

TOWN OF DUCK
NORTH CAROLINA
FINANCIAL STATEMENTS
For the Year Ended
June 30, 2021

Town Council Members

Don Kingston, Mayor
Monica Thibodeau, Mayor Pro Tempore
Nancy Caviness
Rob Mooney
Sandy Whitman

Administrative Staff

Drew Havens, Town Manager and Finance Officer
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, 2021, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We 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, 2021, 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 13, the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability (Asset) and Contributions, on pages 42 through 45, 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 46 and 47 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 19, 2021



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

Financial Highlights

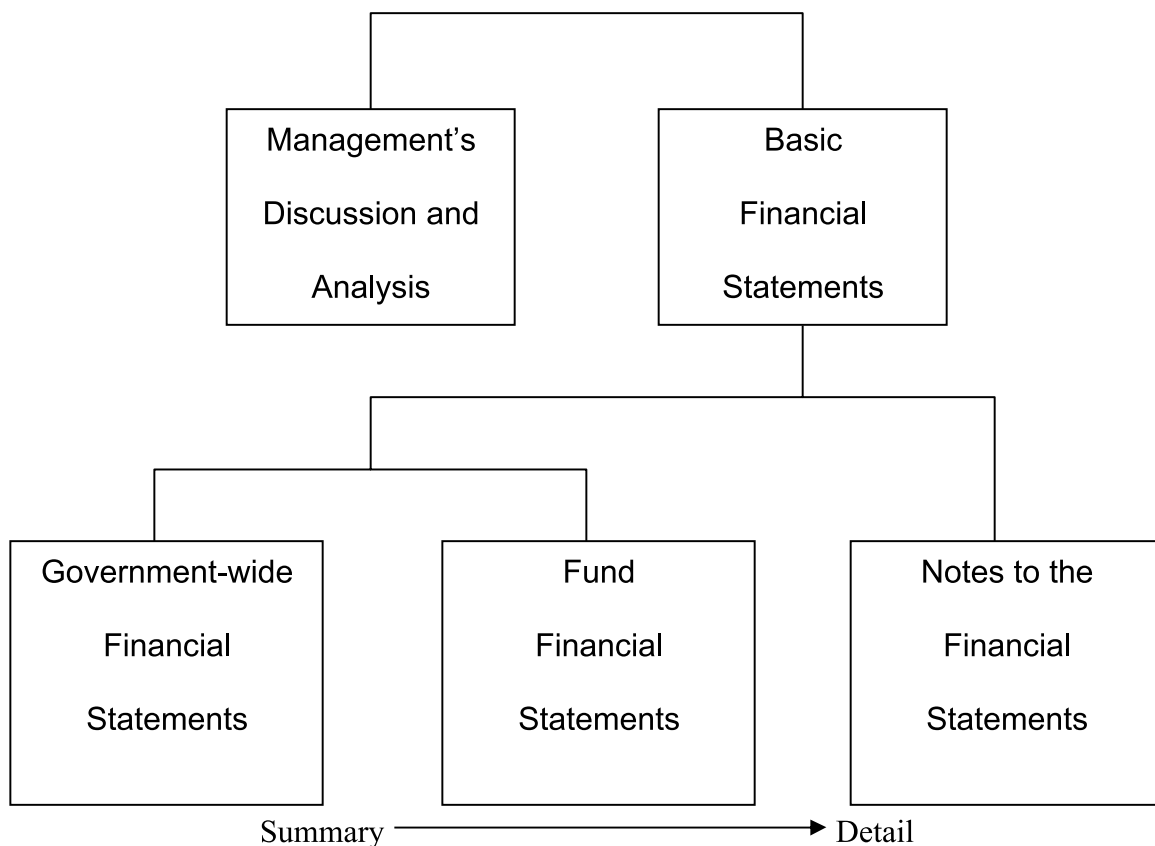
- The assets and deferred outflows of resources of the Town of Duck exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$ 25,377,674 (*net position*).
- The government's total net position increased by \$ 459,046, primarily due to revenues exceeding expenses offset by depreciation exceeding repayment on debt and new capital acquisitions. This increase includes a prior period adjustment of \$ 115,720 to record the May sales tax distribution (received on August 15) in the current fiscal year when it was earned. This is consistent with the accrual of other major shared revenues.
- As of the close of the current fiscal year, the Town of Duck's governmental funds reported combined ending fund balances of \$ 9,944,027 with a net increase of \$ 1,366,736 over the prior fiscal year.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$ 6,708,257, or 72% of total general fund expenditures for the current fiscal year. This compares to \$ 5,634,882 and 59% of total general fund expenditures for the prior year.
- At the end of the current fiscal year the beach nourishment capital reserve fund was \$ 1,694,718 compared to \$ 1,578,805 for the prior year.
- The Town of Duck's total debt decreased by \$1,152,653 (20%) during the fiscal year. The key factors in this decrease were decreases in installment purchases, bonded debt and compensated absences and increases in pension obligations.
- During the current fiscal year, the Town made its fourth payment on five-year Special Obligation Bonds issued in June 2016, lowering the principal owed by \$1,392,600, to \$ 1,392,600.
- The Town adopted a town-wide revenue neutral tax rate of 19.64 cents per hundred dollars of valuation. The total town-wide valuation increased \$ 237,781,779 or 14.68%.
- The Town adopted revenue neutral MSD tax rates of 12.96 cents and 28.5 cents per hundred dollars of valuation for properties located in MSD-A and MSD-B respectively.

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, 2021, the Town has two governmental funds; the general fund and the capital reserve fund related to the Town's Beach Nourishment Project. The capital reserve fund is combined in the general fund in the basic financial 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 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 if 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

Current and other assets	\$ 10,572,030	\$ 8,949,744
Capital assets	19,104,093	21,476,204
Deferred Outflows of Resources	947,039	664,186
Total assets and deferred outflows of resources	30,623,162	31,090,134
Long-term liabilities outstanding	2,856,614	3,956,528
Other liabilities	2,324,286	2,123,399
Deferred Inflows of Resources	64,588	91,579
Total liabilities and deferred inflows of resources	5,245,488	6,171,506
Net position:		
Net investment in capital assets	16,736,462	17,376,460
Restricted	3,207,626	2,942,409
Unrestricted	5,433,586	4,599,759
Total net position	\$ 25,377,674	\$ 24,918,628

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 \$ 25,377,674 as of June 30, 2021. The Town's net position increased by \$459,046 over the fiscal year ended June 30, 2020. The largest portion (66%) 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

Management Discussion and Analysis
Town of Duck, North Carolina

used to liquidate these liabilities. An additional portion of the Town of Duck's net position \$ 3,207,626, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$ 5,433,586 is unrestricted.

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 99.99% (99.99% for property excluding registered motor vehicles; 100% for registered motor vehicles).
- In spite of COVID, Dare County experienced a record-breaking tourist season resulting in sales and occupancy taxes in excess of budget. Additionally, the County experienced record-breaking property sales resulting in land transfer taxes more than double the prior year.
- Stable revenues and overall expenses within budget.

Town of Duck's Changes in Net Position
Figure 3

	Governmental Activities	
	2021	2020
Revenues:		
Program revenues:		
Charges for services	\$ 205,745	\$ 150,319
Operating grants and contributions	72,118	193,731
Capital grants and contributions	234,173	522,672
General revenues:		
Property taxes	4,656,926	4,647,876
Other taxes	5,155,224	3,722,752
Investment earnings	1,814	95,488
Other	241,204	119,443
Total revenues	<u>10,567,204</u>	<u>9,452,281</u>
Expenses:		
General government	1,742,096	1,358,200
Public safety	3,712,867	3,697,759
Transportation	304,785	259,262
Environmental protection	3,755,832	1,959,821
Economic and physical development	348,550	370,020
Parks	295,585	433,356
Interest on long-term debt	64,163	97,714
Total expenses	<u>10,223,878</u>	<u>8,176,132</u>
Increase in net position	343,326	1,276,149
Net position, beginning	24,918,628	23,642,479
Prior period adjustment	115,720	-
Net position, ending	<u>\$ 25,377,674</u>	<u>\$ 24,918,628</u>

Governmental activities. Governmental activities increased the Town's net position by \$ 459,046 including the prior period adjustment of \$ 115,720.

Management Discussion and Analysis
Town of Duck, North Carolina

Key elements of this increase are as follows:

- Overall revenues increased \$ 1,114,923 or 12%. This is primarily related to increases in occupancy, sales and land transfer taxes of \$ 1,460,762 offset by a reduction in grants of \$ 410,112.
- General government expenses increased 28% or \$ 383,896 due to several factors including increased legal and insurance costs.
- Transportation expenses increased 18% or \$ 45,523 due to increased expenses for landscaping and depreciation expense.
- Environmental protection increased \$ 1,790,611 due to increased depreciation of original beach nourishment project. Beach nourishment is depreciated based on a survey that determines the remaining fill volume. The fill volume decreased 19% in fiscal year 2021 compared to 5% in fiscal year 2020.

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 Reserve 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 unassigned fund balance in the General Fund was \$ 6,708,257, while total fund balance reached \$ 8,249,309. 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. 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. The Town currently has an unassigned fund balance of 72% of general fund expenditures

The beach nourishment capital reserve fund had a balance of \$ 1,694,718 at the end of the current fiscal year compared to \$ 1,578,805 for the prior year.

General Fund Budgetary Highlights. During the fiscal year, the Town revised the budget on several occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services. The Town Council approved amendments to the FY 2021 budget several times during the budget year. These amendments included the appropriation of fund balance for committed but incomplete contracts at June 30, 2020, increases to legal fees, and increases to budgeted transfers between general fund and beach nourishment capital reserve fund.

Management Discussion and Analysis
Town of Duck, North Carolina

Overall general fund revenues were greater than the budgeted amounts by \$ 1,017,150. Expenditures were held in check to comply with budgetary requirements and budgeted amounts.

Capital Asset and Debt Administration

Capital assets. The Town of Duck's investment in capital assets for its governmental activities as of June 30, 2021, totals \$ 19,104,093 (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:

- Multi use path improvements North and South of Martin Lane \$ 182,442.
- Living shoreline preliminary costs \$ 150,800
- Capitalized beach nourishment expenses \$ 396,760
- Engineering for pedestrian plan \$ 45,260

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

	Governmental Activities	
	2021	2020
Land	\$ 6,187,436	\$ 6,187,436
Construction in process	592,820	-
Buildings and systems	1,562,849	1,653,382
Beach Nourishment	7,228,388	9,819,696
Equipment and furniture	26,341	46,704
Infrastructure	3,211,324	3,340,550
Vehicles and motorized equipment	294,935	428,436
Total	<u>\$ 19,104,093</u>	<u>\$ 21,476,204</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, 2021, the Town of Duck had total debt outstanding of \$ 4,535,988. Of this, \$ 975,031 is debt in the form of installment purchase contracts and \$ 1,392,600 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	
	2021	2020
Installment Purchase Contracts	\$ 975,031	\$ 1,314,544
Bonded Debt	1,392,600	2,785,200
Compensated Absences	160,789	168,286
Net Pension Obligation (LGERS)	1,342,893	991,598
Total Pension Obligation (LEO)	664,675	429,013
Total	<u>\$ 4,535,988</u>	<u>\$ 5,688,641</u>

Town of Duck's Outstanding Debt

The Town of Duck's total debt decreased by \$1,192,723 (17%) during the past fiscal year, primarily due to decreases in installment purchases (\$ 339,513); decrease in bonded debt (\$ 1,392,600); increase in net pension obligations (\$ 351,295); decrease in compensated absences (\$ 7,497); and increase in total pension liability (\$ 235,662).

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 \$ 146,225,776.

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.

- Travel and tourism in Dare County were strong in fiscal year 2021. Overall County occupancy tax collections increased 50% and Duck received \$ 659,456 or 46% more than the prior year.
- Duck's portion of sales tax revenues increased \$ 322,623 or 22%.
- Property sales in Dare County were extremely strong with record prices being paid for properties that generated multiples sales offers. Overall land transfer tax collections increased 126% and Duck received \$ 478,682 or 128% more than the prior year.

Budget Highlights for the Fiscal Year Ending June 30, 2022

- The Town's adopted budget totals \$ 13,932,625 which represents a 21.4% increase over the fiscal year 2021 amended budget. The adopted town-wide tax rate is 22.00 cents per hundred dollars of valuation (increased from the prior year rate of 19.64 cents).
- The Town adopted an MSD-A tax rate of 12.96 cents per hundred dollars of valuation (unchanged from the prior year). These taxes are restricted for beach nourishment.
- The Town adopted an MSD-B tax rate of 28.5 cent per hundred dollars of valuation (unchanged from prior year). These taxes are restricted for beach nourishment.
- The Town has been pleasantly surprised by the minimal negative impact from COVID to our local economy and the budget contains revenue estimates that, while acknowledging a sense of optimism regarding the current continuation of the economic climate, remains conservative in terms of estimates so as not to create a shortfall in the budget should the climate change.
- The budget includes recommendations from the Pay & Classification Plan and Personnel Policy revision work done in FY 20-21.
- The budget adds several positions including 2 police patrol officers, 2 fire fighters/EMT's, and moves the part-time Maintenance Technician from Inspections to Public Facilities and increases this to a full-time position.
- The budget continues the repaving of a portion of Duck Trail and the Highway 12 project including the living shoreline, phase IV of the Duck Village sidewalk project and the elevation of Highway 12.
- The budget includes various scheduled equipment replacements.
- The Town plans to complete a 2nd beach renourishment project in Spring 2022.
- The budget does not include any use of unassigned fund balance.

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 Drew Havens, Town Manager, P.O. Box 8369, Duck, North Carolina, 27949, (252) 255-1234, dhavens@townofduck.com.

BASIC FINANCIAL STATEMENTS

Exhibit 1

**Town of Duck
Statement of Net Position
June 30, 2021**

	Primary Government Governmental Activities
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 7,669,531
Taxes receivables (net)	2,481
Due from other governments	1,177,156
Prepaid items	28,144
Restricted cash and cash equivalents	1,694,718
Total current assets	<u>10,572,030</u>
Non-current assets:	
Capital assets:	
Land, non-depreciable improvements, and construction in progress	6,780,256
Other capital assets, net of depreciation	12,323,837
Total capital assets	<u>19,104,093</u>
Total assets	<u>\$ 29,676,123</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pension deferrals	947,039
Total deferred outflows of resources	<u>947,039</u>
LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	\$ 262,791
Accrued interest payable	19,390
Current portion of long-term liabilities	1,679,374
Long-term liabilities:	
Net pension liability - LGERS	1,342,893
Total pension liability - LEOSSA	664,675
Due in more than one year	849,046
Total liabilities	<u>4,818,169</u>
DEFERRED INFLOWS OF RESOURCES	
Prepaid grant	362,731
Pension deferrals	64,588
Total deferred inflows of resources	<u>427,319</u>
NET POSITION	
Net investment in capital assets	16,736,462
Restricted for:	
Stabilization by state statute	1,512,908
Capital reserve fund	1,694,718
Unrestricted	5,433,586
Total net position	<u>\$ 25,377,674</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, 2021

		Program Revenues			Total	
Functions/Programs	Expenses	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	\$ 1,742,096	\$ -	\$ 4,806	\$ -	\$ (1,737,290)	
Public safety	3,712,867	205,745	-	-	(3,507,122)	
Transportation	304,785	-	-	-	(304,785)	
Economic and physical development	348,550	-	-	-	(348,550)	
Environmental protection	3,755,832	-	67,312	234,173	(3,454,347)	
Parks	295,585	-	-	-	(295,585)	
Interest on long-term debt	64,163	-	-	-	(64,163)	
Total primary government	<u>\$ 10,223,878</u>	<u>\$ 205,745</u>	<u>\$ 72,118</u>	<u>\$ 234,173</u>	<u>(9,711,842)</u>	
General revenues:						
Taxes:						
Property taxes, levied for general purpose					3,653,958	
Municipal service district taxes					1,002,968	
Other taxes					5,155,224	
Unrestricted investment earnings					1,814	
Miscellaneous					241,204	
Total general revenues and transfers					<u>10,055,168</u>	
Change in net position					343,326	
Net position, beginning					24,918,628	
Prior period adjustment					115,720	
Net position, ending					<u>\$ 25,377,674</u>	

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

Exhibit 3

Town of Duck
Balance Sheet
Governmental Funds
June 30, 2021

	<u>Major Funds</u>		
	<u>General</u>		<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 7,669,531	\$	7,669,531
Receivables, net:			
Taxes	2,481		2,481
Due from other governments	1,177,156		1,177,156
Prepaid expenses	28,144		28,144
Restricted cash and cash equivalents	1,694,718		1,694,718
Total assets	<u>10,572,030</u>		<u>10,572,030</u>
LIABILITIES			
Accounts payable and accrued liabilities	\$ 262,791	\$	262,791
Total liabilities	<u>262,791</u>		<u>262,791</u>
DEFERRED INFLOWS OF RESOURCES			
Prepaid grant	\$ 362,731	\$	362,731
Property taxes receivable	2,481		2,481
Total deferred inflows of resources	<u>365,212</u>		<u>365,212</u>
FUND BALANCES			
Non-Spendable:			
Prepaid expenses	28,144		28,144
Restricted:			
Stabilization by State Statute	1,512,908		1,512,908
Capital reserve fund	1,694,718		1,694,718
Unassigned	6,708,257		6,708,257
Total fund balances	<u>9,944,027</u>		<u>9,944,027</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 10,572,030</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.	19,104,093
Deferred outflows of resources related to pensions/OPEB are not reported in the funds	947,039
Liabilities for earned revenues considered deferred inflows of resources in fund statements.	2,481
Long-term liabilities used in governmental activities are not financial uses and therefore not reported in the funds	(2,528,420)
Net pension liability - LGERS	(1,342,893)
Total pension liability - LEOSA	(664,675)
Pension related deferrals	(64,588)
Other long-term liabilities (accrued interest) are not due and payable in the current period and therefore are not reported in the funds.	<u>(19,390)</u>
Net position of governmental activities	<u>\$ 25,377,674</u>

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

Exhibit 4

Town of Duck
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2021

	Major Funds	Total Governmental Funds
	General Fund	
REVENUES		
Ad valorem taxes	\$ 4,662,252	\$ 4,662,252
Other taxes and licenses	2,940,370	2,940,370
Unrestricted intergovernmental	2,214,854	2,214,854
Restricted intergovernmental	306,291	306,291
Permits and fees	205,745	205,745
Investment earnings	1,814	1,814
Miscellaneous	241,204	241,204
Total revenues	<u>10,572,530</u>	<u>10,572,530</u>
EXPENDITURES		
Current:		
General government	1,647,597	1,647,597
Public safety	3,343,333	3,343,333
Transportation	95,956	95,956
Environmental protection	1,144,574	1,144,574
Economic and physical development	335,473	335,473
Parks	175,793	175,793
Debt service		
Principal	1,732,113	1,732,113
Interest	71,413	71,413
Capital outlay	<u>775,262</u>	<u>775,262</u>
Total expenditures	<u>9,321,514</u>	<u>9,321,514</u>
Excess (deficiency) of revenues over expenditures	1,251,016	1,251,016
OTHER FINANCING SOURCES		
Fund balances, beginning	8,577,291	8,577,291
Prior period adjustment	115,720	115,720
Fund balances, ending	<u>\$ 9,944,027</u>	<u>\$ 9,944,027</u>

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

Exhibit 4

**Town of Duck
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2021**

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

Net changes in fund balances - total governmental funds	\$	1,251,016
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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	\$ 775,262	
Depreciation expense for governmental assets	<u>(3,147,372)</u>	(2,372,110)

Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities		227,291
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Benefit payments paid and administrative expense for the LEOSSA are not included on the Statement of Activities		4,726
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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		(5,327)
--	--	---------

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	1,732,113	
Decrease in accrued interest payable	<u>7,250</u>	1,739,363

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.

Decrease in compensated absences	7,497	
Pension expense - LGERS	(426,791)	
Pension expense - LEOSSA	<u>(82,339)</u>	(501,633)

Total changes in net position of governmental activities	\$	<u><u>343,326</u></u>
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**Town of Duck
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2021**

	General Fund			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
Revenues:				
Ad valorem taxes	4,657,433	4,657,433	4,662,252	4,819
Other taxes and licenses	1,879,450	1,879,450	2,940,370	1,060,920
Unrestricted intergovernmental	1,766,933	1,766,933	2,214,854	447,921
Restricted intergovernmental	761,031	761,031	306,291	(454,740)
Permits and fees	143,000	143,000	205,745	62,745
Investment earnings	-	-	1,281	1,281
Miscellaneous	132,000	347,000	241,204	(105,796)
Total revenues	9,339,847	9,554,847	10,571,997	1,017,150
Expenditures:				
Current:				
General government	1,400,392	1,937,892	1,897,969	39,923
Public safety	3,534,401	3,565,901	3,452,891	113,010
Transportation	1,408,174	1,408,174	474,458	933,716
Environmental protection	2,623,105	3,051,172	2,966,939	84,233
Economic and physical development	318,916	355,229	353,464	1,765
Parks	243,039	243,039	175,793	67,246
Total expenditures	9,528,027	10,561,407	9,321,514	1,239,893
Revenues over (under) expenditures	(188,180)	(1,006,560)	1,250,483	2,257,043
Other financing sources (uses):				
Transfers from other funds	1,258,223	1,298,223	1,294,348	(3,875)
Transfers to other funds	(995,043)	(1,365,043)	(1,384,876)	(19,833)
Contingency	(75,000)	-	-	-
Fund Balance Appropriated	-	1,073,380	-	(1,073,380)
Total other financing sources (uses)	188,180	1,006,560	(90,528)	(1,097,088)
Revenues and other sources over (under) expenditures and other uses	<u>\$ -</u>	<u>\$ -</u>	1,159,955	<u>\$ 1,159,955</u>
Fund balances, beginning			6,998,486	
Prior period adjustment			<u>90,868</u>	
Fund balances, ending			<u>\$ 8,249,309</u>	
A legally budgeted Capital Reserve Fund is consolidated into the General Fund for reporting purposes:				
Investment Earnings			533	
Transfer from the General Fund			1,384,876	
Transfer to the General Fund			(1,294,348)	
Fund Balance, beginning			<u>1,578,805</u>	
Prior period adjustment			<u>24,852</u>	
Fund Balance, ending (Exhibit 4)			<u>\$ 9,944,027</u>	

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

TOWN OF DUCK
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2021

I. 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 that is governed by a five-member Council, including a Council elected Mayor. The Town began operations 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. These statements distinguish between the *governmental* and *business-type activities* of the Town. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties. The Town only has governmental activities.

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

Fund Financial Statements: The fund financial statements provide information about the Town's funds. Separate statements for each fund category – *governmental and proprietary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds.

The Town reports the following major governmental funds:

General Fund. The General Fund is the general operating fund of the Town. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund. The primary revenue sources are ad-valorem taxes, State grants, and various other taxes and licenses. The primary expenditures are for general government services, public safety, transportation, environmental protection, economic and physical development and parks. Additionally, the Town has legally adopted a **Capital Reserve Fund** designated for beach nourishment. Under GASB 54 guidance the Capital Reserve Fund is consolidated in the General Fund. The budgetary comparison for the Capital Reserve Fund has been included in the supplemental information.

TOWN OF DUCK
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2021

C. Measurement Focus and Basis of Accounting

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

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

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 a revenue because the amount is not susceptible to accrual. At June 30, taxes receivable for property other than motor vehicle taxes 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. Uncollected taxes that were billed in periods prior to September 1, 2013 are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

Sales taxes and certain intergovernmental revenues, such as the 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 shared revenue for the Town of Duck because the tax is levied by Dare County and then remitted to and distributed by the State. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Grant revenues which are unearned at year-end are recorded as unearned 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 are both restricted and unrestricted net position available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

TOWN OF DUCK
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2021

D. Budgetary Data

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund and Capital Reserve Fund. All annual appropriations lapse at the fiscal-year end. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the department level for all annually budgeted funds. The Budget Officer may transfer amounts between objects of expenditure within a department. Amendments must be approved by the governing board for any revisions that alter the total expenditures of any department or project or use contingency funds. During the year, several amendments to the original budget were necessary. The primary changes to the adopted budget were increases of \$ 435,380 to carry over outstanding commitments from the June 30, 2020 fiscal year primarily for beach nourishment engineering contracts. Other amendments approved include a \$ 435,000 increase in legal fees. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Fund Equity

1. Deposits and Investments

All deposits of the Town 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 non-guaranteed federal agencies; certain high-quality issues of commercial paper and bankers' acceptances and the North Carolina Capital Management Trust (NCCMT).

The Town's investments are reported at fair value. The NCCMT Government Portfolio is a 2a-7 money market mutual fund is measured at fair value. Because the NCCMT Government Portfolio has a weighted average of less than 90 days, it is presented as an investment with a maturity of less than 6 months.

2. Cash and Cash Equivalents

The Town pools money from several funds to facilitate disbursement and investment and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents.

3. Restricted Assets

Money in the Capital Reserve Fund is classified as restricted assets because its use is restricted to the Capital Reserve Fund per G.S. 159-18.

TOWN OF DUCK
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2021

Town of Duck Restricted Cash:

Governmental Activities:

General Fund:

Capital reserve fund	<u>\$ 1,694,718</u>
Total General Fund	<u>1,694,718</u>

Total Restricted Cash	<u>\$ 1,694,718</u>
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4. Ad-Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad-valorem taxes on property other than motor vehicles on July 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, 2020.

5. Allowances for Doubtful Accounts

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

6. 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.

7. Capital Assets

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

Capital assets are depreciated using the straight-line method over the following estimated useful lives: Asset Class	Estimated Useful Lives
Infrastructure	20 years
Buildings	15-40 years
Improvements	10 years
Vehicles	5-10 years
Furniture and equipment	5-10 years
Computer equipment	5 years

TOWN OF DUCK
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2021

8. 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 several items that meet this criterion, contributions made to the pension plans in the 2021 fiscal year and other pension deferrals. In addition to liabilities, the statements 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 several items that meet the criterion for this category – property taxes receivable, prepaid grants, and pension deferrals.

9. 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.

10. Compensated Absences

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

11. Net Position/Fund Balances

Net Position

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

Fund Balances

In the governmental fund financial statements, fund balance is composed of five classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent. The governmental fund types classify fund balance as follows:

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

TOWN OF DUCK
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2021

Prepaid expenses – portion of fund balance that is not an available resource because it represents the year-end balance of prepaid expenses, which are not spendable resources.

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

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

Restricted for Capital Reserve Fund – portion of fund balance that is restricted for the legally adopted Capital Reserve Fund.

Committed Fund Balance – Portion of fund balance that can only be used for specific purpose imposed by majority vote of the Town's governing body (highest level of decision-making authority). Any changes or removal of specific purposes requires majority action by the governing body.

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

TOWN OF DUCK
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2021

expenditures. Any portion of fund balance in excess of 75% of the previous year's general fund expenditures may not be used for any purpose that would obligate the Town in a future budget.

12. Pensions

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

II. Stewardship, Compliance, and Accountability

A. Material Violations of Finance-Related Legal and Contractual Provisions

No items to report.

B. Deficit Fund Balance or Retained Earnings of Individual Funds

No items to report.

C. Excess of Expenditures over Appropriations

No items to report.

III. Detail Notes on All Funds

A. Assets

1. 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 these units' names. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town of Duck, 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 under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method.

At June 30, 2021, the Town's deposits had a carrying amount of \$ 3,743,015 and a bank balance of \$ 3,887,439. Of the bank balance, \$ 250,000 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method.

TOWN OF DUCK
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2021

2. Investments

At June 30, 2021, the Town's investments were as follows:

	<u>Valuation</u> <u>Measurement Method</u>	<u>Book Value</u> <u>At 6/30/21</u>	<u>Maturity</u>	<u>Rating</u>
NC Capital Management Trust:				
Government Portfolio	Fair Value Level 1	\$ 5,621,234	N/A	AAAm
Total Investments		<u>\$ 5,621,234</u>		

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 valued using directly observable, quoted prices (unadjusted) in active markets for identical assets.

Interest Rate Risk. The Town's cash management policy does not address interest rate risk.

Credit Risk. The Town's cash management policy does not address credit risk but has internal management procedures that limits the Town's investments to the provisions of G.S. 159-30. 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, 2021.

3. Capital Assets

Primary Government

Capital asset activity for the primary government for the year ended June 30, 2021 was as follows:

	<u>Beginning</u> <u>Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balances</u>
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 6,187,436	\$ -	\$ -	\$ 6,187,436
Construction in process	-	592,820	-	592,820
	6,187,436	592,820	-	6,780,256
Capital assets being depreciated:				
Buildings	2,448,233	-	-	2,448,233
Equipment	567,417	-	10,000	557,417
Infrastructure	5,288,961	182,441	-	5,471,402
Beach nourishment	13,638,468	-	-	13,638,468
Vehicles	846,620	-	41,990	804,630
Total capital assets being depreciated	22,789,699	182,441	51,990	22,920,150
Less accumulated depreciation for:				
Buildings	794,851	90,533	-	885,384
Equipment	520,713	20,363	10,000	531,076
Infrastructure	1,948,411	311,668	-	2,260,079
Beach nourishment	3,818,772	2,591,308	-	6,410,080
Vehicles	418,184	133,500	41,990	509,694
Total accumulated depreciation	7,500,931	\$3,147,372	\$ 51,990	10,596,313
Total capital assets being depreciated (net)	15,288,768			12,323,837
Governmental activity capital assets, net	<u>\$21,476,204</u>			<u>\$19,104,093</u>

TOWN OF DUCK
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2021

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

General Government	\$ 85,616
Public Safety	136,132
Transportation	208,828
Environmental Protection (Beach Nourishment)	2,591,308
Economic and Physical Development	5,696
Parks	<u>119,792</u>
	<u>\$3,147,372</u>

B. Liabilities

1. 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-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 government entities. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Local Governmental Employees' Retirement System is included in the Annual Comprehensive Financial Report for the State of North Carolina. The State's Annual Comprehensive Financial Report includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 707-0500 or at www.osc.nc.gov.

Benefits Provided

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

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

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. The Town of Duck's employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town of Duck's contractually required contribution rate for the year ended June 30, 2021, was 10.7% of compensation for law enforcement officers and 10.15% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town of Duck were \$ 227,291 for the year ended June 30, 2021.

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

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

At June 30, 2021, the Town reported a liability of \$ 1,342,893 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2019. The total pension liability was then rolled forward to the measurement date of June 30, 2020, utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension asset was based on a projection of the Town's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2020, the Town's proportion was 0.03758%, which was an increase of 0.00127% from its proportion measured as of June 30, 2019.

For the year ended June 30, 2021, the Town recognized pension expense of \$426,791. At June 30, 2021, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 169,584	\$ -
Changes of assumptions	99,938	-
Net difference between projected and actual earnings on pension plan investments	188,976	-
Changes in proportion and differences between Town Contributions and proportionate share of contributions	-	51,771
Town contributions subsequent to the measurement date	227,291	-
Total	\$ 685,789	\$ 51,771

TOWN OF DUCK
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2021

\$227,291 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2022. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:		
2022	\$	106,712
2023		154,180
2024		89,907
2025		55,927
2026		-
Thereafter		-
	\$	<u>406,726</u>

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

Inflation	3.0 percent
Salary increases	3.50 to 8.10 percent, including 3.5% inflation and productivity factor
Investment rate of return	7.00 percent, net of pension plan investment expense, including inflation

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

The actuarial assumptions used in the December 31, 2019 valuation were based on the results of an actuarial experience study as of 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, 2019 are summarized in the following table:

TOWN OF DUCK
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2021

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

The information above is based on 30-year expectations developed with the consulting actuary for the 2019 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.

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

Sensitivity of the Town's proportionate share of the net pension 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 7.00 percent, as well as what the Town's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00 percent) or one percentage point higher (8.00 percent) than the current rate:

	<u>1% Decrease (6.00%)</u>	<u>Discount Rate (7.00%)</u>	<u>1% Increase (8.00%)</u>
Town's proportionate share of the net pension liability (asset)	\$ 2,724,585	\$ 1,342,893	\$ 194,611

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

TOWN OF DUCK
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b. Law Enforcement Officers Special Separation Allowance

1. *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.

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

Retirees receiving benefits	-
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	12
Total	<u>12</u>

2. *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 are recognized when due and payable in accordance with terms of the plan.

The Separation Allowance has no assets accumulated in a trust that meets the criteria which are outlined in GASB Statement 73.

3. *Actuarial Assumptions*

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

Inflation	2.5 percent
Salary increases	3.25 to 7.75 percent, including inflation and productivity factor
Discount rate	1.93 percent

The discount rate used to measure the total pension liability is the S&P Municipal Bond 20 Year High Grade Rate Index.

All mortality rates use Pub-2010 amount-weighted tables.

TOWN OF DUCK
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For the Fiscal Year Ended June 30, 2021

4. Contributions.

The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned on a pay as you go basis through appropriations in the General Fund operating budget. There were no contributions made by employees. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. The Town paid \$ 7,927 as benefits came due for the reporting period.

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

At June 30, 2021, the Town reported a total pension liability of \$ 664,675. The total pension liability was measured as of December 31, 2020 based on a December 31, 2019 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2020 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2021, The Town recognized pension expense of \$ 82,339. At June 30, 2021, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 72,091	\$ -
Changes of assumptions	184,433	12,817
Town benefit payments subsequent to the measurement date	4,726	-
Total	<u>\$ 262,250</u>	<u>\$ 12,817</u>

\$ 4,726 reported as deferred outflows of resources related to pension resulting from benefits payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ended June 30, 2022. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2022	\$ 42,972
2023	42,972
2024	43,459
2025	40,287
2026	38,856
Thereafter	35,161
Total	<u>\$ 243,707</u>

TOWN OF DUCK
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2021

Sensitivity of the Town's total pension liability to changes in the discount rate. The following presents the Town's total pension liability calculated using the discount rate of 1.93 percent, as well as what the Town's 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 (.93 percent) or one percentage point higher (2.93 percent) than the current rate:

	1% Decrease (.93%)	Discount Rate (1.93%)	1% Increase (2.93%)
Town's pension liability	\$ 744,571	\$ 664,675	\$ 592,514

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

Total pension liability December 31, 2019 \$ 429,013

Changes for the year:

Service cost at end of year	28,302
Interest	13,934
Change in benefit terms	0
Differences between expected and actuarial experience	10,963
Changes of assumptions and other inputs	185,664
Benefit payments	(3,201)
Other changes	0
Net changes	<u>\$ 235,662</u>

Total Pension liability December 31, 2020 \$ 664,675

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 health mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2019 valuation were based on the results of an experience study completed by the Actuary for the Local Government Employees' Retirement System for the five-year period ended December 31, 2019.

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Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2021

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

	<u>LGERS</u>	<u>LEOSSA</u>	<u>TOTAL</u>
Pension expense	\$ 426,791	\$ 82,339	\$ 509,130
Pension liability	1,342,893	664,675	2,007,568
Proportionate share of pension liability	.03758%	N/A	

Deferred of Outflows of Resources

Differences between expected and actual experience	169,584	72,091	241,675
Change of assumptions	99,938	184,433	284,371
Net difference between projected and actual earnings on plan investments	188,976	-	188,976
Changes in proportion and differences between contributions and proportionate share of contributions	-	-	-
Benefit payments and administrative costs paid subsequent to the measurement date	227,291	4,726	232,017

Deferred of Inflows of Resources

Differences between expected and actual experience	-	-	-
Change of assumptions	-	12,817	12,817
Net difference between projected and actual earnings on plan investments	-	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	51,771	-	51,771

c. Supplemental Retirement Income Plan for Law Enforcement Officers

Plan Description. The Town contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to law enforcement officers employed by the Town. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Supplemental Retirement Income Plan for Law Enforcement Officers is included in the Annual Comprehensive Financial Report for the State of North Carolina. The State's Annual Comprehensive Financial Report includes the pension trust fund financial statements for the Internal Revenue Code Section 401 (k) plan that includes the Supplementary Retirement Income Plan for Law Enforcement Officers. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy. Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan.

Contributions for the year ended June 30, 2021, were \$ 64,440, which consisted of \$ 37,598 from the Town and \$ 26,842 from law enforcement officers.

d. Supplemental Retirement Income Plan for Non-Law Enforcement Officers

Plan Description. The Town contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a

TOWN OF DUCK
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2021

Board of Trustees. The Plan provides retirement benefits to non-law enforcement officers employed by the Town. The Town has no requirement or obligation under State statutes to contribute to the plan.

Funding Policy. The Town contributes five percent for non-law enforcement officers and all amounts are vested immediately. These employees may make voluntary contributions to the plan. Contributions for the year ended June 30, 2021, were \$ 130,940, which consisted of \$ 72,330 from the Town and \$ 58,610 from employees.

e. 457 Deferred Compensation

Plan description. The Town adopted a Supplemental Retirement Income Plan, a defined contribution plan, for all employees beginning August 2010.

Funding policy. The Town does not match contributions to the 457 deferred compensation plan. Total contributions for the year ended June 30, 2021 were \$ 5,609 which consisted of \$ 3,917 from regular employees and \$ 1,692 for law enforcement employees.

2. Other Employment Benefit

The Town has also elected to provide death benefits to law enforcement employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months salary in a row during the 24 months prior to the employee's death. Effective July 1, 2004, the death benefit payments to beneficiaries must be between \$25,000 and \$50,000. All death benefit payments are made from the Death Benefit Plan. The Town has no liability beyond the payment of monthly contributions. Contributions are determined as a percentage of monthly payroll, based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. Because the benefit payments are made by the Death Benefit Plan and not by the Town, the Town does not determine the number of eligible participants. For the fiscal year ended June 30, 2021 the Town made contributions to the State for death benefits of \$ 1,053. The Town's required contributions for law enforcement officers represented 0.14% of covered payroll.

TOWN OF DUCK
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2021

3. Deferred Outflows and Inflows of Resources

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

	<u>Statement of Net Position</u>
Contributions to pension plan in the current fiscal year LGERS	\$ 227,291
Benefit payments made for LEOSA subsequent to measurement date	4,726
Differences between expected and actual experience	241,675
Changes of assumptions	284,371
Net difference between projected and actual earnings on plan investments	188,976
Changes in proportion and difference between contributions and proportionate share of contributions	<u>-</u>
Total	<u>\$ 947,039</u>

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

	<u>Statement of Net Position</u>	<u>General Fund Balance Sheet</u>
Taxes receivable (General Fund)	\$ -	\$ 2,481
Prepaid grant	362,731	362,731
Changes of assumptions	12,817	-
Net difference between projected and actual earnings on plan investments	-	-
Changes in proportion and difference between contributions and proportionate share of contributions	<u>51,771</u>	<u>-</u>
Total	<u>\$ 427,319</u>	<u>\$ 365,212</u>

4. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in two self-funded risk-financing pools administered by the North Carolina League of Municipalities. Through these pools, the Town obtains general liability and auto liability coverage of \$1 million per occurrence and property coverage up to the total insurance values of the property policy, and workers' compensation coverage up to statutory limits. 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, excess and stop loss 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 coverage. 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.

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For the Fiscal Year Ended June 30, 2021

The Town carries insurance that has special provisions that may apply to flood, earthquake and names 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 who have access to \$ 100 or more at any given time are performance bonded through a commercial surety bond. The finance officer is bonded for \$ 50,000 by the League Risk Management Services.

5. Long-Term Obligations

Operating 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, 2021, the Town paid \$27,291 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>
2022	\$ 5,832

Installment Purchases

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%.

Annual debt service payments of the installment purchase as of June 30, 2021, including \$ 72,225 of interest, are as follows:

Year Ending		
<u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2022	\$ 216,667	26,750
2023	216,667	19,795
2024	133,333	12,840
2025	133,333	8,560
2026	133,333	4,280
Total	<u>\$ 833,333</u>	<u>\$ 72,225</u>

On October 30, 2019, the Town entered into an installment financing contract with Suntrust in the amount of \$ 211,362 for the purchase of four vehicles. The interest rate is fixed as 2.116% per annum. The note requires the Town to pay three installments of \$ 73,105 including principal and interest, beginning August 1, 2020.

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Annual debt service payments of the installment purchases as of June 30, 2021, including \$ 4,513 of interest, are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>
<u>June 30</u>		
2022	\$ 70,107	\$ 2,998
2023	71,591	1,515
Total	<u>\$ 141,698</u>	<u>\$ 4,513</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, 2021 is \$ 1,392,600.

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

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>
<u>June 30</u>		
2022	<u>\$ 1,392,600</u>	<u>\$ 11,002</u>
Total	<u>\$ 1,392,600</u>	<u>\$ 11,002</u>

At June 30, 2021 the Town had a legal debt margin of \$ 146,225,776

Changes in Long-Term Liabilities

	<u>Balance</u> <u>July 1,</u> <u>2020</u>	<u>Increase</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30,</u> <u>2021</u>	<u>Current</u> <u>Portion</u> <u>of Balance</u>
Governmental activities:					
Direct Placement					
Installment Purchase	\$ 1,314,544	-	\$ 339,513	\$ 975,031	\$ 286,774
Bonded Debt	2,785,200	-	1,392,600	1,392,600	1,392,600
Compensated absences	168,286	-	7,497	160,789	-
Net pension liability (LGERS)	991,598	351,295	-	1,342,893	-
Total pension liability (LEO)	429,013	235,662	-	664,675	-
Governmental Activity Long-Term Liabilities	\$5,688,641	\$ 586,957	\$ 1,739,610	\$ 4,535,988	\$ 1,679,374

6. Commitments

For the fiscal year ended June 30, 2022, the Town has budgeted to pay at least \$ 231,000 to the Duck Volunteer Fire Department, Inc. as compensation for firefighting services plus \$ 301,525 for equipment. This doesn't include amounts for personnel paid by the Town.

TOWN OF DUCK
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2021

C. Inter-fund Balances and Activity

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

From the General Fund to the Capital Reserve Fund for beach nourishment taxes designated for future beach nourishment.	\$ 1,384,876
From the Capital Reserve Fund for beach nourishment to the General Fund for bond interest and principal payments and beach nourishment expenses.	\$ 1,294,348

D. Fund Balance

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

Total fund balance – General Fund	\$ 9,944,027
Less:	
Prepaid expenses	\$ 28,144
Stabilization by State Statute	1,512,908
Capital reserve fund	1,694,718
Working capital/fund balance policy	<u>6,708,257</u>
Total Reductions	<u>\$ 9,944,027</u>
Remaining Fund Balance	<u>\$ 0</u>

The Town Council 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 greater than 75% but not greater than 100% of the previous fiscal year's general fund expenditures less debt service for beach nourishment. Expenditures for June 30, 2021 of \$ 9,321,514 less debt service for beach nourishment of \$ 1,425,605 leaves a balance of \$ 7,895,909 which represents 85%. Therefore, all unassigned fund balance applies to the minimum working capital/fund balance policy.

Outstanding encumbrances are amounts needed to pay any commitments related to purchase orders and contracts that remain unperformed at year-end. These amounts are included in Stabilization by State Statute. Those amounts at year-end are:

General Fund - \$ 335,752 of which \$ 71,176 are for beach nourishment and \$ 256,200 is for the final design of the living shoreline.

E. Beach Nourishment

The Town originally adopted a capital project ordinance for Beach Nourishment on June 3, 2015, which was amended resulting in a 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 was completed in fiscal year 2019. The terms of the special obligation bond debt require annual repayment of principal and interest with the final payment scheduled for the June 30, 2022 fiscal

TOWN OF DUCK
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For the Fiscal Year Ended June 30, 2021

year. Repayment of the bond proceeds and interest is provided by taxes on the properties located in the municipal service districts (MSD) and increased sales taxes resulting from these MSD levies. 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 declining 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 the amount of \$ 1,003,953 was transferred from the General Fund to the Capital Reserve Fund and are restricted for beach nourishment. An additional contribution of \$ 380,923 was received from increased sales tax revenues resulting from the municipal service district tax levies. During the June 30, 2021 fiscal year \$ 1,221,390 was used for debt service with the remaining \$ 204,215 debt service provided by the contribution from Dare County. Additionally, during the year the Town allocated reserved funds of \$ 72,956 towards several beach nourishment projects including post Dorian related projects, annual monitoring and 2022 beach nourishment project permitting and design. The amount in the capital reserve fund restricted for future beach nourishment at June 30, 2021 is shown below:

Balance June 30, 2020	\$	1,578,805
Municipal service district tax		1,003,952
Restricted sales tax		380,923
Debt service		(1,221,390)
Beach nourishment projects		(72,956)
Prior period adjustment-sales tax		24,852
Interest earnings		<u>532</u>
Balance June 30, 2021	\$	<u>1,694,718</u>

IV. Prior Period Adjustment

The Town has recorded a prior period adjustment to begin recognizing the May State and County sales tax collected by NC in June and remitted to the Town on August 15 each year. This collection is within the 90-day collection window that the Town uses to recognize other significant revenues on the accrual basis. The prior period adjustment is for the May 2020 sales tax of \$ 115,720. \$ 90,868 of this is recorded in the general fund and \$ 24,852 is recorded in the capital reserve fund for the portion restricted for beach nourishment.

V. Summary Disclosure of Contingencies

Federal and State Assisted Programs

The Town has received proceeds from several Federal and State grants. Periodic audits of these grants are required, and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant 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 monies.

Subsequent Events

Management has evaluated subsequent events through October 19, 2021, the date on which the financial statements were available to be issued.

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 – Law Enforcement Officer's Special Separation Allowance
- 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 Eight Fiscal Years *

Local Government Employees' Retirement System

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Town's proportion of the net pension liability (asset) (%)	0.03758%	0.03631%	0.03763%	0.03601%	0.03363%	0.03775%	0.03680%	0.03690%
Town's proportion of the net pension liability (asset) (\$)	\$ 1,342,893	\$ 991,598	\$ 892,712	\$ 550,133	\$ 713,741	\$ 169,420	\$ (217,026)	\$ 444,787
Town's covered-employee payroll	\$ 2,198,880	\$ 2,047,298	\$1,729,201	\$1,601,444	\$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	61.07%	48.43%	51.63%	34.35%	48.50%	12.42%	(16.98%)	34.70%
Plan fiduciary net position as a percentage of the total pension liability**	88.61%	90.86%	91.63%	94.18%	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 Eight Fiscal Years**

Local Government Employees' Retirement System

	2021	2020	2019	2018	2017	2016	2015	2014
Contractually required contribution	\$ 227,291	\$ 201,814	\$ 164,989	\$ 136,641	\$ 123,091	\$ 102,581	\$ 100,188	\$ 97,570
Contributions in relation to the contractually required contribution	227,291	201,814	164,989	136,641	123,091	102,581	100,188	97,570
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town's covered-employee payroll	\$ 2,198,577	\$ 2,198,880	\$ 2,047,298	\$ 1,729,201	\$ 1,601,444	\$ 1,471,565	\$ 1,364,303	\$ 1,278,175
Contributions as a percentage of covered-employee payroll	10.34%	9.18%	8.06%	7.90%	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, 2021

	2021	2020	2019	2018	2017
Beginning balance	\$ 429,013	\$ 309,888	\$ 276,022	\$ 217,350	\$ 201,315
Service Cost	28,302	24,447	21,214	16,850	16,961
Interest on the total pension liability	13,934	11,280	8,722	8,390	7,187
Changes of benefit terms	-	-	-	-	-
Differences between expected and actual experience in the measurement of the total pension liability	10,963	64,578	21,533	9,112	-
Changes of assumptions or other inputs	185,664	18,820	(17,603)	24,320	(8,113)
Benefit payments	(3,201)	-	-	-	-
Other changes	-	-	-	-	-
Ending balance of the total pension liability	<u>\$ 664,675</u>	<u>\$ 429,013</u>	<u>\$ 309,888</u>	<u>\$ 276,022</u>	<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, 2021

	2021	2020	2019	2018	2017
Total pension liability	\$ 664,675	\$ 429,013	\$ 309,888	\$ 276,022	\$ 217,350
Covered payroll	906,550	838,985	682,673	610,247	577,323
Total pension liability as a percentage of covered payroll	73.32%	51.13%	45.39%	45.23%	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, 2021

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Ad valorem taxes:			
Taxes	\$ 3,662,390	\$ 3,654,513	\$ (7,877)
Municipal service district taxes	995,043	1,002,968	7,925
Interest	-	4,771	4,771
Total	<u>4,657,433</u>	<u>4,662,252</u>	<u>4,819</u>
Other taxes and licenses:			
Land Transfer Tax	372,408	853,475	481,067
Occupancy tax	1,507,042	2,086,895	579,853
Total	<u>1,879,450</u>	<u>2,940,370</u>	<u>1,060,920</u>
Unrestricted intergovernmental:			
Local option sales taxes	1,309,433	1,773,897	464,464
Utility franchise tax	405,000	383,697	(21,303)
Beer and wine tax	1,500	1,692	192
ABC/Mixed Beverage profit distribution	51,000	55,568	4,568
Total	<u>1,766,933</u>	<u>2,214,854</u>	<u>447,921</u>
Restricted intergovernmental:			
Federal grants	1,000	68,397	67,397
State grants	384,011	5,958	(378,053)
Local grants	376,020	231,936	(144,084)
Total	<u>761,031</u>	<u>306,291</u>	<u>(454,740)</u>
Permits and fees:			
Building permits	133,000	196,150	63,150
Other permits	10,000	9,595	(405)
Total	<u>143,000</u>	<u>205,745</u>	<u>62,745</u>
Investment earnings	-	1,281	1,281
Miscellaneous:			
Miscellaneous	347,000	241,204	(105,796)
Total	<u>347,000</u>	<u>241,204</u>	<u>(105,796)</u>
Total revenues	<u>9,554,847</u>	<u>10,571,997</u>	<u>1,017,150</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, 2021

	Budget	Actual	Variance Positive (Negative)
Expenditures:			
General government:			
Governing Body:			
Salaries and employee benefits		25,960	
Insurance		133,134	
Professional services		61,572	
Other operating expenditures		25,668	
Total	248,290	246,334	1,956
Administration:			
Salaries and employee benefits		416,493	
Professional services		30,068	
Other operating expenditures		84,922	
Total	563,730	531,483	32,247
Finance:			
Subsidies and allocations	72,000	72,461	(461)
Legal:			
Professional services and settlements	505,000	501,039	3,961
Public Buildings:			
Other operating expenditures		147,714	
Debt service		250,372	
Total	411,372	398,086	13,286
Information Technology:			
Subsidies and allocations		58,344	
Fixed charges		62,310	
Cable access channel		27,717	
Other operating expenditures		195	
Total	137,500	148,566	(11,066)
Total general government	1,937,892	1,897,969	39,923

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, 2021

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Public safety:			
Police:			
Salaries and employee benefits		1,037,488	
Police supplies and materials		40,474	
Vehicle maintenance and operation		41,527	
Other operating expenditures		151,067	
Debt service		91,300	
Total	<u>1,464,518</u>	<u>1,361,856</u>	<u>102,662</u>
Fire:			
Salaries and employee benefits		1,025,733	
Other operating expenditures		38,710	
Debt service		18,258	
Fire Protection contract		266,721	
Total	<u>1,354,418</u>	<u>1,349,422</u>	<u>4,996</u>
Inspections:			
Salaries and employee benefits		185,876	
Other operating expenditures		17,623	
Total	<u>206,965</u>	<u>203,499</u>	<u>3,466</u>
Rescue units:			
Ocean rescue		538,114	
Total	<u>540,000</u>	<u>538,114</u>	<u>1,886</u>
Total public safety	<u>3,565,901</u>	<u>3,452,891</u>	<u>113,010</u>
Transportation:			
Streets:			
Temporary services		58,518	
Professional services		360	
Repairs and maintenance		19,687	
Utilities		2,997	
Other operating expenditures		14,394	
Capital outlay		378,502	
Total transportation	<u>1,408,174</u>	<u>474,458</u>	<u>933,716</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, 2021

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Environmental protection:			
Solid waste:			
Subsidies and allocations		1,081,528	
Dune maintenance		63,046	
Capital outlay-beach nourishment		396,760	
Debt service		1,425,605	
Total environmental protection	<u>3,051,172</u>	<u>2,966,939</u>	<u>84,233</u>
Economic and physical development:			
Planning and Zoning			
Salaries and employee benefits		293,243	
Professional services		10,302	
Other operating expenditures		31,928	
Debt service		17,991	
Total economic and physical development	<u>355,229</u>	<u>353,464</u>	<u>1,765</u>
Parks			
Temporary help services		58,202	
Professional services		1,232	
Other operating expenditures		116,359	
	<u>243,039</u>	<u>175,793</u>	<u>67,246</u>
Total expenditures	<u>10,561,407</u>	<u>9,321,514</u>	<u>1,239,893</u>
Revenues over (under) expenditures	<u>(1,006,560)</u>	<u>1,250,483</u>	<u>2,257,042</u>
Other financing sources (uses):			
Transfers from other funds	1,298,223	1,294,348	(3,875)
Transfers to other funds	(1,365,043)	(1,384,876)	(19,833)
Fund Balance Appropriated	<u>1,073,380</u>	<u>-</u>	<u>(1,073,380)</u>
Total	<u>\$ 1,006,560</u>	<u>\$ (90,528)</u>	<u>\$ (1,097,088)</u>
Revenues and other financing sources over expenditures and other financing uses	<u>\$ -</u>	<u>1,159,955</u>	<u>\$ 1,159,954</u>
Fund balances, beginning		6,998,486	
Prior period adjustment		<u>90,868</u>	
Fund balances, ending		<u>\$ 8,249,309</u>	

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, 2021

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Investment earnings	-	533	533
Total revenues	-	533	533
Other financing sources (uses):			
Transfers from other funds	1,365,043	1,384,876	19,833
Transfers to other funds	(1,298,223)	(1,294,348)	3,875
Appropriated fund balance	(66,820)	-	66,820
Total	-	90,528	90,528
Net change in fund balance	<u>\$ -</u>	91,061	<u>\$ 91,061</u>
Fund balances, beginning		1,578,805	
Prior period adjustment		24,852	
Fund balances, ending		<u>\$ 1,694,718</u>	

Town of Duck, North Carolina
Analysis of Current Tax Levy
Town - Wide Levy
For the Fiscal Year Ended June 30, 2021

Fiscal Year	Uncollected Balance June 30, 2020	Additions	Collections	Adjustments	Uncollected Balance June 30, 2021
2020-2021	\$ -	\$ 3,649,243	\$ 3,648,881	\$ 98	\$ 460
2020-2021 MSD		1,002,806	1,002,624	33	215
2019-2020	5,565	-	4,997	-	568
2019-2020 MSD	522	-	195	-	327
2018-2019	151	-	119	-	32
2018-2019 MSD	148	-	148	-	-
2017-2018	601	-	507	-	94
2016-2017	235	-	4	-	231
2015-2016	132	-	4	-	128
2014-2015	98	-	-	-	98
2013-2014	175	-	-	-	175
2012-2013	125	-	-	-	125
2011-2012	28	-	-	-	28
2010-2011	27	-	-	(27)	-
	<u>\$ 7,807</u>	<u>\$ 4,652,049</u>	<u>\$ 4,657,479</u>	<u>\$ 104</u>	<u>\$ 2,481</u>

Reconcilement with revenues:

Ad valorem taxes - General Fund (Statement 1)	\$ 4,662,252
Reconciling items:	
Interest and penalties collected	<u>(4,771)</u>
Total collections and credits	<u>\$ 4,657,479</u>

Town of Duck, North Carolina
Analysis of Current Tax Levy
Town - Wide Levy
For the Fiscal Year Ended June 30, 2021

	Town - Wide			Total Levy	
	Property Valuation	Rate	Total Levy	Property excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed	\$ 1,858,017,368	0.1964	\$ 3,649,146	\$3,615,742	\$ 33,404
Penalties	-		1,275	1,275	-
Total	1,858,017,368		3,650,421	3,617,017	33,404
Adjustments:					
Adjustments	-		98	98	
Discoveries	8,982	0.1964	18	18	-
Releases/Abatements-Property	(608,768)	0.1964	(1,196)	(1,196)	-
			(1,080)	(1,080)	-
Total property valuation	<u>\$ 1,857,417,581</u>				
Net levy			3,649,341	3,615,937	33,404
Uncollected taxes at June 30, 2021			(460)	(460)	-
Current year's taxes collected			<u>3,648,881</u>	<u>3,615,477</u>	<u>33,404</u>
Current levy collection percentage			<u>99.99%</u>	<u>99.99%</u>	<u>100.00%</u>