

**TOWN OF DUCK,**  
**NORTH CAROLINA**  
**FINANCIAL STATEMENTS**  
**For the Year Ended**  
**June 30, 2017**

**Town Council Members**

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

**Administrative Staff**

Christopher Layton, Town Manager  
Lori Ackerman, Town Clerk

**TOWN OF DUCK, NORTH CAROLINA**

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## **FINANCIAL SECTION**



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, 2017, 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, 2017, and the respective changes in financial position 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 on pages 4 through 17, the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Asset (Liability) and Contributions, on pages 50 through 51, respectively, and the Law Enforcement Officers' Special Separation Allowance schedules of the Changes in Total Pension Liability and Total Pension Liability as a Percentage of Covered Payroll on pages 52 and 53 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 purposed 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.

**JOHNSON, MIZELLE, STRAUB & MURPHY, LLP**  
Certified Public Accountants

*Johnson, Mizelle, Straub & Murphy, LLP*

Kitty Hawk, North Carolina  
October 26, 2017



## Management's Discussion and Analysis

As management of the Town of Duck, North Carolina, 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, 2017. 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 \$19,995,430 (*net position*).
- The government's total net position increased by \$7,330,107, primarily due taxes collected but unexpended to fund debt incurred as a part of the Town's Beach Nourishment Project and capital grants associated with the Beach Nourishment Project.
- As of the close of the current fiscal year, the Town of Duck's governmental funds reported combined ending fund balances of \$7,848,074 with a net decrease of \$4,781,055 in fund balance from FY 2016. This decrease is due to the expenditure of Special Obligation Bonds related to the Town's Beach Nourishment Project. Approximately 36% of this total amount, or \$2,821,166, is non-spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$5,026,908, or 83% of total general fund expenditures for the fiscal year.
- The Town of Duck's total debt increased by \$9,918 (.009%) during the fiscal year. The key factors in this increase were personnel related liabilities (compensated absences and net pension obligations) that were offset partially by decreases in installment purchases. The Town did not enter into any additional debt during the fiscal year and retired \$584,070 in debt associated with installment purchase contracts during the fiscal year.
- As has been alluded to above, during the fiscal year the Town neared completion of a beach nourishment capital project with a budget of \$14,057,929. As of June 30, 2017, \$11,760,527 had been expended on the project, with revenue derived from Special Obligation Bonds previously issued by the Town in the amount of \$6,963,000, interest on those bonds, \$9,629, and restricted intergovernmental revenue from Dare County in the amount of \$4,871,529.

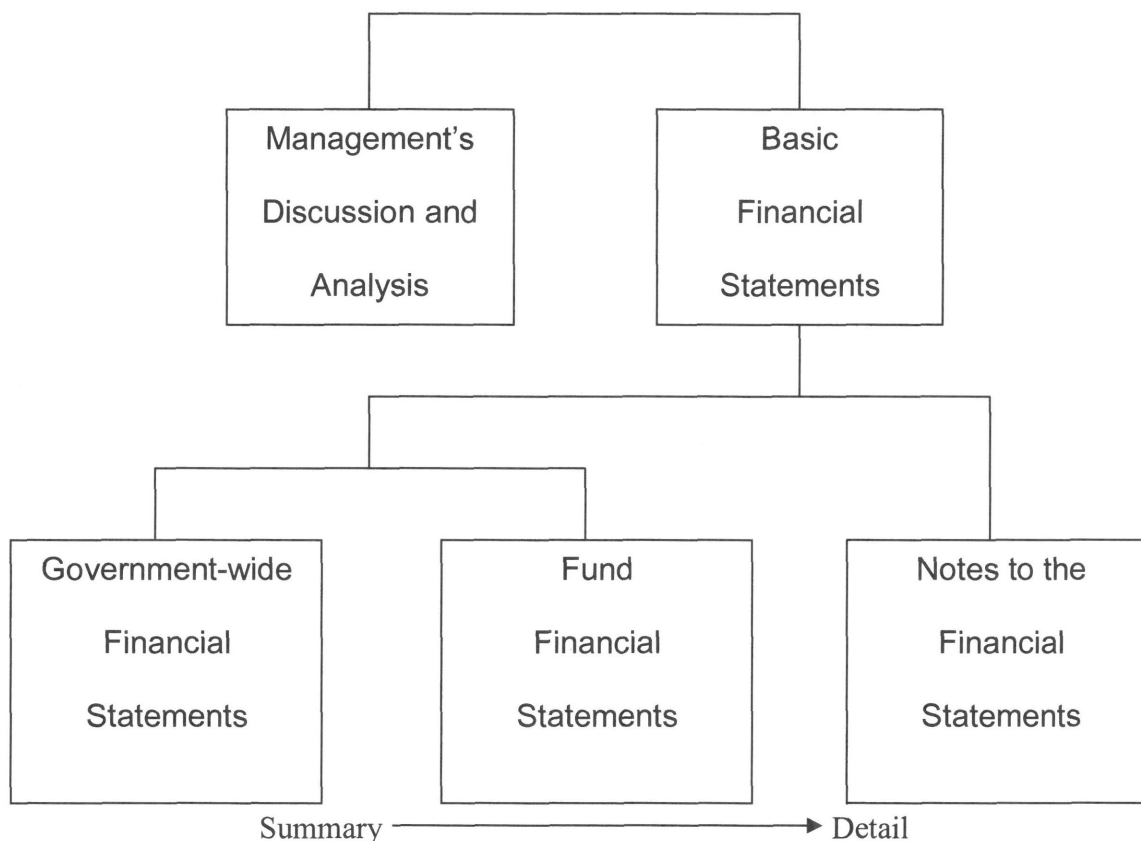
### Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the 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 North Carolina General Statutes also can be found in this part of the statements.

### **Government-Wide Financial Statements**

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

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

The government-wide statements are divided into 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 recreation, 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 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. For the fiscal year ended June 30, 2017, the Town has three governmental funds; the general fund, capital reserve fund, and the Beach Nourishment Capital Project Fund. The capital reserve fund is combined in the general fund in the fund statements.

**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

Management Discussion and Analysis  
Town of Duck, North Carolina

give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Town's programs. The relationship between government activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The Town of 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	
	2017	2016
Current and other assets	\$ 11,508,184	\$ 12,744,181
Capital assets	21,831,786	10,252,932
Deferred Outflows of Resources	579,995	102,581
Total assets and deferred outflows of resources	33,919,965	23,099,694
Long-term liabilities outstanding	9,526,616	9,518,646
Other liabilities	4,269,032	745,143
Deferred Inflows of Resources	128,887	152,163
Total liabilities and deferred inflows of resources	13,924,535	10,415,952
Net position:		
Net investment in capital assets related debt	12,731,691	7,454,076
Restricted	2,814,224	1,656,988
Unrestricted	4,449,515	3,572,678
Total net position	\$ 19,995,430	\$ 12,683,742

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 \$19,995,430 as of June 30, 2017. The Town's net position increased by \$7,330,107 over the fiscal year ended June 30, 2017. However, the largest portion (64%) 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, \$2,814,224, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$4,449,515 is unrestricted.



Management Discussion and Analysis  
Town of Duck, North Carolina

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

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 99.63% (99.62% property excluding registered motor vehicles; 100% for registered motor vehicles).
- Increase in Ad Valorem Taxes of \$17,956.
- Increased Utility Franchise Tax of \$7,467.
- Increased sales tax revenues of \$328,489.
- Increased land transfer tax revenues of \$57,188.
- Increased occupancy tax revenues of \$281,931.
- Combined increase in building related permit fees of \$17,731.
- Unexpended appropriated fund balance, \$339,857.

(continued on next page)

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

	<b>Governmental Activities</b>	
	<b>2017</b>	<b>2016</b>
Revenues:		
Program revenues:		
Charges for services	\$ 149,568	\$ 167,491
Operating grants and contributions	85,016	31,016
Capital grants and contributions	4,881,529	610,977
General revenues:		
Property taxes	4,354,955	4,321,661
Other taxes	3,487,183	2,815,637
Grants and contributions not restricted to specific programs	33,148	9,999
Other	83,419	105,662
Total revenues	<u>13,074,818</u>	<u>8,062,443</u>
Expenses:		
General government	1,104,830	940,058
Public safety	2,602,203	2,399,679
Transportation	189,163	367,195
Environmental protection	1,136,637	1,015,833
Economic and physical development	212,909	205,406
Parks	422,444	413,503
Interest on long-term debt	76,525	94,889
Total expenses	<u>5,744,711</u>	<u>5,436,563</u>
Increase in net position	7,330,107	2,625,880
Net position previously reported	12,683,742	9,643,241
Restatement	(18,419)	414,621
Net position, beginning (restated)	<u>12,665,323</u>	<u>10,057,862</u>
Net position, ending	<u>\$ 19,995,430</u>	<u>\$ 12,683,742</u>

**Governmental activities.** Governmental activities increased the Town's net position by \$7,330,107, thereby accounting for 58% of the total growth in the net position of the Town of Duck.

Key elements of this increase are as follows:

- Capital grants for the Town's Beach Nourishment Project were received from Dare County.
- Building permit fees remained steady.
- Ad valorem tax revenues increased, including revenues collected through two Municipal Service Districts (MSDs) established to provide funding for debt service related to the repayment of Special Obligation bonds for the Town's Beach Nourishment Project.
- Key revenue sources of sales, land transfer and occupancy taxes met and exceeded expected amounts due to conservative budget estimates.
- No major unexpected expenditures.

### **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. The Town is currently utilizing two governmental funds, the general fund and the Beach Nourishment Capital Project Fund. 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 \$5,026,908, while total fund balance reached \$7,848,074. 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 83% of general fund expenditures, while total fund balance represents 129% of the same amount. 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, 2017, the governmental funds of the Town of Duck reported a combined fund balance of \$7,848,074 with a net decrease of \$4,781,055 in fund balance from FY 2016. This decrease is due to the expenditure of Special Obligation Bonds related to the Town's Beach Nourishment Project. Offsetting a portion of the decrease in fund balance is the continued net increase in fund balance attributable to ad valorem taxes collected from two MSDs established to assist in funding the debt service on the Special Obligation Bonds for the Town of Duck Beach Nourishment Project (\$1,221,697) and \$876,617 in net increases in ad valorem, sales, land transfer, occupancy taxes, utility franchise tax, and building permit related revenues and unexpended appropriated fund balance.

**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 2017 Budget five times during the budget year. These amendments included the appropriation of funding for grant funding for the Police Department's license plate reader project, engineering related to the implementation of the Comprehensive Pedestrian Plan, and FEMA reimbursement grants, as well as other miscellaneous amendments.

Revenues were greater than the budgeted amounts for FY 2017 primarily because the Town received ad valorem taxes, land transfer taxes, occupancy taxes, sales taxes, utility taxes and building permit related fees that were higher than budgeted amounts. Expenditures were generally held in check to comply with budgetary requirements and appropriated fund balance was not expended. There were two minor instances of expenditures exceeding budgeted amounts, one in Information Technology (\$1,739) and one in the Police Department (\$1,551).

## Capital Asset and Debt Administration

**Capital assets.** The Town of Duck's investment in capital assets for its governmental activities as of June 30, 2017, totals \$21,831,786 (net of accumulated depreciation). These assets include buildings, land, beach nourishment/protection, stormwater infrastructure, machinery and equipment, park facilities and vehicles.

Major capital asset transactions during the year include the following:

- The construction of beach nourishment/protection project with a construction in progress amount of \$11,760,527.
- The construction of a general purpose garage/shed in the amount of \$25,691.
- The purchase of one police vehicle in the amount of \$39,743.
- The purchase of equipment for the Police Department's license plate reader project in the amount of \$34,636.
- Stormwater improvements in the amount of \$127,480.

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

	Governmental Activities	
	2017	2016
Land	\$ 6,187,436	\$ 6,187,436
Buildings and systems	1,924,978	1,988,106
Improvements other than buildings	-	-
Equipment and furniture	112,799	108,071
Infrastructure	987,382	1,069,569
Vehicles and motorized equipment	190,326	231,412
Construction in progress	12,428,865	668,338
Total	<u>\$ 21,831,786</u>	<u>\$ 10,252,932</u>

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

**Long-term Debt.** As of June 30, 2017, the Town of Duck had total debt outstanding of \$10,111,217. Of this, \$2,137,095 is debt in the form of installment purchase contracts and \$6,963,000 is in bonds to

fund the beach nourishment project. The remainder of the Town's debt represents compensated absences and net pension obligations for general government staff and law enforcement officers.

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

	Governmental Activities	
	2017	2016
Installment Purchase Contracts	\$ 2,137,095	\$ 2,721,165
Bonded Debt	6,963,000	6,963,000
Compensated Absences	80,031	66,235
Net Pension Obligation (LGRS)	713,741	169,420
Net Pension Obligation (LEO)	217,350	182,896
Total	<u>\$ 10,111,217</u>	<u>\$ 10,102,716</u>

**Town of Duck's Outstanding Debt**

The Town of Duck's total debt increase by \$9,918 (.009%) during the past fiscal year, primarily due to compensated absences (\$13,796), pension obligations (\$544,321) and law enforcement separation allowance (\$16,035). The Town retired \$584,070 in installment purchase debt during the fiscal year.

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 \$118,578,428.

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.

**Budget Highlights for the Fiscal Year Ending June 30, 2018**

**FY 2018 REVENUE REVIEW**

The FY 2018 Budget represents an overall 35% increase in revenues from the FY 2017 Budget. This increase is due to a transfer from the Capital Reserve – Beach Fund of \$1,255,030, a fund balance

## Management Discussion and Analysis

### Town of Duck, North Carolina

transfer of \$450,000, and debt proceeds of \$160,000. When adjusted to account for these revenues, the FY 2018 budget increase is 13%. This increase is a result of grants from the Dare County Tourism Board (\$453,887) and Shoreline Grants (\$294,224), combined with increases in shared revenues (sales, transfer and occupancy taxes), which each contribute to the large revenue increase. Ad Valorem revenues remain significantly higher than in previous years due to the continued implementation of two Municipal Service Districts (MSDs) to assist in funding the Town's Beach Nourishment Project. These two MSDs will generate \$981,978, with MSD-A generating \$633,529 and MSD-B generating \$348,449. This revenue will be transferred to a Capital Reserve - Beach Fund and will not pay for any General Fund expenditures. Other revenue sources not listed above are expected to remain virtually unchanged, with a few minor changes. The paragraphs below elaborate on the revenues for the FY 2018 Budget.

#### Ad Valorem Taxes

Ad valorem revenues are derived from taxes placed on the property in the Town, this includes real property, personal and business property and motor vehicles. All ad valorem taxes are established by the ad valorem tax rate applied to each \$100 of the assessed value of applicable taxable property. For FY 2018, it is anticipated that the assessed values in the Town will increase by a modest 0.25%, resulting in a 1% increase in general ad valorem revenues when compared to the FY 2017 Budget. As was noted above, effective July 1, 2016, the Town implemented two MSDs to generate revenue to assist in funding debt service payments on the Town's Beach Nourishment Project. MSD-A applies to all properties in the project area and is expected to generate \$633,529 through an additional ad valorem tax rate of \$0.148. MSD-B applies only to oceanfront properties in the project area and is expected to generate \$348,449 through an additional ad valorem tax rate of \$0.315. The MSDs will remain in place until FY 2020 after which they will be re-evaluated.

#### Shared Revenues

Shared revenues (sales, occupancy, and land transfer taxes) are expected to increase by 6.3% for FY 2018 when compared to the FY 2017 Budget. This increase in shared revenues is the result of the implementation of the two MSDs in FY 2016, which increased the Town's overall tax levy, in conjunction with decreases with the Town of Nags Head's MSD levy in FY 2017, combined, these changes result in an increase in the percentage of shared revenues applied For FY 2018. In FY 2017 the Town of Duck received 14.24% of the occupancy and land transfer taxes returned to the Dare County Towns and 4.59% of sales tax revenues. For FY 2018 these percentages are expected to increase to 14.8% of occupancy and land transfer tax revenues and 4.61% of sales tax revenues. All three shared revenue sources are expected to be strong for FY 2018, with no increase (but no decrease) in gross occupancy tax revenues, an estimated increase in gross land transfer tax revenues of 3%, and a 0.5% increase in estimated gross sales tax revenues expected.

#### Other Revenue Sources

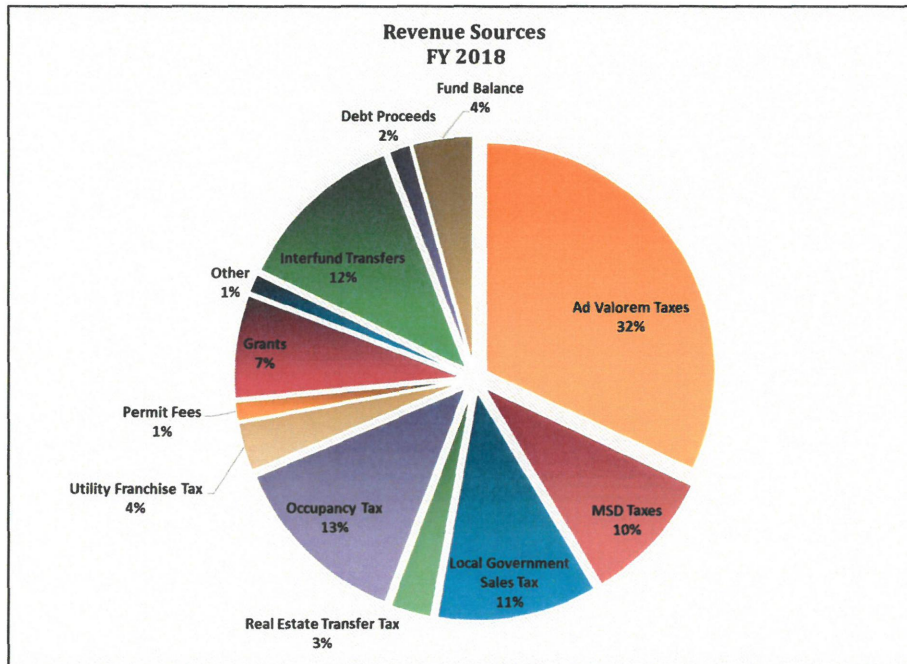
Of the remaining revenue sources of the Town, all are expected to be the same or slightly above or below, in FY 2018 as was budgeted for in FY 2017, except for Restricted Intergovernmental (grants) which are expected to be significantly higher than FY 2017 and Unrestricted Intergovernmental Revenue, specifically the Utility Franchise Tax, which is expected to be higher than FY 2017. Building related permits and fees are expected to remain strong in FY 2017. Miscellaneous revenues are expected to be equal to those generated in FY 2017.



### Interfund Transfers, Debt Proceeds, Appropriated Fund Balance

For FY 2018, the Town of Duck is expected to enter into an installment purchase contract for the purchase of four replacement vehicles (\$160,000). In addition, an interfund transfer will be made from the Capital Reserve – Beach Fund to pay for debt and other costs associated with the Town's Beach Nourishment Project (\$1,255,030). Lastly, \$450,000 will be appropriated from the unassigned fund balance to pay for design of the replacement Public Safety Building.

### Revenue Sources



As is shown in the accompanying chart, most of the Town of Duck's revenues are derived from ad valorem taxes and MSD taxes (52%). Shared revenues make up 27% of the Town's revenues with proceeds from the occupancy tax comprising 13% of revenues, sales tax 11% and land transfer tax 3%. Interfund transfers account for 12% of revenues. The Utility Franchise Tax and appropriated fund balance comprise 4% of revenues, respectively; Debt proceeds 2%, and permit fees and other revenues 1%.

### FY 2018 EXPENDITURE REVIEW

Overall, expenditures for the FY 2018 Budget are expected to increase 35% when compared to the FY 2017 Budget. This increase is due to several major projects or initiatives, including:

- engineering and architectural fees for the new Public Safety Building (\$450,000);
- the addition of one new police officer position (\$57,515);
- the addition of the community resource officer part-time equivalent position (\$23,868);
- funding for Phase I of the Comprehensive Pedestrian Plan Improvements (\$987,623); and
- debt service on the Town of Duck Beach Nourishment Project (\$1,491,614).

The FY 2018 Budget also includes several initiatives and projects in addition to those listed above and employee and operations costs. Among these are the following, which are elaborated upon in the individual departmental pages:

- funding for replacement iPads for Council (\$2,400);
- funding for four replacement iPads and one replacement computer in Administration (\$4,000);

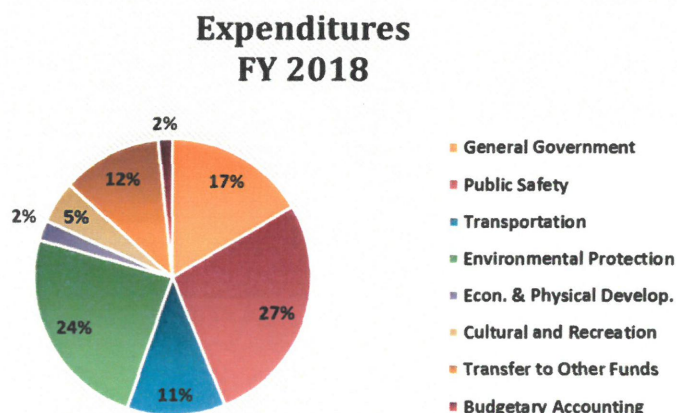
Management Discussion and Analysis  
Town of Duck, North Carolina

- funding to outfit the new police officer with radios, gear and weapons (\$13,081);
- funding for a replacement desktop for the Police Department (\$2,200);
- additional part-time firefighter position funding (\$32,000);
- funding for replacement of a computer for the Inspections Department (\$2,000);
- contingency funding (\$75,000);
- direct appropriation to the fund balance of (\$94,097); and
- transfer to the Beach Capital Reserve Fund related to the Beach Nourishment Project (\$1,221,390).

In addition, the FY 2018 Budget also includes funding for the following Capital Improvements Program (CIP) items. These items include the following:

- last debt service payment for the purchase of the Town Park property (\$310,530);
- debt service for the construction of the Town Hall Complex, including the purchase of the property on which it sits (\$271,237);
- funding for boardwalk repairs (\$10,000);
- repairs to the Public Safety Building (\$20,000);
- replacement of 800 MHz radios (\$16,500);
- purchase of additional Advanced License Plate Reader (\$17,500);
- two replacement and one new police patrol vehicle (\$129,000);
- debt service on the purchase of police patrol vehicles (\$42,249);
- replacement of SCBA bottles for the Fire Department (\$10,000);
- replacement of Fire Department turnout gear (\$13,000);
- purchase of additional hose for the Fire Department (\$4,000);
- debt service on a fire department command vehicle (\$14,083);
- debt service on Engine 111 replacement (\$57,722);
- purchase of extrication equipment for the Fire Department (\$7,000);
- debt service on the Inspections vehicle (\$14,083);
- funding for enhanced dune planting/fencing and fertilization (\$75,000); and
- funding for the repaving of the Duck Trail (\$120,000).

### Where the Revenue Goes



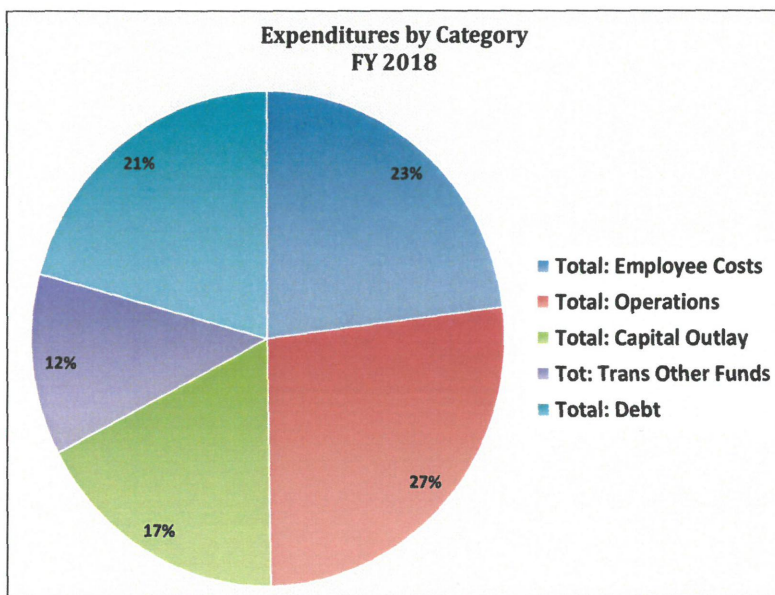
The Town of Duck uses its revenue sources to fund a variety of services. For FY 2018, much of the Town's revenues (27%) are used to fund Public Safety related expenditures. Public Safety expenditures include the Police and Fire Departments, Building Inspections, and Ocean Rescue. Environmental Protection expenditures, i.e. residential and commercial solid waste collection and disposal and recycling and costs related to beach protection, including the debt service on



Management Discussion and Analysis  
Town of Duck, North Carolina

the Town of Duck Beach Nourishment Project, are next at 24%. 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 17% and Transfers to Other Funds at 12% which is revenue being transferred to the Beach Fund. Transportation, i.e. those items related to the Town's streets and the Duck Trail, including Phase I of the Comprehensive Pedestrian Plan Improvements comprise 11% of expenditures, while Cultural and Recreational (the Town Park, including debt service on the property) is next at 5%. Rounding out the list are expenditures related to Budgetary Accounting (contingency and fund balance) and Economic and Physical Development (the Department of Community Development) at 2%.

**Expenditures by Categories**



For FY 2018, 27% of Town's expenditures fund general operations, 23% fund employee costs, 21% funds debt, 17% funds capital outlay and 12% is a transfer to the Beach Fund.

The Town of Duck currently employs 25 full-time employees and one part time equivalent employee. For FY 2018, an additional police officer and community resource officer (part-time) is recommended, bringing the total number of employees to 27. A 1.5% merit increase for all current employees is budgeted plus a merit bonus of up to an additional 1.5%, as well as a 10% increase for medical insurance.

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](mailto:clayton@townofduck.com).

## **BASIC FINANCIAL STATEMENTS**

**Town of Duck  
Statement of Net Position  
June 30, 2017**

**Exhibit 1**

	<u>Primary Government</u>
	<u>Governmental Activities</u>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 5,148,087
Taxes receivables (net)	15,887
Due from other governments	560,716
Restricted cash and cash equivalents	5,783,494
Total current assets	<u>11,508,184</u>
Non-current assets:	
Capital assets (Note 1):	
Land, non-depreciable improvements, and construction in progress	18,616,301
Other capital assets, net of depreciation	3,215,485
Total capital assets	<u>21,831,786</u>
Total assets	<u>\$ 33,339,970</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Pension deferrals	579,995
Total deferred outflows of resources	<u>579,995</u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	\$ 3,644,223
Accrued interest payable	40,208
Current portion of long-term liabilities	1,977,201
Long-term liabilities:	
Net pension liability	713,741
Total pension liability - LEO	217,350
Due in more than one year	7,202,925
Total liabilities	<u>13,795,648</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Pension deferrals	128,887
Total deferred inflows of resources	<u>128,887</u>
<b>NET POSITION</b>	
Net investment in capital assets	12,731,691
Restricted for:	
Stabilization by state statute	494,075
Capital reserve fund	2,320,149
Unrestricted	4,449,515
Total net position	<u>\$ 19,995,430</u>

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

Town of Duck, North Carolina  
Statement of Activities  
For the Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues			Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Primary government:					
Governmental Activities:					
General government	\$ 1,104,830	\$ -	\$ 6,000	\$ 4,881,529	\$ 3,782,699
Public safety	2,602,203	149,568	25,339	-	(2,427,296)
Transportation	189,163	-	-	-	(189,163)
Economic and physical development	212,909	-	-	-	(212,909)
Environmental protection	1,136,637	-	53,677	-	(1,082,960)
Parks	422,444	-	-	-	(422,444)
Interest on long-term debt	76,525	-	-	-	(76,525)
Total governmental activities (See Note 1)	5,744,711	149,568	85,016	4,881,529	(628,598)
Total primary government	\$ 5,744,711	\$ 149,568	\$ 85,016	\$ 4,881,529	(628,598)
General revenues:					
Taxes:					
Property taxes, levied for general purpose					4,354,955
Other taxes					3,487,183
Unrestricted investment earnings					33,148
Miscellaneous					83,419
Total general revenues and transfers					7,958,705
Change in net position					7,330,107
Net position, beginning, previously reported					12,683,742
Restatement					(18,419)
Net position, beginning, restated					12,665,323
Net position, ending					\$ 19,995,430

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

**Town of Duck  
Balance Sheet  
Governmental Funds  
June 30, 2017**

	<b>Major Funds</b>		<b>Total Governmental Funds</b>
	<b>General</b>	<b>Beach Nourishment</b>	
<b>ASSETS</b>			
Cash and cash equivalents	\$ 5,148,087	\$ -	\$ 5,148,087
Receivables, net:			
Taxes	15,887	-	15,887
Due from other governments	489,086	71,630	560,716
Due from other funds	4,989	-	4,989
Restricted cash and cash equivalents	2,320,149	3,463,345	5,783,494
Total assets	<u>7,978,198</u>	<u>\$ 3,534,975</u>	<u>11,513,173</u>
<b>LIABILITIES</b>			
Accounts payable and accrued liabilities	\$ 121,179	\$ 3,523,044	\$ 3,644,223
Due to other funds	-	4,989	4,989
Total liabilities	<u>121,179</u>	<u>3,528,033</u>	<u>3,649,212</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Property taxes receivable	15,887	-	15,887
Total deferred inflows of resources	<u>15,887</u>	<u>-</u>	<u>15,887</u>
<b>FUND BALANCES</b>			
Restricted:			
Stabilization by State Statute	494,075	-	494,075
Capital reserve fund	2,320,149	-	2,320,149
Committed:			
Capital projects	-	6,942	6,942
Unassigned	5,026,908	-	5,026,908
Total fund balances	<u>7,841,132</u>	<u>6,942</u>	<u>7,848,074</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 7,978,198</u>	<u>\$ 3,534,975</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.	21,831,786
Contributions to the pension plan in the current fiscal year are deferred outflows of resources on the Statement of Net Position	579,995
Liabilities for earned revenues considered deferred inflows of resources in fund statements.	15,887
Long-term liabilities used in governmental activities are not financial uses and therefore not reported in the funds	(9,180,126)
Net pension liability	(713,741)
Total pension liability - LEO	(217,350)
Pension related deferrals	(128,887)
Other long-term liabilities (accrued interest) are not due and payable in the current period and therefore are not reported in the funds.	(40,208)
Net position of governmental activities	<u>\$ 19,995,430</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, 2017**

	Major Funds		Total Governmental Funds
	General Fund	Beach Nourishment	
<b>REVENUES</b>			
Ad valorem taxes	\$ 4,342,327	\$ -	\$ 4,342,327
Other taxes and licenses	1,692,425	-	1,692,425
Unrestricted intergovernmental	1,794,758	-	1,794,758
Restricted intergovernmental	95,016	4,871,529	4,966,545
Permits and fees	149,568	-	149,568
Investment earnings	23,519	9,629	33,148
Miscellaneous	83,419	-	83,419
Total revenues	8,181,032	4,881,158	13,062,190
<b>EXPENDITURES</b>			
Current:			
General government	971,688	-	971,688
Public safety	2,483,458	-	2,483,458
Transportation	158,369	-	158,369
Environmental protection	1,136,637	-	1,136,637
Economic and physical development	214,048	-	214,048
Parks	221,301	-	221,301
Debt service			
Principal	584,070	-	584,070
Interest	85,597	-	85,597
Capital outlay	227,550	11,760,527	11,988,077
Total expenditures	6,082,718	11,760,527	17,843,245
Excess (deficiency) of revenues over expenditures	2,098,314	(6,879,369)	(4,781,055)
<b>OTHER FINANCING SOURCES</b>			
Excess (deficiency) of revenues over expenditures and net change in fund balance	2,098,314	(6,879,369)	(4,781,055)
Fund balances, beginning	5,742,818	6,886,311	12,629,129
Fund balances, ending	\$ 7,841,132	\$ 6,942	\$ 7,848,074

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, 2017**

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

Net changes in fund balances - total governmental funds	\$	(4,781,055)
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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

Capital outlay expenditures which were capitalized	\$ 11,988,074	
Depreciation expense for governmental assets	<u>(409,219)</u>	11,578,855

Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities	579,995
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Change in unavailable revenue for tax revenues	12,628
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The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Principal repayments	584,070	
Decrease in accrued interest payable	<u>9,072</u>	593,142

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.

Compensated absences	(13,797)	
Pension expense	(639,661)	
Net pension obligation	<u>-</u>	(653,458)

Total changes in net position of governmental activities	\$	<u>7,330,107</u>
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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, 2017**

	<b>General Fund</b>			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
Revenues:				
Ad valorem taxes	4,281,291	4,281,291	4,342,327	61,036
Other taxes and licenses	1,532,388	1,532,388	1,692,425	160,037
Unrestricted intergovernmental	1,476,017	1,476,017	1,794,758	318,741
Restricted intergovernmental	24,000	102,776	95,016	(7,760)
Permits and fees	140,200	140,200	149,568	9,368
Investment earnings	-	-	21,954	21,954
Miscellaneous	79,000	82,693	83,419	726
Total revenues	7,532,896	7,615,365	8,179,467	564,102
Expenditures:				
Current:				
General government	1,312,382	1,332,382	1,275,571	56,811
Public safety	2,548,151	2,637,634	2,628,252	9,382
Transportation	235,000	287,076	285,849	1,227
Environmental protection	1,133,028	1,167,298	1,136,637	30,661
Economic and physical development	218,056	218,056	214,048	4,008
Parks	528,060	542,660	542,361	299
Total expenditures	5,974,677	6,185,106	6,082,718	102,388
Revenues over (under) expenditures	1,558,219	1,430,259	2,096,749	666,490
Other financing sources (uses):				
Transfers from other funds	118,028	130,988	124,503	(6,485)
Transfers to other funds	(1,221,390)	(1,221,390)	(1,221,390)	-
Contingency	(75,000)	-	-	-
Fund Balance Appropriated	(379,857)	(339,857)	-	339,857
Total other financing sources (uses)	(1,558,219)	(1,430,259)	(1,096,887)	333,372
Revenues and other sources over (under) expenditures and other uses	\$ -	\$ -	999,862	\$ 999,862
Fund balances, beginning			4,521,121	
Fund balances, ending			<u>\$ 5,520,983</u>	
A legally budgeted Capital Reserve Fund is consolidated into the General Fund for reporting purposes:				
Investment Earnings			1,565	
Transfer from the General Fund			1,221,390	
Transfer to the General Fund			(124,503)	
Fund Balance, beginning			1,221,697	
Fund Balance, ending (Exhibit 4)			<u>\$ 7,841,132</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, 2017**

**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. Additionally, the Town has legally adopted a **Capital Reserve Fund**, a fund that is designated for future capital projects, and is consolidated in the General Fund.

**Beach Nourishment Capital Project Fund.** This fund accounts for the Town's activities for a beach nourishment project.

**TOWN OF DUCK, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2017**

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

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 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.

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

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

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

Sales taxes and certain intergovernmental revenues, such as the utilities, franchise tax, collected and held by the State at year-end on behalf of the Town are recognized as revenue. Sales taxes are considered a shared revenue for the Town because the tax is levied by Dare County and then remitted to and distributed by the State. Most intergovernmental revenues and sales and services

**TOWN OF DUCK, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2017**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

are not susceptible to accrual because generally they are not measurable until received in cash. All taxes, including those dedicated for specific purposes are reported as general revenues rather than program revenues. Under the terms of grant agreements the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then general revenues.

**D. BUDGETARY DATA**

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund. All annual appropriations lapse at fiscal-year end. Project ordinances are adopted for the Beach Nourishment Capital Projects Fund which is a general governmental fund capital project. 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 and at the project level for multi-year funds. Amendments are required for any revisions that alter total expenditures of any department or project. 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 are reported at fair value. Non-participating interest earning contracts are accounted for at cost. The NCCMT - Government Portfolio, a SEC-registered (2a-7) external investment pool, is measured at amortized cost, which is the NCCMT's share price. The NCCMT - Term Portfolio's securities are valued at fair value.

**TOWN OF DUCK, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2017**

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

Cash and Cash Equivalents

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

Restricted Assets

The unexpended debt proceeds of the Beach Nourishment Capital Project Fund are classified as restricted assets because their use is completely restricted to the purpose for which the debt was originally issued. Money in the Capital Reserve Fund is also classified as restricted as its use is restricted to the Capital Reserve Fund per NC G. S. Chapter 159, Article 3, Part 2.

Town of Duck Restricted Cash:

Governmental Activities:

General Fund	Capital reserve fund	\$ 2 320 149
Beach Nourishment Project Fund	Unexpended bond proceeds	<u>3 463 345</u>
Total governmental activities		<u>5 783 494</u>

Total Restricted Cash \$ 5 783 494

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, 2016.

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.

Prepaid Items

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

**TOWN OF DUCK, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2017**

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

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. Donated capital assets received prior to June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. 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 has one item that meet this criterion, contribution made to the pension plan in the 2017 fiscal year. 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 has one item that meet the criterion for this category - deferrals of pension expense that result from the implementation of GASB Statement 68.

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.

Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bonds payable are reported

**TOWN OF DUCK, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2017**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

net of the applicable bond premiums or discount. Bond issuance costs, except for prepaid insurance costs, are expensed in the reporting period in which they are incurred.

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

**Compensated Absences**

The vacation policy of the Town provides for the accumulation of up to 240 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.

**TOWN OF DUCK, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2017**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

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

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

Restricted for Capital Reserve Fund - portion of fund balance that is restricted by State Statute [N.C.G.S. 159-18] for a legally adopted capital reserve fund which has been consolidated with the General Fund due to GASB 54. This amount represents capital reserve funds for use for beach nourishment project.

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 (highest level of decision-making authority). The governing body can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Committed for capital projects - portion of fund balance that is committed by action of the Governing Body for future capital projects.

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

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.

**TOWN OF DUCK, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2017**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

Pensions

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

**2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

For the fiscal year ended June 30, 2017, the expenditures made in the Town's General Fund exceeded the authorized appropriations made by the governing board for information technology by \$1,739 and police by \$1,551. These over-expenditures occurred because of an increase in communication expenditures and for police uniforms. Management and the Board will more closely review the budget reports 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. This risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town has no policy regarding custodial credit risk for deposits, but relies



**TOWN OF DUCK, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2017**

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

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, 2017, the Town's deposits had a carrying amount of \$6,277,487 and a bank balance of \$6,287,878. 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, 2017, the Town's investment balances were as follows:

Investments by Type	Valuation Measurement Method	Book Value at 6/30/17	Maturity	Rating
NC Capital Management Trust – Government Portfolio	Amortized Cost	\$3,650,121	N/A	AAAm
NC Capital Management Trust – Term Portfolio	Fair Value Level 1	\$1,003,974	.09 years	Unrated
Total		\$4,654,095		

All investments are measured using the market approach: using prices and other relevant information generated by market transactions involving identical or comparable assets or a group of assets.

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

*Interest Rate Risk:* The Town has no formal investment policy regarding interest rate risk.

*Credit Risk:* The Town has no formal policy regarding credit risk, but has internal management procedures that limit the Town's investments to provisions of G.S. 159-30 and restricts the purchase of securities to the highest possible ratings whenever particular types of securities are rated. The Town's investment in the NC Capital Management Trust Government Portfolio carried a credit rating of AAAm by Standard & Poor's as of June 30, 2017. The Town's investment in the NC Capital Management Trust Term Portfolio is unrated. The Term Portfolio is authorized to invest in obligations of the US government and agencies, and in high grade money market instruments as permitted under North Carolina G.S. 159-30 as amended.

**TOWN OF DUCK, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2017**

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

**Capital Assets**

**Primary Government**

Capital asset activity for the Primary Government for the year ended June 30, 2017 was as follows:

	Balance July 1, 2016	Additions	Adjustments/ Retirements	Balance June 30, 2017
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 6 187 436	\$ -	\$ -	\$ 6 187 436
Construction in progress	668 338	11 760 527	-	12 428 865
Total capital assets not being depreciated	<u>6 855 774</u>	<u>11 760 527</u>	<u>-</u>	<u>18 616 301</u>
Capital assets being depreciated:				
Equipment	541 783	34 636	( 30 360)	546 059
Vehicles	664 108	39 743	( 104 739)	
599 112				
Buildings	2 422 542	25 691	-	2 448 233
Infrastructure	2 141 417	127 480	-	2 268 897
Total capital assets being depreciated	<u>5 769 850</u>	<u>227 550</u>	<u>( 135 099)</u>	<u>5 862 301</u>
Less accumulated depreciation for:				
Equipment	433 712	29 908	( 30 360)	433 260
Vehicles	432 696	80 825	( 104 735)	408 786
Buildings	434 436	88 820	( 1)	523 255
Infrastructure	1 071 848	209 666	1	1 281 515
Total accumulated depreciation	<u>2 372 692</u>	<u>409 219</u>	<u>( 135 095)</u>	<u>2 646 816</u>
Total capital assets being depreciated, net	<u>3 397 158</u>			<u>3 215 485</u>
Governmental activity capital assets, net	<u>\$ 10 252 932</u>			<u>\$ 21 831 786</u>

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

General Government	\$ -
Public Buildings	93 285
Public Safety	83 997
Transportation	30 794
Economic and Physical Development	-
Parks	<u>201 143</u>
Total	<u>\$ 409 219</u>

The government has active construction projects as of June 30, 2017. At year-end, the government's estimated commitments to projects ongoing are as follows:

Project	Spent-to-date	Remaining Commitment
Beach nourishment	\$12,428,865	\$1,629,064

**B. LIABILITIES**

**Pension Plan Obligations**

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

**Plan Description.** The Town of Duck is a participating employer in the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-

**TOWN OF DUCK, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2017**

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

**B. LIABILITIES - (Continued)**

**Pension Plan Obligations - (Continued)**

**a. Local Governmental Employees' Retirement System - (Continued)**

employer defined benefit pension plan administered by the State of North Carolina. LGERS membership is comprised of general employees and local law enforcement officers (LEOs) of participating local governmental entities. Article 3 of §G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual 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, or at [www.osc.nc.gov](http://www.osc.nc.gov).

*Benefits Provided.* LGERS provides retirement and survivor benefits. Retirement benefits are determined as 1.85% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. Plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service (age 55 for firefighters). Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age (15 years of creditable service for firefighters and rescue squad members who are killed in the line of duty) or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

LGERS plan members who are LEOs are eligible to retire with full retirement benefits at age 55 with five years of creditable service as an officer, or at any age with 30 years of creditable service. LEO plan members are eligible to retire with partial retirement benefits at age 50 with 15 years of creditable service as an officer. Survivor benefits are

**TOWN OF DUCK, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2017**

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

**B. LIABILITIES - (Cont.)**

**Pension Plan Obligations - (Cont.)**

**a. Local Governmental Employees' Retirement System - (Cont.)**

available to eligible beneficiaries of LEO members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed 15 years of service as a LEO and have reached age 50, or have completed five years of creditable service as a LEO and have reached age 55, or have completed 15 years of creditable service as a LEO if killed in the line of duty. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions.

*Contributions.* Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Town employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town's contractually required contribution rate for the year ended June 30, 2017, was 8.0% of compensation for law enforcement officers and 7.25% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town \$123,091 for the year ended June 30, 2017.

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

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

At June 30, 2017, the Town reported a liability of \$713,741 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015. The total pension liability was then rolled forward to the measurement date of June 30, 2016 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30,

**TOWN OF DUCK, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2017**

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

2016, the Town's proportion was .03363%, which was a decrease of .00412% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the Town recognized pension expense of \$158,549. At June 30, 2017, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b><u>Deferred Outflows of Resources</u></b>	<b><u>Deferred Inflows of Resources</u></b>
Differences between expected and actual experience	\$ 13 410	\$ 25 010
Changes of assumptions	48 885	-
Net difference between projected and actual earnings on pension plan investments	394 609	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	-	96 581
Town contributions subsequent to the measurement date	<u>123 091</u>	<u>-</u>
Total	<u>\$ 579 995</u>	<u>\$ 121 591</u>

\$579,995 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as an increase of the net pension asset in the year ended June 30, 2018. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**Year ended June 30:**

2018	\$ 33 344
2019	33 496
2020	166 550
2021	101 926
2022	-
Thereafter	<u>-</u>
Total	<u>\$ 335 315</u>

*Actuarial Assumptions.* The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.50 to 7.75 percent, including inflation and productivity factor
Investment rate of return	7.25 percent, net of pension plan investment expense, including inflation

**TOWN OF DUCK, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2017**

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

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

The actuarial assumptions used in the December 31, 2015 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2016 are summarized in the following table:

<b><u>Asset Class</u></b>	<b><u>Target Allocation</u></b>	<b><u>Long-Term Expected Real Rate of Return</u></b>
Fixed Income	29.0%	1.4%
Global Equity	42.0%	5.3%
Real Estate	8.0%	4.3%
Alternatives	8.0%	8.9%
Credit	7.0%	6.0%
Inflation Protection	<u>6.0%</u>	4.0%
Total	<u>100%</u>	

The information above is based on 30 year expectations developed with the consulting actuary for the 2016 asset, liability, and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

**TOWN OF DUCK, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2017**

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

*Discount rate.* The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the Town's proportionate share of the net pension asset to changes in the discount rate.* The following presents the Town's proportionate share of the net pension asset calculated using the discount rate of 7.25 percent, as well as what the Town's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25 percent) or one percentage point higher (8.25 percent) than the current rate:

	<b><u>1% Decrease (6.25%)</u></b>	<b><u>Discount Rate (7.25%)</u></b>	<b><u>1% Increase (8.25%)</u></b>
Town's proportionate share of the net pension liability (asset)	\$1 694 041	\$ 713 741	(\$ 105 078)

*Pension plan fiduciary net position.* Detailed information about the pension plan's fiduciary net position is available in the separately issued Comprehensive Annual Financial Report (CAFR) for the State of North Carolina.

**b. Law Enforcement Officers Special Separation Allowance**

**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 under the age of 62 who have completed at least 30 years of creditable service or have attained 55 years of age and have completed five or more years of creditable service. The Separation Allowance is equal to .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, 2017**

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, 2016, 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>

**Summary of Significant Accounting Policies:**

**Basis of Accounting.** The Town has chosen to fund the Separation Allowance on a pay as you go basis. Pension expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

The Separation Allowance has no assets accumulated in a trust that meets the following criteria which are outlined in GASB Statements 73:

- contributions to the pension plan and earnings on those contributions are irrevocable
- pension plan assets are dedicated to providing benefits to plan members
- pension plan assets are legally protected from the creditors or employers, nonemployer contributing entities, the plan administrator, and plan members.

**Actuarial Assumptions.** The entry age actuarial cost method was used in the December 31, 2015 valuation. The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.50 to 7.35 percent, including inflation and productivity factor
Discount rate	3.86 percent

The discount rate is based on the weekly average of the Bond Buyer General Obligation 20-year Municipal Bond Index determined at the end of each month.

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

**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.



**TOWN OF DUCK, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2017**

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

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

At June 30, 2017 the Town reported a total pension liability of \$217,350. The total pension liability was measured as of December 31, 2016 based on a December 31, 2015 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2016 utilizing update procedures incorporation the actuarial assumptions. For the year ended June 30, 2017, the Town recognized pension expense of \$23,331.

	<b><u>Deferred Outflows of</u></b>	<b><u>Deferred Inflows of</u></b>
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	7,038
Benefit payments and plan administrative expense made subsequent to the measurement date	-	258
Total	<u>\$ -</u>	<u>\$ 7,296</u>

\$258 reported as deferred inflows of resources related to pensions resulting from administrative expenses incurred subsequent to the measurement date will be recognized as an increase of the total pension liability in the year ended June 30, 2018. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**Year ended June 30:**

2018	\$ 1,075
2019	1,075
2020	1,075
2021	1,075
2022	1,075
Thereafter	1,663

*Sensitivity of the Town's total pension liability to changes in the discount rate.* The following presents the Town's total pension liability calculated using the discount rate of 3.86 percent, as well as what the Town's total pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.86 percent) or 1-percentage-point higher (4.86 percent) than the current rate:

	<b><u>1% Decrease (2.86%)</u></b>	<b><u>Discount Rate (3.86%)</u></b>	<b><u>1% Increase (4.86%)</u></b>
Total pension liability	\$ 246,504	\$ 217,350	\$ 191,419

**TOWN OF DUCK, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2017**

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

**Law Enforcement Officers' Special Allowance**

	<b><u>2017</u></b>
Beginning balance	\$ 201,315
Service Cost	16,961
Interest on the total pension liability	7,187
Changes of benefit terms	-
Differences between expected and actual experience in the measurement of the total pension liability	-
Changes of assumptions or other inputs	( 8,113)
Benefit payments	-
Other changes	-
Ending balance of the total pension liability	<b><u>\$ 217,350</u></b>

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

The actuarial assumptions used in the December 31, 2015 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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, 2017 were \$188,640, which consisted of \$79,870 from the Town and \$108,770 from employees.

**TOWN OF DUCK, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2017**

**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, 2017.

Deferred Outflows and Inflows of Resources

Deferred outflows of resources is comprised of the following:

<u>Source</u>	<u>Amount</u>
Differences between expected and actual experience	\$ 13,410
Changes in assumptions	48,885
Net difference between projected and actual earnings on pension plan investments	394,609
Town contributions subsequent to the measurement date	<u>123,091</u>
	<u>\$ 579,995</u>

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

	<u>Unavailable Revenue</u>
Differences between expected and actual experience	\$ 25,010
Changes in assumptions	7,038
Changes in proportion and differences between Town contributions and proportionate share of contributions	96,581
Benefit payments and plan administrative expense made subsequent to the measurement date	<u>258</u>
	<u>\$ 128,887</u>

Commitments

The Town has budgeted to pay at least \$202,000 to the Duck Volunteer Fire Department, Inc. for the fiscal year ended June 30, 2018, as compensation for firefighting services. This doesn't include amounts for town personnel.

**TOWN OF DUCK, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2017**

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

The Town adopted a capital project ordinance for Beach Nourishment with an estimated cost of \$14,057,929 to be funded by bond proceeds in the amount of \$6,963,000 and a contribution from Dare County in the amount of \$7,094,929. The Town is committed to paying \$1,629,064 to complete the project. Completion of the construction portion of the project is expected by the end of 2017.

**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. These 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 liability and property exposures are reinsured through commercial carriers for claims in excess of retentions as selected by the Board of Trustees each year. Specific information on the limits of the reinsurance and excess claims policies purchased by the Board of Trustees can be obtained by contacting the Risk Management Services Department of the NC League of Municipalities. The pools are audited annually by certified public accountants, and the audited financial statements are available to the Town upon request.

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.

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.

**TOWN OF DUCK, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2017**

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

Long-Term Obligations

Leases

In November 2016, the Town entered a lease agreement for a copier for a sixty month period beginning November 2016. During the fiscal year ended June 30, 2017, the Town paid \$24,518 on this lease agreement. The lease requires minimum annual payments of \$17,496.

The future minimum rental payments are as follows:

Year Ending	Minimum Rental
<u>June 30</u>	<u>Payments</u>
2018	\$ 17 496
2019	17 496
2020	17 496
2021	17 496
2022	<u>5 832</u>
	<u>\$ 75 816</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%. Final payment is February 1, 2018.

Annual debt service payments of the installment purchase as of June 30, 2017, including \$10,530 of interest, are as follows:

Year Ending		
<u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2018	<u>\$ 300 000</u>	<u>\$ 10 530</u>
Total	<u>\$ 300 000</u>	<u>\$ 10 530</u>

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 a loan with PNC 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%.

**TOWN OF DUCK, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2017**

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

Annual debt service payments of the installment purchase as of June 30, 2017, including \$248,775 of interest, are as follows:

<u>Year Ending</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 216 667	\$ 54 570
2019	216 667	47 615
2020	216 667	40 660
2021	216 667	33 705
2022 - 2026	<u>833 330</u>	<u>72 225</u>
Total	<u>\$ 1 699 998</u>	<u>\$ 248 775</u>

On October 8, 2015, the Town entered into an installment financing contract with Branch Banking and Trust Company in the amount of \$204,500 for the purchase of five vehicles. The interest rate is fixed at 1.81% per annum. The note requires the Town to pay three annual installments of principal and interest in the amount of \$70,415 beginning on August 1, 2016.

Annual debt service payments of the installment purchase as of June 30, 2017, including \$3,733 of interest, are as follows:

<u>Year Ending</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 67 934	\$ 2 481
2019	<u>69 163</u>	<u>1 252</u>
Total	<u>\$ 137 097</u>	<u>\$ 3 733</u>

**General Obligation Indebtedness**

The town issued special obligation bonds under a five year installment financing contract in June, 2016 for funding approximately half the costs of beach nourishment. The amount borrowed was \$6,963,000 at an interest rate of 1.58% which is secured by the pledge of occupancy tax revenues. Payments are due semiannually with interest only due in each June and interest plus principal of \$1,392,600 due each December through 2021. The outstanding balance at June 30, 2017 is \$6,963,000.

Annual debt service requirements to maturity for long-term obligations are as follows:

**TOWN OF DUCK, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2017**

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

Year Ending June 30	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2018	\$1 392 600	\$ 99 014
2019	1 392 600	77 011
2020	1 392 600	55 008
2021	1 392 600	33 005
2022	<u>1 392 600</u>	<u>11 001</u>
Total	<u>\$6 963 000</u>	<u>\$ 275 039</u>

Changes in Long-Term Debt -

	<u>Balance June 30, 2016</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2017</u>	<u>Current Portion of Balance</u>
By Type of Debt:					
Installment purchases	\$ 2 721 165	\$ -	\$ 584 070	\$ 2 137 095	\$ 584 601
Capitalized leases	-	-	-	-	-
Bonded debt	6 963 000	-	-	6 963 000	1 392 600
Compensated absences	66 235	13 796	-	80 031	-
Net pension liability (LGERS)	169 420	544 321	-	713 741	-
Net pension obligation (LEO), as restated	<u>201 315</u>	<u>16 035</u>	<u>-</u>	<u>217 350</u>	<u>-</u>
	<u>\$10 121 135</u>	<u>\$ 574 152</u>	<u>\$ 584 070</u>	<u>\$10 111 217</u>	<u>\$ 1 977 201</u>
By Purpose:					
General Government:					
Real property	\$ 2 516 665	\$ -	\$ 516 667	\$ 1 999 998	\$ 516 667
Bonded debt	6 963 000	-	-	6 963 000	1 392 600
Compensated absences	66 235	13 796	-	80 031	-
Net pension liability (LGERS)	60 403	194 066	-	254 469	-
Public Safety:					
Equipment	-	-	-	-	-
Vehicles	204 500	-	67 403	137 097	67 934
Net pension liability (LGERS)	109 017	350 255	-	459 272	-
Net pension obligation (LEO), as restated	<u>201 315</u>	<u>16 035</u>	<u>-</u>	<u>217 350</u>	<u>-</u>
	<u>\$10 121 135</u>	<u>\$ 574 152</u>	<u>\$ 584 070</u>	<u>\$10 111 217</u>	<u>\$ 1 977 201</u>

Legal Debt Margin - As of June 30, 2017, the Town has a legal debt margin of \$118,578,428.

Interfund Balances and Activity

Balances due to/from other funds at June 30, 2017, consist of the following:

Due to the General Fund for the allocation of costs from the:

Beach Nourishment Fund	\$ 4 989
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**TOWN OF DUCK, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2017**

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

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

Transfers to/from other funds at June 30, 2017, consist of the following:

From the General Fund to the Capital Reserve Fund for excess beach nourishment taxes designated for future beach nourishment.	\$ 1,221,390
From the Capital Reserve Fund to the General Fund for bond interest and staging area security.	<u>124 503</u>
Total	<u>\$ 1 345 893</u>

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

**Net Investment in Capital Assets**

	<u>Governmental</u>
Capital assets	\$ 21 831 786
Less: Long-term debt	( 9 100 095)
Add: Unexpended debt proceeds	<u>-</u>
Net investment in capital asset	<u>\$ 12 731 691</u>

**Fund Balance**

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

<b><i>Total fund balance-General Fund</i></b>	<b><i>\$ 7,841,132</i></b>
<b>Less:</b>	
<b>Stabilization by State Statute</b>	494,075
<b>Restricted for Capital Reserve Fund</b>	2,320,149
<b>Working Capital / Fund Balance Policy</b>	5,026,908
<b>Remaining Fund Balance</b>	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 total general fund balance is at least equal to or greater than 75% of the previous fiscal year's general fund expenditures.



**TOWN OF DUCK, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2017**

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

**Beach Nourishment**

The Town originally adopted a capital project ordinance for Beach Nourishment on June 3, 2015, which has been amended resulting in a current total estimated project cost for the Town of \$14,057,929. The total project cost was financed with \$6,963,000 in special obligation bonds secured by the Town's occupancy tax and \$7,094,929 from Dare County pursuant to an inter-local agreement that includes Town of Kitty Hawk, Town of Kill Devil Hills, and Dare County.

The project is in the construction stage. The terms of the special obligation bond debt requires annual repayment of principal in the amount of \$1,392,600 beginning December, 2017 and semi-annual payment of interest for five years beginning December, 2016 with the final payment scheduled for the June 30, 2022 fiscal year. Repayment of the bond proceeds and interest is provided by both a town wide tax and additional taxes on the properties located in the municipal service districts. The Town also received funding through an inter-local agreement with Dare County providing an additional \$1,131,090 that will be broken down in annual payments over five years to be used towards the repayment of debt.

The Town established two municipal service districts designated for beach nourishment. Funds received from the town municipal services district tax in excess of the amount needed for debt costs in the amount of \$983,902 was transferred from the General Fund to the Capital Reserve Fund and are restricted for future beach nourishment. An additional contribution was made from the general fund from pledged revenues of \$237,488 for a total of \$1,221,390. The amount in the capital reserve fund restricted for future beach nourishment at June 30, 2017 is shown below:

	<b><u>Beach nourishment taxes (MSD) received in excess of debt repayment</u></b>	<b><u>Transfers from General Fund</u></b>	<b><u>Interest Earnings</u></b>	<b><u>Total</u></b>
Beginning of year balance, July 1, 2016	\$ 977,668	\$ 243,722	\$ 307	\$ 1,221,697
Current year additions	983,902	237,488	1,565	1,222,955
Current year uses	( 124,503)	-	-	( 124,503)
End of year balance, June 30, 2017	<u>\$ 1,837,067</u>	<u>\$ 481,210</u>	<u>\$ 1,872</u>	<u>\$ 2,320,149</u>

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.

**TOWN OF DUCK, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2017**

**5. CHANGE IN ACCOUNTING PRINCIPLES/RESTATEMENT**

The Town implemented Governmental Accounting Standards Board (GASB) No. Statement 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, in the fiscal year ending June 30, 2017. The implementation of the statement required the Town to record beginning total pension liability and the effects on net position of benefit payments and administrative expenses paid by the Town to the Law Enforcement Officers' Special Separation Allowance during the measurement period (fiscal year ending December 31, 2016). As a result, net position for the governmental activities decreased \$18,419.

**TOWN OF DUCK, NORTH CAROLINA**

**Required Supplementary Financial Data**

This section contains additional information required by generally accepted accounting principles.

- Schedule of Proportionate Share of Net Pension Liability (Asset) for Local Government Employees' Retirement System
- Schedule of Contributions to Local Government Employees' Retirement System
- Schedule of Changes in Total Pension Liability
- Schedule of Total Pension Liability as a Percentage of Covered Payroll

**Town of Duck**  
**Town's Proportionate Share of Net Pension Liability (Asset)**  
**Required Supplementary Information**  
**Last Four Fiscal Years \***

**Local Government Employees' Retirement System**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Town's proportion of the net pension liability (asset) (%)	0.03363%	0.03775%	0.03680%	0.03690%
Town's proportion of the net pension liability (asset) (\$)	\$ 713,741	\$ 169,420	\$ (217,026)	\$ 444,787
Town's covered-employee payroll	\$ 1,471,565	\$ 1,364,303	\$ 1,278,175	\$ 1,281,813
Town's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	48.50%	12.42%	( 16.98%)	34.70%
Plan fiduciary net position as a percentage of the total pension liability**	91.47%	98.09%	102.64%	94.35%

\* The amounts presented for each fiscal year were determined as of the prior fiscal year ending June 30.

\*\* This will be the same percentage for all participant employers in the LGERS plan.

**Town of Duck  
Town's Contributions  
Required Supplementary Information  
Last Four Fiscal Years**

**Local Government Employees' Retirement System**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 123,091	\$ 102,581	\$ 100,188	\$ 97,570
Contributions in relation to the contractually required contribution	123,091	102,581	100,188	97,570
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town's covered-employee payroll	\$ 1,601,444	\$ 1,471,565	\$ 1,364,303	\$ 1,278,175
Contributions as a percentage of covered-employee payroll	7.69%	6.97%	7.34%	7.63%

**Town of Duck**  
**Schedule of Changes in Total Pension Liability**  
**Law Enforcement Officers' Special Separation Allowance**  
**June 30, 2017**

	<b>2017</b>
Beginning balance	\$ 201,315
Service Cost	16,961
Interest on the total pension liability	7,187
Changes of benefit terms	-
Differences between expected and actual experience in the measurement of the total pension liability	-
Changes of assumptions or other inputs	(8,113)
Benefit payments	-
Other changes	-
Ending balance of the total pension liability	<u>\$ 217,350</u>

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

**Town of Duck**  
**Schedule of Total Pension Liability as a Percentage of Covered Payroll**  
**Law Enforcement Officers' Special Separation Allowance**  
**June 30, 2017**

	<u>2017</u>
Total pension liability	\$ 217,350
Covered payroll	577,323
Total pension liability as a percentage of covered payroll	37.65%

Notes to the schedules:

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

**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, 2017**

	Budget	Actual	Variance Positive (Negative)
<b>Revenues:</b>			
Ad valorem taxes:			
Taxes	\$ 4,281,291	\$ 4,339,579	\$ 58,288
Interest	-	2,748	2,748
Total	<u>4,281,291</u>	<u>4,342,327</u>	<u>61,036</u>
Other taxes and licenses:			
Land Transfer Tax	292,960	327,516	34,556
Occupancy tax	1,239,428	1,364,909	125,481
Total	<u>1,532,388</u>	<u>1,692,425</u>	<u>160,037</u>
Unrestricted intergovernmental:			
Local option sales taxes	1,133,517	1,354,115	220,598
Utility franchise tax	290,000	383,298	93,298
Beer and wine tax	1,500	1,774	274
ABC profit distribution	51,000	55,571	4,571
Total	<u>1,476,017</u>	<u>1,794,758</u>	<u>318,741</u>
Restricted intergovernmental:			
Federal grants	29,676	30,516	840
State grants	33,100	24,500	(8,600)
Local grants	40,000	40,000	-
Total	<u>102,776</u>	<u>95,016</u>	<u>(7,760)</u>
Permits and fees:			
Building permits	95,200	97,528	2,328
Inspection fees	30,000	37,515	7,515
Other permits	15,000	13,656	(1,344)
Court costs and fees	-	869	869
Total	<u>140,200</u>	<u>149,568</u>	<u>9,368</u>
Investment earnings	-	21,954	21,954
Miscellaneous:			
Donations	-	375	375
Miscellaneous	82,693	83,044	351
Total	<u>82,693</u>	<u>83,419</u>	<u>726</u>
Total revenues	<u>7,615,365</u>	<u>8,179,467</u>	<u>564,102</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, 2017**

	Budget	Actual	Variance Positive (Negative)
<b>Expenditures:</b>			
General government:			
Governing Body:			
Salaries and employee benefits		25,147	
Insurance		100,935	
Professional services		28,847	
Supplies and materials		1,384	
Other operating expenditures		37,424	
Total	206,290	193,737	12,553
Administration:			
Salaries and employee benefits		379,342	
Professional services		75	
Supplies and materials		4,007	
Other operating expenditures		37,580	
Total	459,300	421,004	38,296
Finance:			
Subsidies and allocations	73,000	65,788	7,212
Legal:			
Professional services	65,000	64,596	404
Public Buildings:			
Professional services		30,294	
Supplies and materials		509	
Other operating expenditures		65,842	
Boardwalk repairs		11,079	
Debt service		278,192	
Capital Outlay		25,691	
Total	411,692	411,607	85
Information Technology:			
Subsidies and allocations		31,730	
Fixed charges		58,647	
Professional services		780	
Cable access channel		27,682	
Total	117,100	118,839	(1,739)
Total general government	1,332,382	1,275,571	56,812

**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, 2017**

	Budget	Actual	Variance Positive (Negative)
Public safety:			
Police:			
Salaries and employee benefits		831,509	
Police supplies and materials		35,503	
Vehicle maintenance and operation		39,812	
Other operating expenditures		80,397	
Capital outlay		74,379	
Debt service		42,249	
Total	1,102,298	1,103,849	(1,551)
Fire:			
Salaries and employee benefits		668,717	
Other operating expenditures		34,878	
Debt service		14,083	
Fire Protection contract		295,721	
Total	1,019,829	1,013,399	6,430
Inspections:			
Salaries and employee benefits		139,430	
Supplies and maintenance		1,138	
Other operating expenditures		13,353	
Debt service		14,083	
Total	172,007	168,004	4,003
Rescue units:			
Ocean rescue		343,000	
Total	343,500	343,000	500
Total public safety	2,637,634	2,628,252	9,382
Transportation:			
Streets:			
Temporary services		50,878	
Professional services		67,593	
Repairs and maintenance		7,320	
Utilities		9,978	
Other operating expenditures		22,600	
Capital outlay		127,480	
Total transportation	287,076	285,849	1,227

**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, 2017**

	Budget	Actual	Variance Positive (Negative)
Environmental protection:			
Solid waste:			
Subsidies and allocations		971,013	
Dune preservation		165,624	
Total environmental protection	1,167,298	1,136,637	30,661
Economic and physical development:			
Planning and Zoning			
Salaries and employee benefits		172,587	
Professional services		3,650	
Supplies and materials		1,009	
Other operating expenditures		36,802	
Total economic and physical development	218,056	214,048	4,008
Parks			
Temporary help services		64,082	
Supplies and materials		2,556	
Other operating expenditures		154,663	
Debt service		321,060	
	542,660	542,361	299
Total expenditures	6,185,106	6,082,718	102,389
Revenues over (under) expenditures	1,430,259	2,096,749	666,490
Other financing sources (uses):			
Transfers from other funds	130,988	124,503	(6,485)
Transfers to other funds	(1,221,390)	(1,221,390)	-
Fund Balance Appropriated	(339,857)	-	339,857
Total	\$ (1,430,259)	(1,096,887)	\$ 333,372
Revenues and other financing sources over expenditures and other financing uses	\$ -	999,862	\$ 999,862
Fund balances, beginning		4,521,121	
Fund balances, ending		\$ 5,520,983	

**Town of Duck**  
**Capital Reserve Fund**  
**Schedule of Revenues, Expenditures, and**  
**Changes in Fund Balances - Budget and Actual**  
**For the Fiscal Year Ended June 30, 2017**

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
<b>Revenues:</b>			
Investment earnings	<u>-</u>	<u>1,565</u>	<u>1,565</u>
Total revenues	<u>-</u>	<u>1,565</u>	<u>1,565</u>
Other financing sources (uses):			
Transfers from other funds	1,221,390	1,221,390	-
Transfers to other funds	(130,988)	(124,503)	6,485
Additions to reserves	<u>(1,090,402)</u>	<u>-</u>	<u>1,090,402</u>
Total	<u>-</u>	<u>1,096,887</u>	<u>1,096,887</u>
Net change in fund balance	<u>\$ -</u>	1,098,452	<u>\$ 1,098,452</u>
Fund balances, beginning		<u>1,221,697</u>	
Fund balances, ending		<u>\$ 2,320,149</u>	

**Town of Duck, North Carolina**  
**Beach Nourishment Capital Project Fund**  
**Schedule of Revenues, Expenditures, and**  
**Changes in Fund Balances - Budget and Actual**  
**From Inception and For the Fiscal Year Ended June 30, 2017**

	Project Authorization	Prior Year	Actual Current Year	Total to Date	Variance Positive (Negative)
<b>Revenues:</b>					
Beach Nourishment Project:					
Restricted intergovernmental	\$ 7,094,929	\$ 590,647	\$ 4,871,529	\$ 5,462,176	\$ (1,632,753)
Investment earnings	-	1,002	9,629	10,631	10,631
Total revenues	<u>7,094,929</u>	<u>591,649</u>	<u>4,881,158</u>	<u>5,472,807</u>	<u>(1,622,122)</u>
<b>Expenditures:</b>					
Beach Nourishment Project:					
Construction	12,927,069	-	11,696,002	11,696,002	(1,231,067)
Construction management	157,471	-	49,333	49,333	(108,138)
Turtle monitoring	26,473	-	14,678	14,678	(11,795)
Preconstruction costs	861,666	595,635	514	596,149	(265,517)
Professional services - other	85,250	72,703	-	72,703	(12,547)
Total expenditures	<u>14,057,929</u>	<u>668,338</u>	<u>11,760,527</u>	<u>12,428,865</u>	<u>1,629,064</u>
Revenues over (under) expenditures	<u>(6,963,000)</u>	<u>(76,689)</u>	<u>(6,879,369)</u>	<u>(6,956,058)</u>	<u>6,942</u>
Other financing sources (uses):					
Bonds issued	<u>6,963,000</u>	<u>6,963,000</u>	<u>-</u>	<u>6,963,000</u>	<u>-</u>
Total other financing sources	<u>6,963,000</u>	<u>6,963,000</u>	<u>-</u>	<u>6,963,000</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 6,886,311</u>	<u>(6,879,369)</u>	<u>\$ 6,942</u>	<u>\$ 6,942</u>
Fund balances, beginning			<u>6,886,311</u>		
Fund balances, ending			<u>\$ 6,942</u>		

**Town of Duck, North Carolina**  
**Analysis of Current Tax Levy**  
**Town - Wide Levy**  
**For the Fiscal Year Ended June 30, 2017**

Fiscal Year	Uncollected Balance June 30, 2016	Additions	Collections	Pickups & Adjustments	Uncollected Balance June 30, 2017
2016-2017	\$ -	\$ 3,353,213	\$ 3,354,659	\$ 13,906	\$ 12,461
2016-2017 MSD		985,273	983,902	(1)	1,370
2015-2016	1,638		988	-	650
2015-2016 MSD	3	-	-	-	3
2014-2015	505	-	30	-	475
2013-2014	553	-	-	-	553
2012-2013	125	-	-	-	125
2011-2012	28	-	-	-	28
2010-2011	27	-	-	-	27
2009-2010	75	-	-	-	75
2008-2009	38	-	-	-	38
2007-2008	82	-	-	-	82
	-	-	-	-	-
	<u>\$ 3,074</u>	<u>\$ 4,338,486</u>	<u>\$ 4,339,579</u>	<u>\$ 13,905</u>	<u>\$ 15,887</u>

Reconcilement with revenues:

Ad valorem taxes - General Fund	\$ 4,342,327
Reconciling items:	
Interest and penalties collected	<u>(2,748)</u>
Total collections and credits	<u>\$ 4,339,579</u>

**Town of Duck, North Carolina**  
**Analysis of Current Tax Levy**  
**Town - Wide Levy**  
**For the Fiscal Year Ended June 30, 2017**

	Town - Wide			Total Levy	
	Property Valuation	Rate	Total Levy	Property excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed	\$ 1,595,981,532	0.210	\$ 3,351,562	\$ 3,327,876	\$ 23,686
Penalties	<u>1,651</u>		<u>1,651</u>	<u>1,651</u>	<u>-</u>
Total	1,595,983,183		3,353,213	3,329,527	23,686
Adjustments:					
Discoveries	7,413,188	0.210	15,568	15,568	-
Releases/Abatements-Property	(7,743)	0.210	(16)	(16)	-
Adjustments	<u>-</u>		<u>(1,645)</u>	<u>(1,626)</u>	<u>(19)</u>
			<u>13,906</u>	<u>13,925</u>	<u>(19)</u>
Total property valuation	<u>\$ 1,603,388,628</u>				
Net levy			3,367,120	3,343,453	23,667
Uncollected taxes at June 30, 2017			<u>(12,461)</u>	<u>(12,461)</u>	<u>-</u>
Current year's taxes collected			<u>3,354,659</u>	<u>3,330,992</u>	<u>23,667</u>
Current levy collection percentage			<u>99.63%</u>	<u>99.62%</u>	<u>100.00%</u>