 4% of the Town’s revenues and permits and fees and miscellaneous revenues comprise 2% each, respectively.

Expenditures for the FY 2014 Budget are also expected to increase 12.8% when compared to the FY 2013 Amended Budget. This increase is due to the erosion mitigation project and increased dune management project included in as well as construction of the final phase of the Duck Soundside Boardwalk. These projects add an additional \$406,650 and \$275,000, respectively, to the Town’s proposed expenditures for the coming fiscal year.

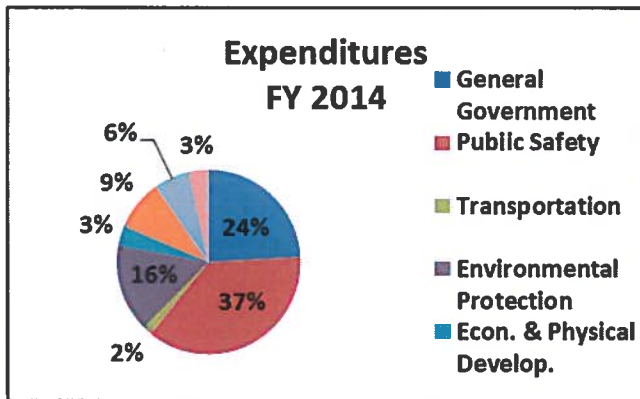
The FY 2014 Budget includes several initiatives and projects. Among these are the following: funding for legal services to obtain easements from oceanfront property owners related to the proposed erosion mitigation project (\$31,600), funding for boardwalk repairs, including lowering of the remaining high rail (\$15,000), funding for a two replacement computers (\$5,000), a replacement radar (\$1,900), an AED unit (\$1,900), and weapons equipment (\$3,900) for the Police Department, funding for overtime for the Fire Department (\$20,000), additional part-time funding for the Fire Department (\$28,000, an increase of \$8,000), funding for a replacement computer for the Inspections Department (\$2,200), funding for new GIS related software for the Department of Community Development (\$2,500), funding for a direct contribution to the Town’s fund balance (\$126,871) and funding for the contingency fund (\$75,000).

In addition, the FY 2014 Budget also includes funding for the following Capital Improvements Program (CIP) items, including the following: debt service for the purchase of the Town Park property (\$352,650), debt service for the construction of the Town Hall Complex, including the purchase of the property on which it sits (\$299,057), renovations and or repairs to the Public Safety Building (\$10,000), funding of the last phase of the Duck Soundside Boardwalk (\$275,000), debt service on the purchase of the Public Safety 800 MHz radios and equipment (\$63,461), debt service on the purchase of police patrol vehicles (\$49,813), replacement of SCBA bottles for the Fire Department (\$16,000), replacement of Fire Department turnout gear (\$12,000), purchase of

Management Discussion and Analysis
Town of Duck, NC

additional hose for the Fire Department (\$6,000), debt service on a fire department command vehicle (\$15,428), funding for engineering related to stormwater projects (\$25,000), funding for engineering for a Duck Town Park shoreline stabilization project (\$8,000), funding for enhanced dune planting/fencing and fertilization (\$75,000), and funding for engineering for the erosion mitigation/beach nourishment project (\$300,000).

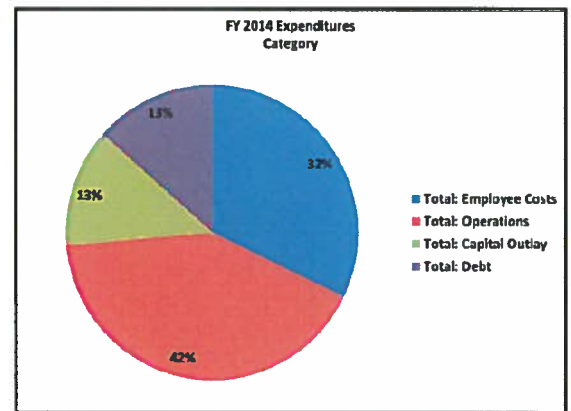
The Town of Duck uses its revenue sources to fund a variety of services. For FY 2014, the majority



of the Town’s revenues (37%) are used to fund Public Safety related expenditures. Public Safety expenditures include the Police and Fire Departments, Building Inspections, and Ocean Rescue. This is followed by General Government expenditures (Governing Body, Administration, Finance, Legal, and Public Buildings, including debt service on the Town Hall-Community/Meeting Hall, and Information Technology) at 24%. Environmental Protection expenditures, i.e. residential and commercial solid waste collection and disposal and recycling, are next at 16%.

Cultural and Recreational (the Town Park, including debt service on the property) is next at 9%. Rounding out the list are Capital Outlay expenditures (the funding associated with the enhanced dune management project and the engineering and permitting related to the beach erosion mitigation project (6%), expenditures related to Economic and Physical Development (the Department of Community Development) at 3%, Budgetary Accounting (contingency and fund balance) at 3%, and Transportation, that is, the maintenance of the Duck Trail at 2%.

The Town of Duck currently employs 21 full-time employees and two part time equivalent employees. For FY 2014, no additional employees are proposed. Employee costs to comprise 32% of the Town’s overall expenditures. A 1.5% merit increase for all employees is budgeted plus a merit bonus of up to an additional 1.5%, as well as a 10% increase for medical insurance.



Requests for Information

This report is designed to provide an overview of the Town’s finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to Christopher J. Layton, Town Manager, P.O. Box 8369, Duck, North Carolina, 27949, (252) 255-1234, clayton@townofduck.com.

BASIC FINANCIAL STATEMENTS

Exhibit 1

Town of Duck
Statement of Net Position
June 30, 2013

| | <u>Primary Government</u> |
|--|--------------------------------|
| | <u>Governmental Activities</u> |
| ASSETS | |
| Current assets: | |
| Cash and cash equivalents | \$ 2,268,501 |
| Taxes receivables (net) | 3,509 |
| Due from other governments | 343,855 |
| Total current assets | <u>2,615,865</u> |
| Capital assets (Note 1): | |
| Land, non-depreciable improvements, and construction in progress | 6,187,436 |
| Other capital assets, net of depreciation | 3,660,015 |
| Total capital assets | <u>9,847,451</u> |
| Total assets | <u>\$ 12,463,316</u> |
| LIABILITIES | |
| Current liabilities: | |
| Accounts payable | \$ 68,154 |
| Accrued interest payable | 78,918 |
| Long-term liabilities: | |
| Due within one year | 636,902 |
| Due in more than one year | 3,867,549 |
| Total liabilities | <u>4,651,523</u> |
| NET POSITION | |
| Net investment in capital assets | 5,413,713 |
| Restricted for: | |
| Stabilization by State Statute | 343,855 |
| Unrestricted | 2,054,225 |
| Total net position | <u>\$ 7,811,793</u> |

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

Exhibit 2

Town of Duck, North Carolina
Statement of Activities
For the Year Ended June 30, 2013

| Functions/Programs | Program Revenues | | | | Net (Expense) Revenue and Changes in Net Position |
|---|------------------|-------------------------|---------------------------------------|-------------------------------------|--|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | |
| Primary government: | | | | | |
| Governmental Activities: | | | | | |
| General government | \$ 910,912 | \$ - | \$ 10,000 | \$ 160,595 | \$ (740,317) |
| Public safety | 2,082,740 | 197,985 | 25,937 | - | (1,858,818) |
| Transportation | 86,390 | - | - | - | (86,390) |
| Economic and physical development | 229,330 | - | - | - | (229,330) |
| Environmental protection | 1,032,818 | - | 24,000 | - | (1,008,818) |
| Parks | 334,603 | - | - | - | (334,603) |
| Interest on long-term debt | 151,248 | - | - | - | (151,248) |
| Total governmental activities (See Note 1) | 4,828,041 | 197,985 | 59,937 | 160,595 | (4,409,524) |
| Total primary government | \$ 4,828,041 | \$ 197,985 | \$ 59,937 | \$ 160,595 | \$ (4,409,524) |

| | |
|--|-----------|
| General revenues: | |
| Taxes: | |
| Property taxes, levied for general purpose | 2,701,390 |
| Other taxes | 2,193,475 |
| Grants and contributions not restricted to specific programs | - |
| Unrestricted investment earnings | 2,085 |
| Miscellaneous | 83,965 |
| Transfers | - |
| Total general revenues and transfers | 4,980,915 |
| Change in net position | 571,391 |
| Net position, beginning | 7,240,402 |
| Net position, ending | 7,811,793 |

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

**Town of Duck
Balance Sheet
Governmental Funds
June 30, 2013**

| | <u>Major Funds</u> | | Total Governmental Funds |
|---|--------------------|------------------|--------------------------------|
| | General | | |
| ASSETS | | | |
| Cash and cash equivalents | \$ | 2,268,501 | \$ 2,268,501 |
| Receivables, net: | | | |
| Taxes | | 3,509 | 3,509 |
| Due from other governments | | 343,855 | 343,855 |
| Total assets | | <u>2,615,865</u> | <u>2,615,865</u> |
| LIABILITIES | | | |
| Accounts payable and accrued liabilities | | 68,154 | 68,154 |
| Total liabilities | | <u>68,154</u> | <u>68,154</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Property taxes receivable | | 3,509 | 3,509 |
| Total deferred inflows of resources | | <u>3,509</u> | <u>3,509</u> |
| FUND BALANCES | | | |
| Restricted: | | | |
| Stabilization by State Statute | | 343,855 | 343,855 |
| Assigned: | | | |
| Subsequent year's expenditures | | 126,871 | 126,871 |
| Unassigned | | 2,073,476 | 2,073,476 |
| Total fund balances | | <u>2,544,202</u> | <u>2,544,202</u> |
| Total liabilities, deferred inflows of resources and fund balances | \$ | <u>2,615,865</u> | |

Amounts reported for governmental activities in the Statement of Net Position (Exhibit 1) are different because:

| | |
|---|---------------------|
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | 9,847,451 |
| Liabilities for earned revenues considered deferred inflows of resources in fund statements. | 3,509 |
| Long-term liabilities used in governmental activities are not financial uses and therefore not reported in the funds | (4,504,451) |
| Other long-term liabilities (accrued interest) are not due and payable in the current period and therefore are not reported in the funds. | (78,918) |
| Net position of governmental activities | <u>\$ 7,811,793</u> |

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

Town of Duck
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2013

| | Major Funds | Total |
|--|--------------|--------------------|
| | General Fund | Governmental Funds |
| REVENUES | | |
| Ad valorem taxes | \$ 2,706,364 | \$ 2,706,364 |
| Other taxes and licenses | 1,136,910 | 1,136,910 |
| Unrestricted intergovernmental | 1,056,565 | 1,056,565 |
| Restricted intergovernmental | 220,533 | 220,533 |
| Permits and fees | 197,985 | 197,985 |
| Investment earnings | 2,085 | 2,085 |
| Miscellaneous | 49,699 | 49,699 |
| Total revenues | 5,370,141 | 5,370,141 |
| EXPENDITURES | | |
| Current: | | |
| General government | 838,269 | 838,269 |
| Public safety | 2,118,072 | 2,118,072 |
| Transportation | 76,817 | 76,817 |
| Environmental protection | 1,032,818 | 1,032,818 |
| Economic and physical development | 232,027 | 232,027 |
| Parks | 169,367 | 169,367 |
| Debt service | | |
| Principal | 624,968 | 624,968 |
| Interest | 161,669 | 161,669 |
| Capital outlay | | |
| Total expenditures | 5,254,007 | 5,254,007 |
| OTHER FINANCING SOURCES | | |
| Transfers from other funds | - | - |
| Transfers to other funds | - | - |
| Sales of capital assets | 34,266 | 34,266 |
| Installment purchase obligations issued | 132,912 | 132,912 |
| Total other financing sources | 167,178 | 167,178 |
| Excess (deficiency) of revenues over expenditures and net change in fund balance | 283,312 | 283,312 |
| Fund balances, beginning | 2,260,890 | 2,260,890 |
| Fund balances, ending | \$ 2,544,202 | \$ 2,544,202 |

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

**Town of Duck
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2013**

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

| | | |
|---|------------------|-----------------|
| Net changes in fund balances - total governmental funds | \$ | 283,312 |
| <p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period</p> | | |
| Capital outlay expenditures which were capitalized | \$ 169,903 | |
| Depreciation expense for governmental assets | <u>(365,130)</u> | (195,227) |
| <p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p> | | |
| Change in unavailable revenue for tax revenues | | (4,974) |
| <p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p> | | |
| | | 502,477 |
| <p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p> | | |
| Compensated absences | | <u>(14,197)</u> |
| Total changes in net position of governmental activities | \$ | <u>571,391</u> |

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

Town of Duck
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2013

| | General Fund | | | Variance with Final Budget - Positive (Negative) |
|--|---------------------|------------------|---------------------|---|
| | Original | Final | Actual Amounts | |
| Revenues: | | | | |
| Ad valorem taxes | 2,718,904 | 2,718,904 | 2,706,364 | (12,540) |
| Other taxes and licenses | 1,070,964 | 1,070,964 | 1,136,910 | 65,946 |
| Unrestricted intergovernmental | 994,548 | 1,010,548 | 1,056,565 | 46,017 |
| Restricted intergovernmental | - | 75,039 | 220,533 | 145,494 |
| Permits and fees | 138,000 | 138,000 | 197,985 | 59,985 |
| Investment earnings | - | - | 2,085 | 2,085 |
| Miscellaneous | 72,000 | 77,500 | 49,699 | (27,801) |
| Total revenues | <u>4,994,416</u> | <u>5,090,955</u> | <u>5,370,141</u> | <u>279,186</u> |
| Expenditures: | | | | |
| Current: | | | | |
| General government | 1,087,990 | 1,145,990 | 1,144,281 | 1,709 |
| Public safety | 2,006,366 | 2,226,464 | 2,235,517 | (9,053) |
| Transportation | 77,000 | 77,000 | 76,817 | 183 |
| Environmental protection | 959,592 | 1,036,592 | 1,032,818 | 3,774 |
| Economic and physical development | 200,226 | 231,226 | 232,027 | (801) |
| Parks | 529,680 | 532,680 | 532,547 | 133 |
| Total expenditures | <u>4,860,854</u> | <u>5,249,952</u> | <u>5,254,007</u> | <u>(4,055)</u> |
| Revenues over (under) expenditures | <u>133,562</u> | <u>(158,997)</u> | <u>116,134</u> | <u>275,131</u> |
| Other financing sources (uses): | | | | |
| Transfers to other funds | - | - | - | - |
| Contingency | (75,000) | (119) | - | 119 |
| Fund Balance Appropriated | (58,562) | (5,562) | - | 5,562 |
| Total other financing sources (uses) | <u>(133,562)</u> | <u>158,997</u> | <u>167,178</u> | <u>8,181</u> |
| Revenues and other sources over (under) expenditures and other uses | <u>\$ -</u> | <u>\$ -</u> | <u>283,312</u> | <u>\$ 283,312</u> |
| Fund balances, beginning | | | <u>2,260,890</u> | |
| Fund balances, ending | | | <u>\$ 2,544,202</u> | |

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

TOWN OF DUCK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2013

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Town of Duck 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 Duck is a municipal corporation which is governed by a five-member council, including a Council elected Mayor. The Town began operation on May 1, 2002.

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. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues 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.

The Town reports the following governmental funds:

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

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 Financial Statements. The government-wide financial statements are reported using the economic resources measurement focus and 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

TOWN OF DUCK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING - (Continued)

cash flows take place. Nonexchange 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.

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

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of January 1, 1993, 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, Dare County is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts in the County, including the Town of Duck. For motor vehicles registered under the staggered system, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, the Town's vehicle taxes for vehicles registered in Dare County from March 2012 through February 2013 apply to the fiscal year ended June 30, 2013. Uncollected taxes that were billed during this period are shown as a receivable in these financial statements and are offset by deferred revenues.

Sales taxes and certain intergovernmental revenues, such as the utilities, franchise tax, collected and held by the State at year-end on behalf of the Town are recognized as revenue. 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.

TOWN OF DUCK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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. All annual appropriations lapse at fiscal-year end. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the departmental level for all annually budgeted funds. Amendments are required for any revisions that alter total expenditures of any department. All amendments must be approved by the governing board. During the year, amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

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

Deposits and Investments

All deposits of the Town are made in board-designated official depositories and are secured as required by State law [§G.S. 159-31]. The Town may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the Town 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 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 nonguaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust (NCCMT).

The Town's investments with a maturity of more than one year at acquisition and non-money market investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT Cash Portfolio, a SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued at fair value.

Cash and Cash Equivalents

All cash and investments are essentially demand deposits and are considered cash and cash equivalents.

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 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2012.

TOWN OF DUCK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Allowance for Uncollectibles

No allowance for uncollectibles is made for taxes receivable which have not been collected for a ten year period, because historically, less than one percent of the receivable remains uncollectible and this amount is considered immaterial.

Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000, and an estimated life of at least two years. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

| Asset Class | Estimated Useful Lives |
|-------------------------|---------------------------|
| Infrastructure | 20 |
| Buildings | 15 - 40 |
| Improvements | 10 |
| Vehicles | 5 |
| Furniture and equipment | 5 - 10 |
| Computer equipment | 5 |

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town does not have any of these items. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Town only has property taxes receivable.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. The face amount of any debt issued is reported as other financing sources.

TOWN OF DUCK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Compensated Absences

The vacation policy of the Town provides for the accumulation of up to 80 hours of earned vacation leave with such leave being fully vested when earned. For the Town's government-wide funds, 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 last-in, first-out method of using accumulated compensated time.

The Town's sick leave policy 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. Since the Town does not have any obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

Net Position/Fund Balances

Net Position

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

Fund Balances

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

Nonspendable Fund Balance - This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

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

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

Committed Fund Balance - portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of Town of Duck's governing body. Any changes or removal of specific purpose requires majority action by the governing body.

Assigned fund balance - portion of fund balance that Town of Duck intends to use for specific purposes.

Assigned for Public Buildings - portion of fund balance that has been budgeted by the Board for construction of a town hall.

TOWN OF DUCK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Subsequent year's expenditures - portion of fund balance that is appropriated in the next year's budget that is not already classified in restricted or committed. The governing body approves the appropriation.

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

The Town of Duck has a revenue spending policy that provides guidance for programs with multiple revenue sources. The Town Manager will use resources in the following hierarchy: debt proceeds, federal funds, State funds, local 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 Town Manager has authority to deviate from this policy if it is in the best interest of the Town.

The Town of Duck 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 75% of the previous fiscal year's general fund expenditures. Any portion of the general fund balance in excess of 75% of the previous fiscal year's general fund 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.

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

For the fiscal year ended June 30, 2013, the expenditures made in the Town's General Fund exceeded the authorized appropriations made by the governing board for administration by \$3,239, police by \$9,354, inspections by \$491, and planning and zoning by \$801. These over-expenditures occurred due to accruing payroll inaccurately at year end. Management will work to more accurately accrue payroll at year end to prevent over expenditures and to ensure compliance in future years.

3. DETAIL NOTES ON ALL FUNDS

A. ASSETS

Deposits

All the deposits of the Town 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 agents in the Town's name. 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, these deposits are considered to be held by the Town'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 or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town under the Pooling Method, the potential exists for undercollateralization, and this risk may increase in periods of high cash flows.

TOWN OF DUCK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2013

3. DETAIL NOTES ON ALL FUNDS - (Continued)

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 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.

At June 30, 2013, the Town's deposits had a carrying amount of \$951,826 and a bank balance of \$1,035,291. Of the bank balance, \$250,000 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method.

Investments

At June 30, 2013, the Town had \$1,316,675 invested with the North Carolina Capital Management Trust's Cash Portfolio which carried a credit rating of AAAM by Standard and Poor's. The Town analyzes the financial soundness of any other financial institution used by the Town. The Town complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

Capital Assets

Primary Government

Capital asset activity for the Primary Government for the year ended June 30, 2013 was as follows:

| | <u>Balance</u> <u>July 1, 2012</u> | <u>Additions</u> | <u>Adjustments/ Retirements</u> | <u>Balance</u> <u>June 30, 2013</u> |
|--|---------------------------------------|------------------|-------------------------------------|--|
| Governmental Activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 6 187 436 | \$ - | \$ - | \$ 6 187 436 |
| Construction in progress | <u>180 534</u> | <u>-</u> | <u>(180 534)</u> | <u>-</u> |
| Total capital assets not being depreciated | <u>6 367 970</u> | <u>-</u> | <u>(180 534)</u> | <u>6 187 436</u> |
| Capital assets being depreciated: | | | | |
| Equipment | 428 245 | 7 160 | - | 435 405 |
| Vehicles | 407 203 | 158 281 | (113 833) | 451 651 |
| Buildings | 2 410 818 | - | - | 2 410 818 |
| Infrastructure | <u>1 363 536</u> | <u>184 995</u> | <u>-</u> | <u>1 548 531</u> |
| Total capital assets being depreciated | <u>4 609 802</u> | <u>350 436</u> | <u>(113 833)</u> | <u>4 846 405</u> |
| Less accumulated depreciation for: | | | | |
| Equipment | 169 979 | 66 426 | - | 236 405 |
| Vehicles | 304 905 | 57 060 | (113 833) | 248 132 |
| Buildings | 84 537 | 86 791 | - | 171 328 |
| Infrastructure | <u>375 672</u> | <u>154 853</u> | <u>-</u> | <u>530 525</u> |
| Total accumulated depreciation | <u>935 093</u> | <u>365 130</u> | <u>(113 833)</u> | <u>1 186 390</u> |
| Total capital assets being depreciated, net | <u>3 674 709</u> | | | <u>3 660 015</u> |
| Governmental activity capital assets, net | <u>\$10 042 679</u> | | | <u>\$ 9 847 451</u> |

TOWN OF DUCK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2013

3. DETAIL NOTES ON ALL FUNDS - (Continued)

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

| | |
|-----------------------------------|-------------------|
| General Government | \$ - |
| Public Buildings | 73 057 |
| Public Safety | 117 264 |
| Transportation | 9 573 |
| Economic and Physical Development | - |
| Parks | <u>165 236</u> |
| | <u>\$ 365 130</u> |

B. LIABILITIES

Pension Plan Obligations

a. Local Governmental Employees' Retirement System

Plan Description. On July 1, 2003, the Town of Duck began contributing to 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 provides retirement and disability benefits to plan members and beneficiaries. Article 3 of §G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina, 27699-1410, or by calling (919) 981-5454.

Funding Policy. Plan members are required to contribute six percent of their annual covered salary. The Town is required to contribute at an actuarially determined rate. For the Town, the current rate for employees not engaged in law enforcement and for law enforcement officers is 6.74% and 6.77%, respectively, of annual covered payroll. The contribution requirements of members and of the Town of Duck is established and may be amended by the North Carolina General Assembly. The Town's contributions to LGERS for the years ended June 30, 2013 and 2012 and 2011 were \$86,755, \$78,354 and \$73,605, respectively. The contributions made by the Town equaled the required contributions for each year.

b. Law Enforcement Officers Special Separation Allowance

Plan Description. The Town of Duck administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the Town's qualified sworn law enforcement officers. The Separation Allowance is equal to .85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of §G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

TOWN OF DUCK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2013

3. DETAIL NOTES ON ALL FUNDS - (Continued)

All full-time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2012, the Separation Allowance's membership consisted of:

| | |
|---|----------|
| Retirees receiving benefits | 0 |
| Terminated plan members entitled to but not yet receiving benefits | 0 |
| Active plan members | <u>9</u> |
| Total | <u>9</u> |

A separate report was not issued for the plan.

Summary of Significant Accounting Policies:

Basis of Accounting. The Town has chosen to fund the Separation Allowance on a pay as you go basis. Pension expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting.

Method Used to Value Investments. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

Contributions. The Town is required by Article 12D of §G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the benefit payments on a pay as you go basis through appropriations made in the General Fund operating budget. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. There were no contributions made by employees. The Town has made no contributions. There has been no actuarial study done as these amounts are considered immaterial to the financial statements.

c. Supplemental Retirement Income Plan for Law Enforcement Officers and all other Full-Time 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 law enforcement officers and all other full-time employees of 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. Article 12E of §G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each employee's salary, and all amounts contributed are vested immediately. Also, the employees may make voluntary contributions to the plan. Contributions for the year ended June 30, 2013 were \$111,248, which consisted of \$62,903 from the Town and \$48,345 from employees.

TOWN OF DUCK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2013

3. **DETAIL NOTES ON ALL FUNDS - (Continued)**

Other Employment Benefit

The Town has additional death benefits provided through BCBS which provides for the beneficiaries of those employees who die in active service. After one year of service, employees are eligible for death benefits. Lump sum death benefit payments to the beneficiaries are equal to one times the employees' annual salary up to the highest salary of \$100,000 for fiscal year ended June 30, 2013.

Deferred Outflows and Inflows of Resources

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

| | <u>Unavailable Revenue</u> |
|---|--------------------------------|
| Taxes receivable (General Fund), less penalties | <u>\$ 3 509</u> |

Commitments

The Town has a contract with the Duck Volunteer Fire Department, Inc. to pay at least \$200,000 for the fiscal year ended June 30, 2014, as compensation for firefighting services. This doesn't include amounts for town personnel.

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 coverage of \$1 million per occurrence, property coverage up to the total insurance values of the property policy, and workers' compensation coverage up to statutory limits. The pools are reinsured through commercial companies for single occurrence claims against general liability, auto liability, police professionals' liability and public officials' liability in excess of \$1,000,000; claims in excess of \$1,000,000 and property in excess of \$500,000 and \$1,000,000 up to statutory limits for workers' compensation.

The Town carries commercial coverage for all other risks of loss, including employee health benefits. 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 insurance that has special provisions that may apply to flood, earthquake and named windstorm damage purchased through commercial carriers. The Town carries flood insurance coverage in the amount of \$500,000 a piece for the Duck Town Hall and the Duck Meeting Hall, and contents coverage in the amount of \$150,000 and \$100,000, respectively.

TOWN OF DUCK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2013

3. DETAIL NOTES ON ALL FUNDS - (Continued)

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 finance officer is bonded for \$50,000 by the League Risk Management Services.

Long-Term Obligations

Leases

In November 2011, the Town entered a lease agreement for a copier for a sixty month period beginning November 2011. During the fiscal year ended June 30, 2013, the Town paid \$21,961 on this lease agreement. The lease requires minimum annual payments of \$20,220.

The future minimum rental payments are as follows:

| <u>Year Ending</u> <u>June 30</u> | <u>Minimum Rental</u> <u>Payments</u> |
|--------------------------------------|--|
| 2014 | \$ 20 220 |
| 2015 | 20 220 |
| 2016 | <u>6 740</u> |
| | <u>\$ 47 180</u> |

Installment Purchases

On November 18, 2003, the Town entered into an installment purchase contract with the Branch Banking and Trust Company in the amount of \$4,500,000 to finance the purchase of 10.33+ acres of unimproved land in Duck, North Carolina. The financing contract requires principal payments beginning in the fiscal year 2004 with an interest rate of 4.070%. On December 5, 2007, the remaining balance of \$3,300,000 was refinanced with the Branch Banking and Trust Company. The refinancing contract requires annual principal payments beginning on February 1, 2008 with an interest rate of 3.510%.

Annual debt service payments of the installment purchase as of June 30, 2013, including \$157,950 of interest, are as follows:

| <u>Year Ending June 30</u> | <u>Principal</u> | <u>Interest</u> |
|----------------------------|---------------------|-------------------|
| 2014 | \$ 300 000 | \$ 52 650 |
| 2015 | 300 000 | 42 120 |
| 2016 | 300 000 | 31 590 |
| 2017 | 300 000 | 21 060 |
| 2018 | <u>300 000</u> | <u>10 530</u> |
| Total | <u>\$ 1 500 000</u> | <u>\$ 157 950</u> |

TOWN OF DUCK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2013

3. DETAIL NOTES ON ALL FUNDS - (Continued)

Installment Purchases - (Continued)

On July 14, 2006, the Town entered into an installment financing contract with RBC Centura Bank in the amount of \$1,250,000 for the purchase of 22,999 square feet of real estate located in Duck, North Carolina. The interest rate is fixed at 3.89% per annum. The note requires the Town to pay five annual installments of principal and interest in the amount of \$279,782 with a final payment due 59 months from the day of closing and include all unpaid principal and interest. On July 23, 2007, the remaining balance of \$1,250,000 was refinanced with RBC Centura Bank. The refinancing contract requires fifteen annual principal and interest payments beginning on July 23, 2008 with a fixed interest rate of 3.98% per annum with a final payment due on July 23, 2022. On November 17, 2010, the note was refinanced with the Branch Banking and Trust Company.

On November 17, 2010, the Town entered into an installment financing contract with the Branch Banking and Trust Company in the amount of \$3,000,000 to finance the construction of the Town Hall and refinancing of the loan with RBC Centura Bank for the purchase of 22,999 square feet of real estate located in Duck, North Carolina. The financing contract requires principal payments beginning in the fiscal year 2012 with an interest rate of 3.21%.

Annual debt service payments of the installment purchase as of June 30, 2013, including \$536,605 of interest, are as follows:

| <u>Year Ending June 30</u> | <u>Principal</u> | <u>Interest</u> |
|----------------------------|--------------------|-------------------|
| 2014 | \$ 216 667 | \$ 82 390 |
| 2015 | 216 667 | 75 435 |
| 2016 | 216 667 | 68 480 |
| 2017 | 216 667 | 61 525 |
| 2018 | 216 667 | 54 570 |
| 2019 - 2024 | 1 216 668 | 181 365 |
| 2025 | <u>266 663</u> | <u>12 840</u> |
| Total | <u>\$2 566 666</u> | <u>\$ 536 605</u> |

On August 13, 2010, the Town entered into an installment financing contract with RBC Centura Bank in the amount of \$379,937 for the purchase of three vehicles and equipment. The interest rate is fixed at 2.77% per annum. The note requires the Town to pay five annual installments of principal and interest in the amount of \$82,417 beginning on August 13, 2011.

Annual debt service payments of the installment purchase as of June 30, 2013 including \$13,091 of interest, are as follows:

| <u>Year Ending June 30</u> | <u>Principal</u> | <u>Interest</u> |
|--------------------------------|-------------------|------------------|
| 2014 | \$ 75 931 | \$ 6 486 |
| 2015 | 78 034 | 4 383 |
| 2016 | <u>80 195</u> | <u>2 222</u> |
| Total | <u>\$ 234 160</u> | <u>\$ 13 091</u> |

TOWN OF DUCK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2013

3. DETAIL NOTES ON ALL FUNDS - (Continued)

Installment Purchases - (Continued)

On January 9, 2013, the Town entered into an installment financing contract with Southern Bank and Trust Company in the amount of \$132,912 for the purchase of three vehicles. The interest rate is fixed at 1.49% per annum. The note requires the Town to pay three annual installments of principal in the amount of \$44,304 plus interest beginning on January 9, 2014.

Annual debt service payments of the installment purchase as of June 30, 2013 including \$3,961 of interest, are as follows:

| Year Ending <u>June 30</u> | <u>Principal</u> | <u>Interest</u> |
|-------------------------------|-------------------|-----------------|
| 2014 | \$ 44 304 | \$ 1 980 |
| 2015 | 44 304 | 1 320 |
| 2016 | <u>44 304</u> | <u>661</u> |
| | <u>\$ 132 912</u> | <u>\$ 3 961</u> |

Changes in Long-Term Debt -

| | <u>Balance June 30, 2012</u> | <u>Additions</u> | <u>Retirements</u> | <u>Balance June 30, 2013</u> | <u>Current Portion of Balance</u> |
|----------------------------|----------------------------------|-------------------|--------------------|----------------------------------|---------------------------------------|
| By Type of Debt: | | | | | |
| Installment purchases | \$ 4 925 794 | \$ 132 912 | \$ 624 968 | \$ 4 433 738 | \$ 636 902 |
| Compensated absences | <u>56 517</u> | <u>14 196</u> | <u>-</u> | <u>70 713</u> | <u>-</u> |
| | <u>\$ 4 982 311</u> | <u>\$ 147 108</u> | <u>\$ 624 968</u> | <u>\$ 4 504 451</u> | <u>\$ 636 902</u> |
| By Purpose: | | | | | |
| General Government: | | | | | |
| Real property | \$ 4 583 333 | \$ - | \$ 516 667 | \$ 4 066 666 | \$ 516 667 |
| Compensated absences | 56 517 | 14 196 | - | 70 713 | - |
| Public Safety: | | | | | |
| Equipment | 236 174 | - | 56 646 | 179 528 | 58 216 |
| Vehicles | <u>106 287</u> | <u>132 912</u> | <u>51 655</u> | <u>187 544</u> | <u>62 019</u> |
| | <u>\$ 4 982 311</u> | <u>\$ 147 108</u> | <u>\$ 624 968</u> | <u>\$ 4 504 451</u> | <u>\$ 636 902</u> |

Legal Debt Margin - As of June 30, 2013, the Town has a legal debt margin of \$168,447,351.

TOWN OF DUCK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2013

3. DETAIL NOTES ON ALL FUNDS - (Continued)

Fund Balance

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

| | |
|--|---------------------|
| <i>Total fund balance-General Fund</i> | <i>\$ 2,544,202</i> |
| Less: | |
| Stabilization by State Statute | 343,855 |
| Appropriated Fund Balance in 2013 budget | 126,871 |
| Working Capital / Fund Balance Policy | 2,073,476 |
| Remaining Fund Balance | 0 |

The Town of Duck has 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 75% of the previous fiscal year's general fund expenditures.

The outstanding encumbrances are amounts needed to pay any commitments related to purchase orders and contracts that remain unperformed at year-end.

| | | |
|---------------------|--|---------------------|
| <i>Encumbrances</i> | | <i>General Fund</i> |
| | | \$0 |

4. SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES

Federal and State Assisted Programs

The Town has received proceeds from 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 moneys 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 moneys.

5. CHANGE IN ACCOUNTING PRINCIPLES/RESTATEMENT

The Town implemented Governmental Accounting Standards Board (GASB) Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and Statement 65, *Items Previously reported as Assets and Liabilities*, in the fiscal year ending June 30, 2013. In accordance with GASB Statement 63, the Statement of Net Assets has been replaced with the Statement of Net Position. Items on the Statement of Net Position are now classified into Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position. Additionally, GASB Statement 65 requires that deferred costs from the refunding of debt, which were previously deferred and amortized, be presented as deferred outflows of resources.

TOWN OF DUCK, NORTH CAROLINA

Supplementary Statements and Schedules

Town of Duck, North Carolina
General Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2013

| | <u>Budget</u> | <u>Actual</u> | <u>Variance Positive (Negative)</u> |
|---------------------------------|------------------|------------------|---|
| Revenues: | | | |
| Ad valorem taxes: | | | |
| Taxes | \$ 2,718,904 | \$ 2,705,037 | \$ (13,867) |
| Interest | - | 1,327 | 1,327 |
| Total | <u>2,718,904</u> | <u>2,706,364</u> | <u>(12,540)</u> |
| Other taxes and licenses: | | | |
| Land Transfer Tax | 183,085 | 194,261 | 11,176 |
| Occupancy tax | 887,879 | 942,649 | 54,770 |
| Total | <u>1,070,964</u> | <u>1,136,910</u> | <u>65,946</u> |
| Unrestricted intergovernmental: | | | |
| Local option sales taxes | 749,548 | 812,401 | 62,853 |
| Utility franchise tax | 214,000 | 196,205 | (17,795) |
| Beer and wine tax | 2,000 | 1,502 | (498) |
| ABC profit distribution | 45,000 | 46,457 | 1,457 |
| Total | <u>1,010,548</u> | <u>1,056,565</u> | <u>46,017</u> |
| Restricted intergovernmental: | | | |
| Local grants | - | 10,000 | 10,000 |
| State grants | 48,800 | 184,595 | 135,795 |
| Federal grants | 7,500 | 7,198 | (302) |
| Unauthorized substance tax | 18,739 | 18,740 | 1 |
| Total | <u>75,039</u> | <u>220,533</u> | <u>145,494</u> |
| Permits and fees: | | | |
| Building permits | 93,000 | 138,955 | 45,955 |
| Inspection fees | 28,000 | 43,775 | 15,775 |
| Other permits | 17,000 | 13,963 | (3,037) |
| Court costs and fees | - | 1,292 | 1,292 |
| Total | <u>138,000</u> | <u>197,985</u> | <u>59,985</u> |
| Investment earnings | - | 2,085 | 2,085 |
| Miscellaneous: | | | |
| Donations | - | 120 | 120 |
| Miscellaneous | 77,500 | 49,579 | (27,921) |
| Total | <u>77,500</u> | <u>49,699</u> | <u>(27,801)</u> |
| Total revenues | <u>5,090,955</u> | <u>5,370,141</u> | <u>279,186</u> |

Town of Duck, North Carolina
General Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2013

| | <u>Budget</u> | <u>Actual</u> | <u>Variance Positive (Negative)</u> |
|--------------------------------|------------------|------------------|---|
| Expenditures: | | | |
| General government: | | | |
| Governing Body: | | | |
| Salaries and employee benefits | | 24,814 | |
| Insurance | | 63,640 | |
| Professional services | | 35,085 | |
| Other operating expenditures | | 34,120 | |
| Capital outlay | | - | |
| Total | <u>158,000</u> | <u>157,659</u> | <u>341</u> |
| Administration: | | | |
| Salaries and employee benefits | | 313,095 | |
| Professional services | | 3,465 | |
| Supplies and materials | | 13,201 | |
| Other operating expenditures | | 76,656 | |
| Capital outlay | | - | |
| Total | <u>403,178</u> | <u>406,417</u> | <u>(3,239)</u> |
| Finance: | | | |
| Subsidies and allocations | <u>42,500</u> | <u>40,609</u> | <u>1,891</u> |
| Legal: | | | |
| Professional services | <u>68,500</u> | <u>66,243</u> | <u>2,257</u> |
| Public Buildings: | | | |
| Supplies and materials | | 2,635 | |
| Other operating expenditures | | 61,697 | |
| Boardwalk repairs | | 7,702 | |
| Debt service | | 306,012 | |
| Capital Outlay | | 4,461 | |
| Total | <u>382,812</u> | <u>382,507</u> | <u>305</u> |
| Information Technology: | | | |
| Subsidies and allocations | | 27,161 | |
| Fixed charges | | 29,078 | |
| Cable access channel | | 31,836 | |
| Other operating expenditures | | 2,771 | |
| Capital outlay | | - | |
| Total | <u>91,000</u> | <u>90,846</u> | <u>154</u> |
| Total general government | <u>1,145,990</u> | <u>1,144,281</u> | <u>1,710</u> |

Town of Duck, North Carolina
General Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2013

| | <u>Budget</u> | <u>Actual</u> | <u>Variance Positive (Negative)</u> |
|-----------------------------------|------------------|------------------|---|
| Public safety: | | | |
| Police: | | | |
| Salaries and employee benefits | | 680,401 | |
| Police supplies and materials | | 38,123 | |
| Vehicle maintenance and operation | | 58,604 | |
| Other operating expenditures | | 75,746 | |
| Capital outlay | | 123,452 | |
| Debt service | | 74,588 | |
| Total | <u>1,041,560</u> | <u>1,050,914</u> | <u>(9,354)</u> |
| Fire: | | | |
| Salaries and employee benefits | | 430,232 | |
| Other operating expenditures | | 52,761 | |
| Capital outlay | | 41,990 | |
| Debt service | | 42,857 | |
| Fire Protection contract | | 195,000 | |
| Total | <u>763,632</u> | <u>762,840</u> | <u>792</u> |
| Inspections: | | | |
| Salaries and employee benefits | | 131,426 | |
| Supplies and maintenance | | 2,320 | |
| Other operating expenditures | | 10,517 | |
| Total | <u>143,772</u> | <u>144,263</u> | <u>(491)</u> |
| Rescue units: | | | |
| Ocean rescue | | 277,500 | |
| Total | <u>277,500</u> | <u>277,500</u> | <u>-</u> |
| Total public safety | <u>2,226,464</u> | <u>2,235,517</u> | <u>(9,053)</u> |
| Transportation: | | | |
| Streets: | | | |
| Temporary services | | 55,409 | |
| Professional services | | 150 | |
| Repairs and maintenance | | 10,275 | |
| Supplies and materials | | 1,776 | |
| Utilities | | 8,193 | |
| Other operating expenditures | | 1,014 | |
| Total transportation | <u>77,000</u> | <u>76,817</u> | <u>183</u> |

Town of Duck, North Carolina
General Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2013

| | <u>Budget</u> | <u>Actual</u> | <u>Variance Positive (Negative)</u> |
|---|-------------------|------------------|---|
| Environmental protection: | | | |
| Solid waste: | | | |
| Subsidies and allocations | | 941,282 | |
| Dune preservation | | 91,536 | |
| Total environmental protection | <u>1,036,592</u> | <u>1,032,818</u> | <u>3,774</u> |
| Economic and physical development: | | | |
| Planning and Zoning | | | |
| Salaries and employee benefits | | 157,188 | |
| Professional services | | 30,068 | |
| Repairs and maintenance | | 7,473 | |
| Supplies and materials | | 5,883 | |
| Other operating expenditures | | 31,415 | |
| Capital outlay | | - | |
| Total economic and physical development | <u>231,226</u> | <u>232,027</u> | <u>(801)</u> |
| Parks | | | |
| Salaries and employee benefits | | - | |
| Temporary help services | | 54,652 | |
| Supplies and materials | | 3,898 | |
| Other operating expenditures | | 110,817 | |
| Capital outlay -park development | | - | |
| Debt service | | 363,180 | |
| | <u>532,680</u> | <u>532,547</u> | <u>133</u> |
| Total expenditures | <u>5,249,952</u> | <u>5,254,007</u> | <u>(4,054)</u> |
| Revenues over (under) expenditures | <u>(158,997)</u> | <u>116,134</u> | <u>275,131</u> |
| Other financing sources (uses): | | | |
| Transfers to other funds: | | | |
| Public Buildings Fund | - | - | - |
| Sale of capital assets | 31,766 | 34,266 | 2,500 |
| Fund Balance Appropriated | (5,562) | - | 5,562 |
| Installment purchase obligations issued | 132,912 | 132,912 | - |
| Contingency | (119) | - | 119 |
| Total | <u>\$ 158,997</u> | <u>167,178</u> | <u>\$ 8,181</u> |

Town of Duck, North Carolina
General Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2013

| | <u>Budget</u> | <u>Actual</u> | <u>Variance Positive (Negative)</u> |
|---|---------------|---------------------|---|
| Revenues and other financing sources over expenditures and other financing uses | <u>\$ -</u> | 283,312 | <u>\$ 283,312</u> |
| Fund balances, beginning | | <u>2,260,890</u> | |
| Fund balances, ending | | <u>\$ 2,544,202</u> | |

Town of Duck, North Carolina
Analysis of Current Tax Levy
Town - Wide Levy
For the Fiscal Year Ended June 30, 2013

| Fiscal Year | Uncollected Balance June 30, 2012 | Additions | Collections | Pickups & Adjustments | Uncollected Balance June 30, 2013 |
|-------------|---|---------------------|---------------------|--------------------------|---|
| | \$ - | \$ 2,693,793 | \$ 2,698,575 | \$ 8,291 | \$ 3,509 |
| 2011-2012 | 7,085 | - | 6,261 | (742) | 82 |
| 2010-2011 | 168 | - | 141 | - | 27 |
| 2009-2010 | 112 | - | 37 | - | 75 |
| 2008-2009 | 40 | - | 2 | - | 38 |
| 2007-2008 | 99 | - | 17 | - | 82 |
| 2006-2007 | 185 | - | - | - | 185 |
| 2005-2006 | 73 | - | - | - | 73 |
| 2004-2005 | 280 | - | - | - | 280 |
| 2003-2004 | 263 | - | - | - | 263 |
| | <u>\$ 8,305</u> | <u>\$ 2,693,793</u> | <u>\$ 2,705,033</u> | <u>\$ 7,549</u> | <u>\$ 4,614</u> |

Reconciliation with revenues:

| | |
|----------------------------------|---------------------|
| Ad valorem taxes - General Fund | \$ 2,706,364 |
| Reconciling items: | |
| Interest and penalties collected | (1,327) |
| Total collections and credits | <u>\$ 2,705,037</u> |

Town of Duck, North Carolina
Analysis of Current Tax Levy
Town - Wide Levy
For the Fiscal Year Ended June 30, 2013

| | Town - Wide | | Total Levy | | |
|---|--------------------------------|-------|------------------|--|---------------------------------|
| | Property Valuation | Rate | Total Levy | Property excluding Registered Motor Vehicles | Registered Motor Vehicles |
| Original levy: | | | | | |
| Property taxed at current and Registered motor vehicles taxed at prior year's rate (same) | \$ 2,154,380,858 | 0.125 | \$ 2,692,950 | \$ 2,683,286 | \$ 9,664 |
| Penalties | - | | 843 | 843 | - |
| Total | <u>2,154,380,858</u> | | <u>2,693,793</u> | <u>2,684,129</u> | <u>9,664</u> |
| Adjustments: | | | | | |
| Discoveries | 6,691,960 | 0.125 | 8,365 | 8,365 | - |
| Releases/Abatements | (59,200) | 0.125 | (74) | (73) | (1) |
| Adjustments | <u>-</u> | | <u>-</u> | <u>-</u> | <u>-</u> |
| Total property valuation | <u><u>\$ 2,161,013,618</u></u> | | <u>8,291</u> | <u>8,292</u> | <u>(1)</u> |
| Net levy | | | 2,702,084 | 2,692,421 | 9,663 |
| Uncollected taxes at June 30, 2012 | | | <u>(3,509)</u> | <u>(2,941)</u> | <u>(568)</u> |
| Current year's taxes collected | | | <u>2,698,575</u> | <u>2,689,480</u> | <u>9,095</u> |
| Current levy collection percentage | | | <u>99.87%</u> | <u>99.88%</u> | <u>94.12%</u> |



**JOHNSON, BURGESS,
MIZELLE & STRAUB, LLP**
CERTIFIED PUBLIC ACCOUNTANTS

Partners:
Debbie J. Burgess, CPA
Richard B. Mizelle, Jr., CPA
Richard D. Straub, CPA, PC
Lisa S. Murphy, CPA, PC

To the Board of the
Town of Duck
Duck, North Carolina

In planning and performing our audit of the financial statements of the Town of Duck as of and for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United State of America, we considered the Town's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatement 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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies have been identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses. We did not identify any deficiencies that were considered significant. We did however, note some items that we felt management should consider.

The Town has been performing monthly reconciliation process for their liabilities and we recommend that the Town continue to examine the balance sheet items part of a monthly reconciliation process during the year.

The Town administers a single-employer defined benefit pension plan that provides retirement benefits to the Town's qualified sworn law enforcement officers. The Law Enforcement Officers Special Separation Allowance covers all full time law enforcement officers of the Town. The Town is required by State Statue to provide these retirement benefits and has chosen to fund the benefit payments on a pay as you go basis through appropriation made in the General Fund operating budget. The Town has not had an actuarial study done for this plan since December, 2005. We again recommend that the Town consider having another actuarial study done to determine the Town's liability in regards to this plan.

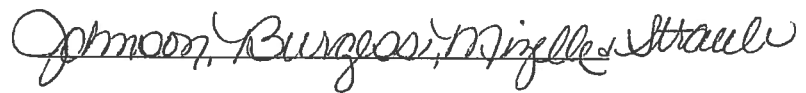
MEMBERS OF AICPA AND NCACPA

To the Board of the
Town of Duck
Duck, North Carolina
Page Two

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

JOHNSON, BURGESS, MIZELLE & STRAUB, LLP
Certified Public Accountants

Kitty Hawk, North Carolina
October 8, 2013

A handwritten signature in cursive script that reads "Johnson, Burgess, Mizelle & Straub". The signature is written in dark ink and is positioned to the right of the typed name.