

TOWN OF DUCK,
NORTH CAROLINA
FINANCIAL STATEMENTS
For the Year Ended
June 30, 2019

Town Council Members

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

Administrative Staff

Christopher Layton, Town Manager
Lori Ackerman, Town Clerk

TOWN OF DUCK, NORTH CAROLINA

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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, 2019, 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, 2019, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 17, the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability (Asset) and Contributions, on pages 48 through 49, 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 50 and 51 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 23, 2019

FINANCIAL SECTION



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, 2019. 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 \$23,642,479 (*net position*).
- The government's total net position increased by \$697,366, primarily due to capital assets and unrestricted fund balance. The Capital Reserve Fund for the Town's Beach Nourishment Project also remains strong, with a slight increase in available revenues at the close of the fiscal year.
- As of the close of the current fiscal year, the Town of Duck's governmental funds reported combined ending fund balances of \$8,495,635 with a net increase of \$268,170 in fund balance from FY 2018. This increase is due to higher than anticipated sales, occupancy and transfer taxes (share revenues), unrestricted governmental revenues, grants, permits and fees, and investment earnings that offset fund balance appropriated during the fiscal year. Approximately 36% of this total amount, or \$3,021,822, is non-spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$5,473,813, or 64% of total general fund expenditures for the fiscal year.
- The Town of Duck's total debt decreased by \$1,731,612 (20%) during the fiscal year. The key factors in this decrease were decreases in installment purchases, bonded debt and net pension obligations that offset increases in compensated absences and total pension liability.
- During the current fiscal year, the Town made its second payment on five-year Special Obligation Bonds issued in June, 2016, lowering the principal owed by \$1,392,600, to \$4,177,800.

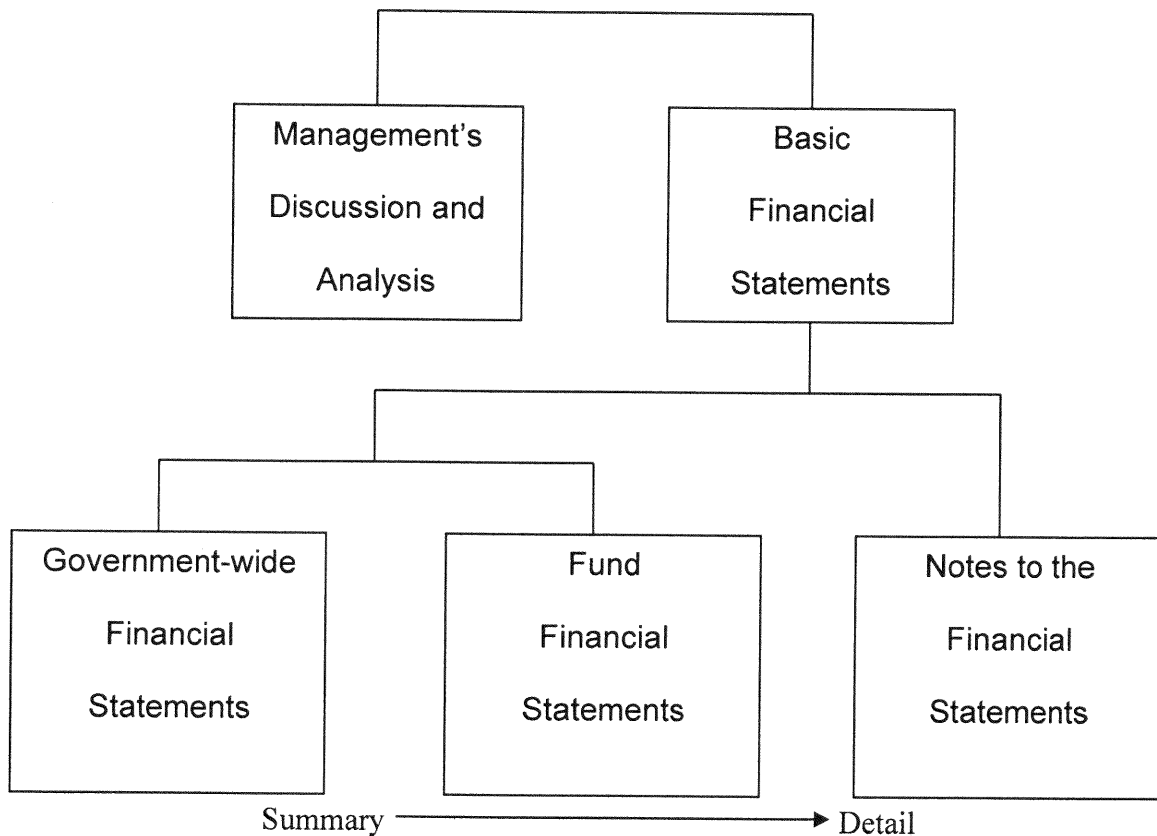
Overview of the Financial Statements

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, 2019, 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 fund statements.

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

Management Discussion and Analysis
Town of Duck, North Carolina

financial resources available to finance the Town's programs. The relationship between government activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The Town of Duck adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the Town, the management of the Town, and the decisions of the Council about which services to provide and how to pay for them. It also authorizes the Town to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the Town complied with the budget ordinance and whether or not the Town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the board; 2) the final budget as amended by the board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges.

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

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

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

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

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

Government-Wide Financial Analysis

Town of Duck's Net Position

Figure 2

	Activities	
	2019	2018
Current and other assets	\$ 8,885,707	\$ 8,393,985
Capital assets	21,443,686	22,671,421
Deferred Outflows of Resources	705,079	402,737
Total assets and deferred outflows of resources	31,034,472	31,468,143
Long-term liabilities outstanding	5,218,915	6,498,170
Other liabilities	2,075,068	1,926,195
Deferred Inflows of Resources	98,010	98,665
Total liabilities and deferred inflows of resources	7,391,993	8,523,030
Net position:		
Net investment in capital assets related debt	15,892,857	15,388,980
Restricted	3,021,822	3,027,253
Unrestricted	4,727,800	4,528,880
Total net position	\$ 23,642,479	\$ 22,945,113

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 \$23,642,479 as of June 30, 2019. The Town's net position increased by \$697,366 over the fiscal year ended June 30, 2018. However, the largest portion (67%) reflects the Town's net investment in capital assets (e.g. land, buildings, machinery, and equipment). The Town of Duck uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Duck's net investment in capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town of Duck's net position, \$3,021,822, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$4,727,800 is unrestricted.

Management Discussion and Analysis
Town of Duck, North Carolina

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

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 99.93% (99.92% property excluding registered motor vehicles; 100% for registered motor vehicles).
- Increase in Ad Valorem Taxes (including MSD taxes) of \$251,978.
- Increased Utility Franchise Tax of \$14,766.
- Combined net increase in building related permit fees of \$53,606.
- Investment earnings of \$53,885.

Town of Duck's Changes in Net Position
Figure 3

	Governmental Activities	
	2019	2018
Revenues:		
Program revenues:		
Charges for services	\$ 217,614	\$ 162,680
Operating grants and contributions	57,192	44,730
Capital grants and contributions	612,633	1,623,232
General revenues:		
Property taxes	4,641,191	4,379,131
Other taxes	3,663,964	3,709,732
Grants and contributions not restricted to specific programs	135,447	68,504
Other	85,619	114,368
Total revenues	<u>9,413,660</u>	<u>10,102,377</u>
Expenses:		
General government	1,253,633	2,343,064
Public safety	3,057,596	2,792,117
Transportation	223,674	194,403
Environmental protection	3,263,665	979,621
Economic and physical development	333,511	227,643
Parks	461,246	455,250
Interest on long-term debt	122,969	159,596
Total expenses	<u>8,716,294</u>	<u>7,151,694</u>
Increase in net position	697,366	2,949,683
Net position, beginning	<u>22,945,113</u>	<u>19,995,430</u>
Net position, ending	<u><u>\$ 23,642,479</u></u>	<u><u>\$ 22,945,113</u></u>

Governmental activities. Governmental activities increased the Town's net position by \$697,366, thereby accounting for 3% of the total growth in the net position of the Town of Duck.

Management Discussion and Analysis
Town of Duck, North Carolina

Key elements of this increase are as follows:

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

Financial Analysis of the Town's Funds

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

Governmental Funds. The focus of the Town of Duck's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. The Town is currently utilizing two governmental funds, the general fund and the Beach Nourishment Capital 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 fund balance available (unassigned) in the General Fund was \$6,430,419, while total fund balance reached \$8,495,635. The Town Council of the Town of Duck has determined that the Town should strive to maintain an unassigned fund balance of 75% to 100% of general fund expenditures in case of unforeseen needs or opportunities, in addition to meeting the cash flow needs of the Town. The Town currently has an unassigned fund balance of 60% of general fund expenditures, while total fund balance represents 93% of the same amount. As a "beach" community, subject to annual storms, such as hurricanes and nor'easters, the Town Council believes that a healthy unassigned fund balance is necessary to protect the Town's finances.

At June 30, 2019, the governmental funds of the Town of Duck reported a combined fund balance of \$8,495,635 with a net increase of \$268,170 in fund balance from FY 2018. This increase is due to net increases in ad valorem, utility franchise tax, and building permit related revenues.

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 2019 Budget five times during the budget year. These amendments included the appropriation of funding from the fund balance for the costs associated with the environmental assessment for the proposed public safety building, costs associated with storm damage repairs, and costs associated with the pedestrian improvement plan, a transfer to the Capital Reserve Fund for County funds for debt repayment, as well as other miscellaneous amendments.

Management Discussion and Analysis
Town of Duck, North Carolina

Revenues were greater than the budgeted amounts for FY 2019 primarily because the Town received ad valorem taxes, land transfer taxes, occupancy taxes, sales taxes, utility taxes and building permit related fees that were higher than budgeted amounts. Expenditures were 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, 2019, totals \$21,443,686 (net of accumulated depreciation). These assets include buildings, land, beach nourishment/protection, stormwater infrastructure, machinery and equipment, park facilities and vehicles.

Major capital asset transactions during the year include the following:

- The purchase of audio-visual equipment for the Town's Meeting Hall in the amount of \$14,343.
- The purchase of two police vehicles in the amount of \$89,778.
- Pedestrian/sidewalk construction and improvements in the amount of \$1,157,442.

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

	Governmental Activities	
	2019	2018
Land	\$ 6,187,436	\$ 6,187,436
Buildings and systems	1,743,914	1,834,446
Beach Nourishment	10,501,620	12,574,667
Equipment and furniture	71,619	86,512
Infrastructure	2,670,151	1,711,238
Vehicles and motorized equipment	268,946	277,122
Total	<u>\$ 21,443,686</u>	<u>\$ 22,671,421</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, 2019, the Town of Duck had total debt outstanding of \$6,881,364. Of this, \$1,373,029 is debt in the form of installment purchase contracts and \$4,177,800 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	
	2019	2018
Installment Purchase Contracts	\$ 1,373,029	\$ 1,712,041
Bonded Debt	4,177,800	5,570,400
Compensated Absences	127,935	121,186
Net Pension Obligation (LGERS)	892,712	550,133
Net Pension Obligation (LEO)	309,888	276,022
Total	<u>\$ 6,881,364</u>	<u>\$ 8,229,782</u>

Town of Duck's Outstanding Debt

The Town of Duck's total debt decreased by \$1,348,418 (16%) during the past fiscal year, primarily due to decreases in installment purchases (\$339,012) and bonded debt (\$1,392,600) and that offset increases in net pension obligations (\$33,866), compensated absences (\$6,749) and total pension liability (\$342,579).

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 \$123,273,937.

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

Economic Factors and Next Year's Budgets and Rates

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

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

Budget Highlights for the Fiscal Year Ending June 30, 2020

FY 2020 REVENUE REVIEW

The FY 2020 Budget represents an overall slight, 0.17%, *increase* in revenues from the FY 2019 Amended Budget. This small increase is due to additional anticipated shared revenues (sales, occupancy and transfer taxes) and debt proceeds that offset decreases in grant funds and transfers from other funds, particularly the fund balance. The continued implementation of two Municipal Service Districts (MSDs) to assist in funding the Town's Beach Nourishment Project, remain unchanged from last fiscal year. These two MSDs will generate \$981,978, with MSD-A generating \$633,529 and MSD-B generating \$348,449. This revenue will be transferred to a Capital Reserve - Beach Fund to cover debt service and the project costs in the beach nourishment area. Other revenue sources not listed above are expected to remain virtually unchanged, with a few minor changes. The paragraphs below elaborate on the revenues for the FY 2020 Budget.

Ad Valorem Taxes

Ad valorem revenues are derived from taxes placed on the property in the Town, this includes real property, personal and business property and motor vehicles. All ad valorem taxes are established by the ad valorem tax rate applied to each \$100 of the assessed value of applicable taxable property. For FY 2020, the ad valorem tax rate for remains at 22.5 cents. As was noted above, effective July 1, 2016, the Town implemented two MSDs to generate revenue to assist in funding debt service payments on the Town's Beach Nourishment Project. MSD-A applies to all properties in the project area and is expected to generate \$633,529 through an additional ad valorem tax rate of \$0.148. MSD-B applies only to oceanfront properties in the project area and is expected to generate \$348,449 through an additional ad valorem tax rate of \$0.315. The MSDs will remain in place until FY 2020 after which they will be re-evaluated. It is expected that the MSDs will remain in place as long as the current beach nourishment project is being maintained; however, the rate of the tax for the MSDs will like change to a lower amount.

Shared Revenues

Shared revenues (sales, occupancy, and land transfer taxes) are expected to increase by 12% for FY 2020 when compared to the FY 2019 Budget. This increase in shared revenues is the result of a higher percentage of return from these revenue sources dues to tax rate increase in FY 2019 of \$0.015 approved by

the Town Council. In FY 2019 the Town of Duck received 13.99% of the occupancy and land transfer taxes returned to the Dare County towns and 4.28% of sales tax revenues. For FY 2020 these percentages are expected to increase to 14.41% of occupancy and land transfer tax revenues and 4.46% of sales tax revenues. All three shared revenue sources are expected to be strong for FY 2020, with no increase (but no decrease) in gross occupancy tax revenues, an estimated increase in gross land transfer tax revenues of 3%, and a 0.5% increase in estimated gross sales tax revenues expected.

Other Revenue Sources

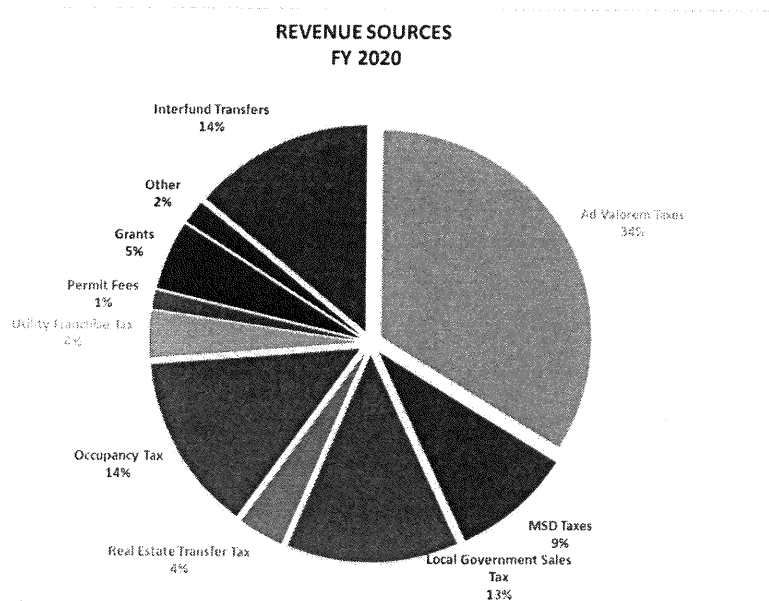
Of the remaining revenue sources of the Town, all are expected to be the same or slightly above or below, in FY 2020 as was budgeted for in FY 2019, except for Restricted Intergovernmental (grants) which are expected to be lower than FY 2019. Building related permits and fees are expected to remain strong in FY 2020.

Interfund Transfers, Debt Proceeds, Appropriated Fund Balance

For FY 2020, the Town of Duck is expected to enter into an installment purchase contract for the purchase of three police vehicles and one fire department command vehicle, which will result in estimated debt proceeds of \$216,824. In addition, an interfund transfer will be made from the Capital Reserve – Beach Fund to pay for debt associated with the Town’s Beach Nourishment Project and beach profile surveys in the project area (\$1,484,661).

Revenue Sources

As is shown in the chart, most of the Town of Duck’s revenues are derived from ad valorem taxes and MSD taxes (45%). Shared revenues make up 31% of the Town’s revenues with proceeds from the occupancy tax comprising 14% of revenues, sales tax 13% and land



transfer tax 4%. Interfund transfers account for 14% of revenues. Grants account for 5% of revenues and the Utility Franchise Tax comprises 4% of revenues. Miscellaneous (other) revenues account for 2% of revenues and permit fees 1%.

FY 2020 EXPENDITURE REVIEW

Overall, expenditures for the FY 2020 Budget are expected to increase by a slight 0.17% when compared to the FY 2019 Amended Budget. This increase is due to several different factors including the following:

- the addition of an Assistant to the Town Manager position (\$69,125);
- the replacement of three police patrol vehicles and one fire command vehicle (\$217,723);
- funding for Phase III of the Comprehensive Pedestrian Plan Improvements (\$724,558); and
- debt service on the Town of Duck Beach Nourishment Project (\$1,447,608).

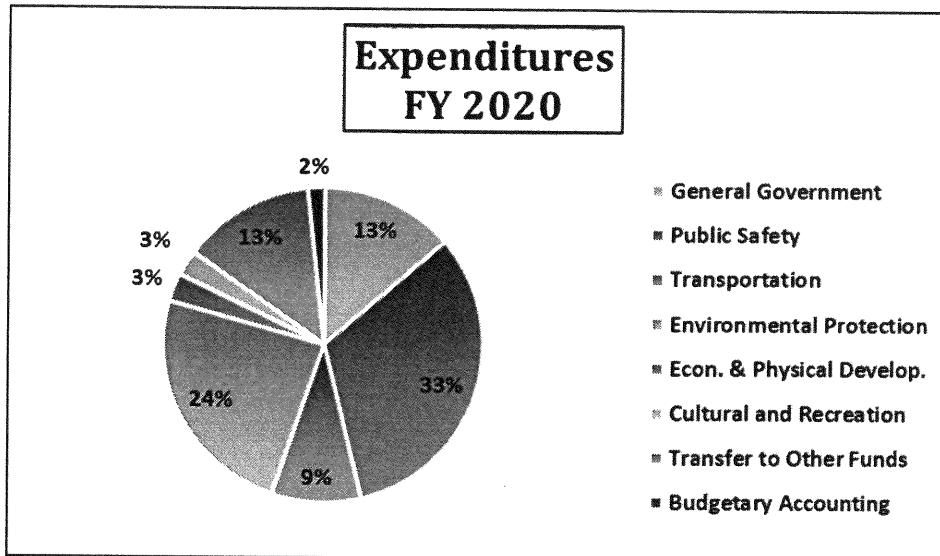
The FY 2020 Budget also includes several initiatives and projects in addition to those listed above and employee and operations costs. Among these are the following:

- funding for repairs to the current Public Safety Building (\$60,000);
- contingency funding (\$75,000);
- direct appropriation to the fund balance (\$110,814); and
- transfer to the Beach Capital Reserve Fund related to the Beach Nourishment Project (\$1,447,608).

In addition, the FY 2020 Budget also includes funding for the following Capital Improvements Program (CIP) items. These items include the following:

- debt service for the construction of the Town Hall Complex, including the purchase of the property on which it sits (\$257,327);
- purchase of two new servers and other related services (\$27,500)
- purchase of replacement 800 MHz radios (\$16,500)
- debt service on the purchase of police patrol vehicles (\$37,222);
- purchase of replacement Police Mobile Data Terminals (\$25,000);
- purchase of a police utility trailer (\$6,500);
- replacement of SCBA bottles for the Fire Department (\$14,000);
- replacement of Fire Department turnout gear (\$14,000);
- purchase of additional hose for the Fire Department (\$6,000);
- debt service on Engine 111 replacement (\$57,722);
- purchase of extrication equipment for the Fire Department (\$7,000);
- purchase of a Fire Department thermal imaging camera (\$12,000);
- repaving of the Duck Trail (\$160,000);
- funding for enhanced dune planting/fencing and fertilization (\$80,000);
- debt service on Community Development vehicle (\$18,333); and
- funding for permitting relating to the Duck Town Park Shoreline Stabilization Project (\$15,000).

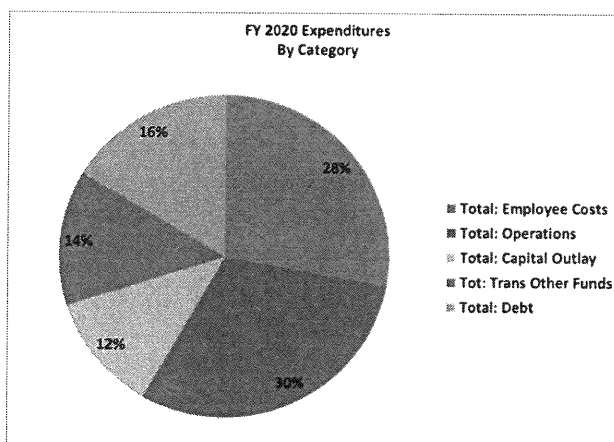
Where the Revenue Goes



The Town of Duck uses its revenue sources to fund a variety of services. For FY 2020, much of the Town's revenues (33%) are used to fund Public Safety related expenditures. Public Safety

expenditures include the Police and Fire Departments, Building Inspections, and Ocean Rescue. Environmental Protection expenditures, i.e. residential and commercial solid waste collection and disposal and recycling and costs related to beach protection, including the debt service on the Town of Duck Beach Nourishment Project, are next at 24%. This is followed by General Government expenditures (Governing Body, Administration, Finance, Legal, and Public Buildings, including debt service on the Town Hall-Community/Meeting Hall, and Information Technology) and Transfers to Other Funds, which is revenue being transferred to the Beach Fund at 13%. Transportation, i.e. those items related to the Town's streets and the Duck Trail, including Phase III of the Comprehensive Pedestrian Plan Improvements comprise 9% of expenditures, while Cultural and Recreational (the Town Park) and Economic and Physical Development (the Department of Community Development) are next at 3%. Rounding out the list are expenditures related to Budgetary Accounting (contingency and fund balance) at 2%.

Expenditures by Categories



For FY 2020, 30% of Town's expenditures fund general operations, 28% fund employee costs, 16% funds debt, 14% is a transfer to the Beach Fund and 12% funds capital outlay.

The Town of Duck currently employs 32 full-time employees and two part time equivalent employees. For FY 2020, one additional position, the Assistant to the Town Manager, is requested bringing the total number of

Management Discussion and Analysis
Town of Duck, North Carolina

employees to 33 plus two part-time equivalent positions. A 1.5% merit increase for all current employees is budgeted plus a merit bonus of up to an additional 3%, as well as a 10% increase for medical insurance.

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

BASIC FINANCIAL STATEMENTS

**Town of Duck
Statement of Net Position
June 30, 2019**

Exhibit 1

	<u>Primary Government</u>
	<u>Governmental Activities</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 5,916,232
Taxes receivables (net)	4,487
Due from other governments	899,771
Restricted cash and cash equivalents	2,065,217
Total current assets	<u>8,885,707</u>
Non-current assets:	
Capital assets (Note 1):	
Land, non-depreciable improvements, and construction in progress	6,187,436
Other capital assets, net of depreciation	15,256,250
Total capital assets	<u>21,443,686</u>
Total assets	<u>\$ 30,329,393</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pension deferrals	705,079
Total deferred outflows of resources	<u>705,079</u>
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 385,585
Accrued interest payable	27,034
Current portion of long-term liabilities	1,662,449
Long-term liabilities:	
Net pension liability	892,712
Total pension liability - LEO	309,888
Due in more than one year	4,016,315
Total liabilities	<u>7,293,983</u>
DEFERRED INFLOWS OF RESOURCES	
Pension deferrals	98,010
Total deferred inflows of resources	<u>98,010</u>
NET POSITION	
Net investment in capital assets	15,892,857
Restricted for:	
Stabilization by state statute	956,606
Capital reserve fund	2,065,216
Unrestricted	4,727,800
Total net position	<u>\$ 23,642,479</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, 2019

Functions/Programs	Expenses	Program Revenues			Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Primary government:					
Governmental Activities:					
General government	\$ 1,253,633	\$ -	\$ 33,192	\$ 55,061	\$ (1,165,380)
Public safety	3,057,596	217,614	-	-	(2,839,982)
Transportation	223,674	-	-	309,351	85,677
Economic and physical development	333,511	-	-	-	(333,511)
Environmental protection	3,263,665	-	24,000	248,221	(2,991,444)
Parks	461,246	-	-	-	(461,246)
Interest on long-term debt	122,969	-	-	-	(122,969)
Total governmental activities (See Note 1)	8,716,294	217,614	57,192	612,633	(7,828,855)
Total primary government	\$ 8,716,294	\$ 217,614	\$ 57,192	\$ 612,633	(7,828,855)

General revenues:

Taxes:

Property taxes, levied for general purpose	3,644,755
Municipal service district taxes	996,436
Other taxes	3,663,964
Unrestricted investment earnings	135,447
Miscellaneous	85,619
Total general revenues and transfers	8,526,221

Change in net position	697,366
Net position, beginning	22,945,113
Net position, ending	\$ 23,642,479

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

Exhibit 3

**Town of Duck
Balance Sheet
Governmental Funds
June 30, 2019**

	<u>Major Funds</u>			<u>Total Governmental Funds</u>
	<u>General</u>			
ASSETS				
Cash and cash equivalents	\$	5,916,232	\$	5,916,232
Receivables, net:				
Taxes		4,487		4,487
Due from other governments		899,771		899,771
Restricted cash and cash equivalents		2,065,217		2,065,217
Total assets		<u>8,885,707</u>		<u>8,885,707</u>
LIABILITIES				
Accounts payable and accrued liabilities	\$	385,585	\$	385,585
Total liabilities		<u>385,585</u>		<u>385,585</u>
DEFERRED INFLOWS OF RESOURCES				
Property taxes receivable		4,487		4,487
Total deferred inflows of resources		<u>4,487</u>		<u>4,487</u>
FUND BALANCES				
Restricted:				
Stabilization by State Statute		956,606		956,606
Capital reserve fund		2,065,216		2,065,216
Unassigned		5,473,813		5,473,813
Total fund balances		<u>8,495,635</u>		<u>8,495,635</u>
Total liabilities, deferred inflows of resources and fund balances	\$	<u>8,885,707</u>		

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	21,443,686
Contributions to the pension plan in the current fiscal year are deferred outflows of resources on the Statement of Net Position	705,079
Liabilities for earned revenues considered deferred inflows of resources in fund statements.	4,487
Long-term liabilities used in governmental activities are not financial uses and therefore not reported in the funds	(5,678,764)
Net pension liability	(892,712)
Total pension liability - LEO	(309,888)
Pension related deferrals	(98,010)
Other long-term liabilities (accrued interest) are not due and payable in the current period and therefore are not reported in the funds.	(27,034)
Net position of governmental activities	<u>\$ 23,642,479</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, 2019**

	Major Funds	Total Governmental Funds
	General Fund	
REVENUES		
Ad valorem taxes	\$ 4,641,850	\$ 4,641,850
Other taxes and licenses	1,827,118	1,827,118
Unrestricted intergovernmental	1,836,846	1,836,846
Restricted intergovernmental	669,825	669,825
Permits and fees	217,614	217,614
Investment earnings	135,447	135,447
Miscellaneous	85,619	85,619
Total revenues	9,414,319	9,414,319
EXPENDITURES		
Current:		
General government	1,117,376	1,117,376
Public safety	2,936,272	2,936,272
Transportation	127,986	127,986
Environmental protection	1,190,618	1,190,618
Economic and physical development	313,191	313,191
Parks	338,386	338,386
Debt service		
Principal	1,731,612	1,731,612
Interest	129,145	129,145
Capital outlay	1,261,563	1,261,563
Total expenditures	9,146,149	9,146,149
Excess (deficiency) of revenues over expenditures and net change in fund balance	268,170	268,170
Fund balances, beginning	8,227,465	8,227,465
Fund balances, ending	\$ 8,495,635	\$ 8,495,635

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

Town of Duck
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2019

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

Net changes in fund balances - total governmental funds	\$	268,170
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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	\$ 1,261,563	
Depreciation expense for governmental assets	<u>(2,489,298)</u>	(1,227,735)

Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities	164,989
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Benefit payments paid and administrative expense for the LEOSA are not included on the Statement of Activities	332
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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	(659)

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	1,731,612	
Decrease in accrued interest payable	<u>6,175</u>	1,737,787

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Compensated absences	(6,749)	
Pension expense	<u>(238,769)</u>	(245,518)

Total changes in net position of governmental activities	\$	<u>697,366</u>
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The notes to the financial statements are an integral part of this statement.

Town of Duck
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2019

	General Fund			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
Revenues:				
Ad valorem taxes	4,564,634	4,564,634	4,641,850	77,216
Other taxes and licenses	1,684,425	1,684,425	1,827,118	142,693
Unrestricted intergovernmental	1,635,840	1,635,840	1,836,846	201,006
Restricted intergovernmental	593,572	623,572	669,825	46,253
Permits and fees	142,200	142,200	217,614	75,414
Investment earnings	-	-	115,251	115,251
Miscellaneous	111,000	111,000	85,619	(25,381)
Total revenues	8,731,671	8,761,671	9,394,123	632,452
Expenditures:				
Current:				
General government	1,338,142	1,451,599	1,396,001	55,598
Public safety	3,189,994	3,191,134	3,138,541	52,593
Transportation	957,570	1,427,570	1,285,428	142,142
Environmental protection	2,585,611	2,665,611	2,660,229	5,382
Economic and physical development	336,561	374,964	327,564	47,400
Parks	255,500	342,500	338,386	4,114
Total expenditures	8,663,378	9,453,378	9,146,149	307,229
Revenues over (under) expenditures	68,293	(691,707)	247,974	939,681
Other financing sources (uses):				
Transfers from other funds	1,252,047	1,500,268	1,221,390	(278,878)
Transfers to other funds	(1,221,390)	(1,469,611)	(1,221,390)	248,221
Contingency	(75,000)	-	-	-
Fund Balance Appropriated	(23,950)	661,050	-	(661,050)
Total other financing sources (uses)	(68,293)	691,707	-	(691,707)
Revenues and other sources over (under) expenditures and other uses	\$ -	\$ -	247,974	\$ 247,974
Fund balances, beginning			6,182,445	
Fund balances, ending			<u>\$ 6,430,419</u>	
A legally budgeted Capital Reserve Fund is consolidated into the General Fund for reporting purposes:				
Investment Earnings			20,196	
Transfer from the General Fund			1,221,390	
Transfer to the General Fund			(1,221,390)	
Fund Balance, beginning			2,045,020	
Fund Balance, ending (Exhibit 4)			<u>\$ 8,495,635</u>	

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

TOWN OF DUCK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Town of Duck conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies:

A. **REPORTING ENTITY**

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

B. **BASIS OF PRESENTATION**

Government-wide Statements: The statement of net position and the statement of activities display information about the primary government. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.

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

Fund Financial Statements: The fund financial statements provide information about the Town's funds.

The Town reports the following governmental funds:

General Fund. The General Fund is the general operating fund of the Town. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund. The primary revenue sources are ad valorem taxes, State grants, and various other taxes and licenses. The primary expenditures are for public safety, general government and sanitation. Additionally, the Town has legally adopted a **Capital Reserve Fund**, a fund that is designated for beach nourishment project, and is consolidated in the General Fund.

TOWN OF DUCK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

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

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

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

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

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

TOWN OF DUCK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

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

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

D. **BUDGETARY DATA**

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

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

Deposits and Investments

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

State law [§G.S. 159-30(c)] authorizes the Town to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust (NCCMT). The Town's investments are reported at fair value. Non-participating interest earning contracts are accounted for at cost. The NCCMT - Government Portfolio, a SEC-registered (2a-7) external investment pool, is measured at amortized cost, which is the NCCMT's share price. The NCCMT - Term Portfolio's securities are valued at fair value. The NCCMT-Term Portfolio is bond fund, has no rating and is measured at fair value. As of June 30, 2019, The Term portfolio has a duration of .11 years. Because the NCCMT Government and Term Portfolios have a weighted average maturity of less than 90 days, they are presented as an investment with a maturity of less than 6 months.

TOWN OF DUCK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Cash and Cash Equivalents

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

Restricted Assets

Money in the Capital Reserve Fund is classified as restricted as its use is restricted to the Capital Reserve Fund per NC G. S. Chapter 159, Article 3, Part 2.

Town of Duck Restricted Cash:

Governmental Activities:

General Fund	Capital reserve fund	<u>\$ 2 065 216</u>
Total governmental activities		<u>2 065 216</u>

Total Restricted Cash	<u>\$ 2 065 216</u>
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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, 2018.

Allowance for Uncollectibles

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

Prepaid Items

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

TOWN OF DUCK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

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

Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000, and an estimated life of at least two years. Donated capital assets received prior to June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town has one item that meet this criterion, contribution made to the pension plan in the 2019 fiscal year. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Town has one item that meet the criterion for this category - deferrals of pension expense that result from the implementation of GASB Statement 68.

Long-Term Obligations

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

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

TOWN OF DUCK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

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

Compensated Absences

The vacation policy of the Town provides for the accumulation of up to 240 hours of earned vacation leave with such leave being fully vested when earned. For the Town's government-wide funds, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned. The Town has assumed a last-in, first-out method of using accumulated compensated time.

The Town's sick leave policy provides for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since the Town does not have any obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

Net Position/Fund Balances

Net Position

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

Fund Balances

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

The governmental fund types classify fund balances as follows:

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

TOWN OF DUCK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

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

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

Committed Fund Balance - portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of Town of Duck's governing body (highest level of decision-making authority). The governing body can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

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

TOWN OF DUCK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

fund balance, assigned fund balance and lastly unassigned fund balance. The Town Manager has authority to deviate from this policy if it is in the best interest of the Town.

The Town of Duck has also adopted a minimum fund balance policy for the general fund which instructs management to conduct the business of the Town in such a manner that available fund balance is at least equal to or greater than 75% of the previous fiscal year's general fund expenditures. Any portion of the general fund balance in excess of 75% of the previous fiscal year's general fund expenditures may be appropriated for one-time expenditures and may not be used for any purpose that would obligate the Town in a future budget.

Defined Benefit Cost Sharing Plan

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

2. DETAIL NOTES ON ALL FUNDS

A. ASSETS

Deposits

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

The State Treasurer does not confirm this information with the Town or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town under the Pooling Method, the potential exists for undercollateralization. This risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town has no policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Town complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

TOWN OF DUCK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

2. DETAIL NOTES ON ALL FUNDS - (Cont.)

At June 30, 2019, the Town's deposits had a carrying amount of \$3,986,979 and a bank balance of \$3,991,718. Of the bank balance, \$250,000 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method.

Investments

At June 30, 2019, the Town's investment balances were as follows:

Investments by Type	Valuation Measurement Method	Book Value at 6/30/19	Maturity	Rating
NC Capital Management Trust – Government Portfolio	Amortized Cost	\$2,731,125	N/A	AAAm
NC Capital Management Trust – Term Portfolio	Fair Value Level 1	\$1,270,955	.09 years	Unrated
Total		\$4,002,080		

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

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

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

Credit Risk: The Town has no formal policy regarding credit risk, but has internal management procedures that limit the Town's investments to provisions of G.S. 159-30 and restricts the purchase of securities to the highest possible ratings whenever particular types of securities are rated. The Town's investment in the NC Capital Management Trust Government Portfolio carried a credit rating of AAAm by Standard & Poor's as of June 30, 2019. The Town's investment in the NC Capital Management Trust Term Portfolio is unrated. The Term Portfolio is authorized to invest in obligations of the US government and agencies, and in high grade money market instruments as permitted under North Carolina G.S. 159-30 as amended.

Capital Assets

Primary Government

Capital asset activity for the Primary Government for the year ended June 30, 2019 was as follows:

TOWN OF DUCK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

2. DETAIL NOTES ON ALL FUNDS - (Cont.)

	Balance July 1, 2018	Additions	Adjustments/ Retirements	Balance June 30, 2019
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 6 187 436	\$ -	\$ -	\$ 6 187 436
Total capital assets not being depreciated	<u>6 187 436</u>	<u>-</u>	<u>-</u>	<u>6 187 436</u>
Capital assets being depreciated:				
Equipment	553 074	14 343	-	567 417
Vehicles	686 749	89 778	(29 083)	747 444
Buildings	2 448 233	-	-	2 448 233
Beach nourishment	13 638 468	-	-	13 638 468
Infrastructure	3 200 759	1 157 442	-	4 358 201
Total capital assets being depreciated	<u>20 527 283</u>	<u>1 261 563</u>	<u>(29 083)</u>	<u>21 759 763</u>
Less accumulated depreciation for:				
Equipment	466 562	29 236	-	495 798
Vehicles	409 627	97 954	(29 083)	478 498
Buildings	613 787	90 532	-	704 319
Beach nourishment	1 063 801	2 073 047	-	3 136 848
Infrastructure	1 489 521	198 529	-	1 688 050
Total accumulated depreciation	<u>4 043 298</u>	<u>2 489 298</u>	<u>(29 083)</u>	<u>6 503 513</u>
Total capital assets being depreciated, net	<u>16 483 985</u>			<u>15 256 250</u>
Governmental activity capital assets, net	<u>\$ 22 671 421</u>			<u>\$ 21 443 686</u>

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

General Government	\$ -
Public Buildings	91 415
Public Safety	100 592
Transportation	95 688
Environmental protection	2 073 047
Economic and Physical Development	5 696
Parks	<u>122 860</u>
Total	<u>\$ 2 489 298</u>

B. LIABILITIES

Pension Plan Obligations

a. Local Governmental Employees' Retirement System

Plan Description. The Town of Duck is a participating employer in the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS membership is comprised of general employees and local law enforcement officers (LEOs) of participating local governmental entities. Article 3 of §G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members - nine appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report

TOWN OF DUCK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

2. DETAIL NOTES ON ALL FUNDS - (Continued)

B. LIABILITIES - (Continued)

Pension Plan Obligations - (Continued)

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

may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina, 27699-1410, or by calling (919) 981-5454, or at www.osc.nc.gov.

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

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

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Town employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town's contractually required contribution rate for the year ended June 30, 2019, was 8.50% of compensation for law enforcement officers and 7.75% for general employees and firefighters,

TOWN OF DUCK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

2. DETAIL NOTES ON ALL FUNDS - (Continued)

B. LIABILITIES - (Cont.)

Pension Plan Obligations - (Cont.)

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

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 \$164,989 for the year ended June 30, 2019.

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, 2019, the Town reported a liability of \$892,712 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2017. The total pension liability was then rolled forward to the measurement date of June 30, 2018 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2018 (measurement date), the Town's proportion was .03763%, which was an increase of .00162% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the Town recognized pension expense of \$205,257. At June 30, 2019, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

TOWN OF DUCK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

2. DETAIL NOTES ON ALL FUNDS - (Continued)

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 137 724	\$ 4 621
Changes of assumptions	236 891	-
Net difference between projected and actual earnings on pension plan investments	122 543	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	-	73 406
Town contributions subsequent to the measurement date	164 989	-
Total	<u>\$ 662 147</u>	<u>\$ 78 027</u>

\$662,147 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as an increase of the net pension asset in the year ended June 30, 2020. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2020	\$ 205 671
2021	132 251
2022	16 843
2023	64 368
2024	-
Thereafter	-
Total	<u>\$ 419 133</u>

Actuarial Assumptions. The total pension liability in the December 31, 2017 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 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, 2017 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

TOWN OF DUCK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

2. DETAIL NOTES ON ALL FUNDS - (Continued)

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, 2018 are summarized in the following table:

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

The information above is based on 30 year expectations developed with the consulting actuary for the 2017 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.

TOWN OF DUCK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

2. DETAIL NOTES ON ALL FUNDS - (Continued)

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)	\$2 144 372	\$ 892 712	(\$ 153 194)

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

b. Law Enforcement Officers Special Separation Allowance

Plan Description. The Town of Duck administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the Town's qualified sworn law enforcement officers under the age of 62 who have completed at least 30 years of creditable service or have attained 55 years of age and have completed five or more years of creditable service. The Separation Allowance is equal to .85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of §G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

All full-time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2017, the Separation Allowance's membership consisted of:

Retirees receiving benefits	0
Terminated plan members entitled to but not yet receiving benefits	0
Active plan members	<u>10</u>
Total	<u>10</u>

Summary of Significant Accounting Policies:

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

TOWN OF DUCK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

2. DETAIL NOTES ON ALL FUNDS - (Continued)

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

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

Actuarial Assumptions. The entry age actuarial cost method was used in the December 31, 2017 valuation. The total pension liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Salary increases	3.50 to 7.35 percent, including inflation and productivity factor
Discount rate	3.64 percent

The discount rate is based on the yield of the S&P Municipal Bond 20 Year High Grade Rate Index as of December 31, 2017.

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

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

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

At June 30, 2019, the Town reported a total pension liability of \$309,888. The total pension liability was measured as of December 31, 2018 based on a December 31, 2017 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2018 utilizing update procedures incorporation the actuarial assumptions. For the year ended June 30, 2019, the Town recognized pension expense of \$34,401.

	<u>Deferred Outflows of</u>	<u>Deferred Inflows of</u>
Differences between expected and actual experience	\$ 25 044	\$ -
Changes of assumptions	17 556	19 983
Benefit payments and plan administrative expense made subsequent to the measurement date	<u>332</u>	<u>-</u>
Total	<u>\$ 42 932</u>	<u>\$ 19 983</u>

TOWN OF DUCK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

2. DETAIL NOTES ON ALL FUNDS - (Continued)

\$332 reported as deferred outflows of resources related to pensions resulting from administrative expenses incurred subsequent to the measurement date will be recognized as an increase of the total pension liability in the year ended June 30, 2019. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2020	\$ 3,583
2021	3,583
2022	3,583
2023	3,583
2024	3,583
Thereafter	2,555

Sensitivity of the Town's total pension liability to changes in the discount rate. The following presents the Town's total pension liability calculated using the discount rate of 3.64 percent, as well as what the Town's total pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.64 percent) or 1-percentage-point higher (4.64 percent) than the current rate:

	1% Decrease <u>(2.64%)</u>	Discount Rate <u>(3.64%)</u>	1% Increase <u>(4.64%)</u>
Total pension liability	\$ 347,596	\$ 309,888	\$ 276,034

Law Enforcement Officers' Special Allowance

	<u>2019</u>
Beginning balance	\$ 276,022
Service Cost	21,214
Interest on the total pension liability	8,722
Changes of benefit terms	-
Differences between expected and actual experience in the measurement of the total pension liability	21,533
Changes of assumptions or other inputs	(17,603)
Benefit payments	-
Other changes	-
Ending balance of the total pension liability	<u>\$ 309,888</u>

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

TOWN OF DUCK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

2. DETAIL NOTES ON ALL FUNDS - (Continued)

The actuarial assumptions used in the December 31, 2017 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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

Following is information related to the proportionate share and pension expense for all pension plans:

	LGERS	LEOSSA	Total
Pension Expense	\$ 205,257	\$ 34,401	\$ 239,658
Pension Liability	892,712	309,888	1,202,600
Proportionate share of the net pension liability	.03763%	n/a	
Deferred of Outflows of Resources			
Differences between expected and actual experience	137,724	25,044	162,768
Changes of assumptions	236,891	17,556	254,447
Net difference between projected and actual earnings on plan investments	122,543	-	122,543
Changes in proportion and differences between contributions and proportionate share of contributions	-	-	-
Benefit payments and administrative costs paid subsequent to the measurement date	164,989	332	165,321
Deferred of Inflows of Resources			
Differences between expected and actual experience	4,621	-	4,621
Changes of assumptions	-	19,983	19,983
Net difference between projected and actual earnings on plan investments	-	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	73,406	-	73,406

c. Supplemental Retirement Income Plan for Law Enforcement Officers and all other Full-Time Employees

Plan Description. The Town contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to law enforcement officers and all other full-time employees of the Town. Article 5 of §G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

Funding Policy. Article 12E of §G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each employee's salary, and all amounts contributed are vested immediately. Also, the employees may make voluntary contributions to the plan. Contributions for the year ended June 30, 2019 were \$241,611, which consisted of \$101,983 from the Town and \$139,628 from employees.

TOWN OF DUCK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

2. DETAIL NOTES ON ALL FUNDS - (Continued)

Other Employment Benefit

The Town has additional death benefits provided through BCBS which provides for the beneficiaries of those employees who die in active service. After one year of service, employees are eligible for death benefits. Lump sum death benefit payments to the beneficiaries are equal to one times the employees' annual salary up to the highest salary of \$100,000 for fiscal year ended June 30, 2019.

Deferred Outflows and Inflows of Resources

Deferred outflows of resources is comprised of the following:

<u>Source</u>	<u>Amount</u>
Differences between expected and actual experience	\$ 162,768
Changes in assumptions	254,447
Net difference between projected and actual earnings on pension plan investments	122,543
Town contributions subsequent to the measurement date	165,321
	<u>\$ 705,079</u>

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

	<u>Unavailable Revenue</u>
Differences between expected and actual experience	\$ 4,621
Changes in assumptions	19,983
Changes in proportion and differences between Town contributions and proportionate share of contributions	73,406
Benefit payments and plan administrative expense made subsequent to the measurement date	-
	<u>\$ 98,010</u>

Commitments

The Town has budgeted to pay at least \$206,000 to the Duck Volunteer Fire Department, Inc. for the fiscal year ended June 30, 2020, as compensation for firefighting services. This doesn't include amounts for town personnel.

The Town entered into a contract during the year with Dominion Power for \$185,972 to move a power line. The work was not performed until after year-end.

TOWN OF DUCK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

2. DETAIL NOTES ON ALL FUNDS - (Continued)

Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in two self-funded risk financing pools, administered by the North Carolina League of Municipalities. Through these pools, the Town obtains general liability coverage of \$1 million per occurrence, property coverage up to the total insurance values of the property policy, and workers' compensation coverage up to statutory limits. These pools are reinsured through commercial companies for single occurrence claims against general liability, auto liability, police professionals' liability and public officials' liability in excess of \$1,000,000; claims in excess of \$1,000,000 and property in excess of \$500,000 and \$1,000,000 up to statutory limits for workers' compensation. The liability and property exposures are reinsured through commercial carriers for claims in excess of retentions as selected by the Board of Trustees each year. Specific information on the limits of the reinsurance and excess claims policies purchased by the Board of Trustees can be obtained by contacting the Risk Management Services Department of the NC League of Municipalities. The pools are audited annually by certified public accountants, and the audited financial statements are available to the Town upon request.

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

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

In accordance with G.S. 159-29, the Town's employees that have access to \$100 or more at any given time of the Town's funds are performance bonded through a commercial surety bond. The finance officer is bonded for \$50,000 by the League Risk Management Services.

Long-Term Obligations

Leases

In November 2016, the Town entered a lease agreement for a copier for a sixty-month period beginning November 2016. During the fiscal year ended June 30, 2019, the Town paid \$22,693 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>
2020	\$ 17 496
2021	17 496
2022	5 832
	<u>\$ 40 824</u>

TOWN OF DUCK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

2. DETAIL NOTES ON ALL FUNDS - (Continued)

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, 2019, including \$146,590 of interest, are as follows:

<u>Year Ending</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2020	\$ 216 667	\$ 40 660
2021	216 667	33 705
2022	216 667	26 750
2023	216 667	19 795
2024 - 2026	<u>399 996</u>	<u>25 680</u>
Total	<u>\$ 1 266 664</u>	<u>\$ 146 590</u>

On October 8, 2015, the Town entered into an installment financing contract with Branch Banking and Trust Company in the amount of \$204,500 for the purchase of five vehicles. The interest rate is fixed at 1.81% per annum. The note requires the Town to pay three annual installments of principal and interest in the amount of \$70,415 beginning on August 1, 2016. This installment purchase agreement was paid off during 2019.

On August 31, 2017, the Town entered into an installment financing contract with First National Bank in the amount of \$159,547 for the purchase of four vehicles. The interest rate is fixed at 2.2% per annum. The note requires the Town to pay three annual installments of principal in the amount of \$53,182, plus interest, beginning on August 1, 2018.

Annual debt service payments of the installment purchase as of June 30, 2019, including \$3,559 of interest, are as follows:

<u>Year Ending</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2020	\$ 53 182	\$ 2 373
2021	53 183	1 186
Total	<u>\$ 106 365</u>	<u>\$ 3 559</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, 2019 is \$4,177,800.

TOWN OF DUCK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

2. DETAIL NOTES ON ALL FUNDS - (Continued)

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

Year Ending June 30	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2020	\$ 1 392 600	\$ 55 008
2021	1 392 600	33 005
2022	1 392 600	11 001
Total	<u>\$ 4 177 800</u>	<u>\$ 99 014</u>

Changes in Long-Term Debt -

	<u>Balance June 30, 2018</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2019</u>	<u>Current Portion of Balance</u>
By Type:					
Installment purchases	\$ 1 712 041	\$ -	\$ 339 012	\$ 1 373 029	\$ 269 849
Bonded debt	5 570 400	-	1 392 600	4 177 800	1 392 600
Compensated absences	121 186	6 749	-	127 935	-
Net pension liability (LGERS)	550 133	342 579	-	892 712	-
Net pension obligation (LEO)	276 022	33 866	-	309 888	-
	<u>\$ 8 229 782</u>	<u>\$ 383 194</u>	<u>\$ 1 731 612</u>	<u>\$ 6 881 364</u>	<u>\$ 1 662 449</u>
By Purpose:					
General Government:					
Real property	\$ 1 483 331	\$ -	\$ 216 667	\$ 1 266 664	\$ 216 667
Bonded debt	5 570 400	-	1 392 600	4 177 800	1 392 600
Compensated absences	121 186	6 749	-	127 935	-
Net pension liability (LGERS)	103 601	173 140	-	276 741	-
Public Safety:					
Equipment	-	-	-	-	-
Vehicles	228 710	-	122 345	106 365	53 182
Net pension liability (LGERS)	446 532	169 439	-	615 971	-
Net pension obligation (LEO)	276 022	33 866	-	309 888	-
	<u>\$ 8 229 782</u>	<u>\$ 383 194</u>	<u>\$ 1 731 612</u>	<u>\$ 6 881 364</u>	<u>\$ 1 662 449</u>

Legal Debt Margin - As of June 30, 2019, the Town has a legal debt margin of \$123,273,937.

Interfund Balances and Activity

Transfers to/from other funds at June 30, 2019, consist of the following:

From the General Fund to the Capital Reserve Fund for beach nourishment taxes designated for future beach nourishment.	\$ 1 221 390
From the Capital Reserve Fund to the General Fund for bond interest and principal payment.	<u>1 221 390</u>
Total	<u>\$ 2 442 780</u>

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

TOWN OF DUCK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

2. DETAIL NOTES ON ALL FUNDS - (Continued)

Net Investment in Capital Assets

	<u>Governmental</u>
Capital assets	\$ 21 443 686
Less: Long-term debt	(5 550 829)
Add: Unexpended debt proceeds	-
Net investment in capital asset	<u>\$ 15 892 857</u>

Fund Balance

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

<i>Total fund balance-General Fund</i>	<i>\$ 8,495,635</i>
<i>Less:</i>	
<i>Stabilization by State Statute</i>	<i>956,606</i>
<i>Restricted for Capital Reserve Fund</i>	<i>2,065,216</i>
<i>Working Capital / Fund Balance Policy</i>	<i>5,473,813</i>
<i>Remaining Fund Balance</i>	<i>-0-</i>

The Town of Duck has adopted a minimum fund balance policy for the General Fund which instructs management to conduct the business of the Town in such a manner that total general fund balance is at least equal to or greater than 75% of the previous fiscal year's general fund expenditures.

The outstanding encumbrances are amounts needed to pay any commitments related to purchase orders and contracts that remain unperformed at year-end. The General Fund encumbrances are included in the Stabilization by State Statute amount above.

<i>Encumbrances</i>	<i>General Fund</i>	<i>Capital Reserve Fund</i>
	\$ 56,835	\$ -0-

Beach Nourishment

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

TOWN OF DUCK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

2. DETAIL NOTES ON ALL FUNDS - (Continued)

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

The Town established two municipal service districts designated for beach nourishment. Funds received from the town municipal services district tax in the amount of \$997,377 was transferred from the General Fund to the Capital Reserve Fund and are restricted for future beach nourishment. An additional contribution was made from the general fund from pledged revenues of \$224,013 for a total of \$1,221,390. The amount in the capital reserve fund restricted for future beach nourishment at June 30, 2019 is shown below:

	<u>Beach nourishment taxes (MSD) received in excess of debt repayment</u>	<u>Transfers from General Fund</u>	<u>Interest Earnings</u>	<u>Total</u>
Beginning of year balance, July 1, 2018	\$ 1,325,016	\$ 711,624	\$ 8,380	\$ 2,045,020
Current year additions	997,377	224,013	20,196	1,241,586
Current year uses	(1,221,390)	-	-	(1,221,390)
End of year balance, June 30, 2019	<u>\$ 1,101,003</u>	<u>\$ 935,637</u>	<u>\$ 28,576</u>	<u>\$ 2,065,216</u>

3. SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES

Federal and State Assisted Programs

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

TOWN OF DUCK, NORTH CAROLINA

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 Six Fiscal Years *

Local Government Employees' Retirement System

	<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) (%)	0.03763%	0.03601%	0.03363%	0.03775%	0.03680%	0.03690%
Town's proportion of the net pension liability (asset) (\$)	\$ 892,712	\$ 550,133	\$ 713,741	\$ 169,420	\$ (217,026)	\$ 444,787
Town's covered-employee payroll	\$ 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	51.63%	34.35%	48.50%	12.42%	(16.98%)	34.70%
Plan fiduciary net position as a percentage of the total pension liability**	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 Six Fiscal Years**

Local Government Employees' Retirement System

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 164,989	\$ 136,641	\$ 123,091	\$ 102,581	\$ 100,188	\$ 97,570
Contributions in relation to the contractually required contribution	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>
Town's covered-employee payroll	\$ 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	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, 2019

	2019	2018	2017
Beginning balance	\$ 276,022	\$ 217,350	\$ 201,315
Service Cost	21,214	16,850	16,961
Interest on the total pension liability	8,722	8,390	7,187
Changes of benefit terms	-	-	-
Differences between expected and actual experience in the measurement of the total pension liability	21,533	9,112	-
Changes of assumptions or other inputs	(17,603)	24,320	(8,113)
Benefit payments	-	-	-
Other changes	-	-	-
Ending balance of the total pension liability	<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, 2019

	2019		2018		2017
Total pension liability	\$ 309,888	\$	276,022	\$	217,350
Covered payroll	682,673		610,247		577,323
Total pension liability as a percentage of covered payroll	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, 2019

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Ad valorem taxes:			
Taxes	\$ 3,582,656	\$ 3,641,190	\$ 58,534
Municipal service district taxes	981,978	996,436	14,458
Interest	-	4,224	4,224
Total	<u>4,564,634</u>	<u>4,641,850</u>	<u>77,216</u>
Other taxes and licenses:			
Land Transfer Tax	343,182	362,418	19,236
Occupancy tax	1,341,243	1,464,700	123,457
Total	<u>1,684,425</u>	<u>1,827,118</u>	<u>142,693</u>
Unrestricted intergovernmental:			
Local option sales taxes	1,208,340	1,372,630	164,290
Utility franchise tax	375,000	403,549	28,549
Beer and wine tax	1,500	1,720	220
ABC profit distribution	51,000	58,947	7,947
Total	<u>1,635,840</u>	<u>1,836,846</u>	<u>201,006</u>
Restricted intergovernmental:			
Federal grants	1,000	45,061	44,061
State grants	20,000	22,192	2,192
Local grants	602,572	602,572	-
Total	<u>623,572</u>	<u>669,825</u>	<u>46,253</u>
Permits and fees:			
Building permits	95,200	144,373	49,173
Inspection fees	32,000	54,718	22,718
Other permits	15,000	17,749	2,749
Court costs and fees	-	774	774
Total	<u>142,200</u>	<u>217,614</u>	<u>75,414</u>
Investment earnings	-	115,251	115,251
Miscellaneous:			
Donations	-	50	50
Miscellaneous	111,000	85,569	(25,431)
Total	<u>111,000</u>	<u>85,619</u>	<u>(25,381)</u>
Total revenues	<u>8,761,671</u>	<u>9,394,123</u>	<u>632,452</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, 2019

	Budget	Actual	Variance Positive (Negative)
Expenditures:			
General government:			
Governing Body:			
Salaries and employee benefits		26,640	
Insurance		120,364	
Professional services		28,522	
Other operating expenditures		23,485	
Total	200,350	199,011	1,339
Administration:			
Salaries and employee benefits		432,344	
Supplies and materials		2,316	
Other operating expenditures		30,139	
Total	478,910	464,799	14,111
Finance:			
Subsidies and allocations	73,457	70,311	3,146
Legal:			
Professional services	70,000	54,593	15,407
Public Buildings:			
Professional services		85,000	
Supplies and materials		5,228	
Other operating expenditures		108,143	
Boardwalk repairs		7,638	
Debt service		264,282	
Capital Outlay		14,343	
Total	497,782	484,634	13,148
Information Technology:			
Subsidies and allocations		63,102	
Fixed charges		29,003	
Cable access channel		28,037	
Other operating expenditures		2,511	
Total	131,100	122,653	8,447
Total general government	1,451,599	1,396,001	55,598

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, 2019

	Budget	Actual	Variance Positive (Negative)
Public safety:			
Police:			
Salaries and employee benefits		1,028,999	
Police supplies and materials		26,099	
Vehicle maintenance and operation		43,187	
Other operating expenditures		110,435	
Capital outlay		89,778	
Debt service		84,325	
Total	1,407,917	1,382,823	25,094
Fire:			
Salaries and employee benefits		864,886	
Other operating expenditures		63,606	
Debt service		14,083	
Fire Protection contract		263,721	
Total	1,230,127	1,206,296	23,831
Inspections:			
Salaries and employee benefits		136,029	
Professional services		1,184	
Supplies and maintenance		148	
Other operating expenditures		10,839	
Debt service		14,083	
Total	165,950	162,283	3,667
Rescue units:			
Ocean rescue		387,139	
Total	387,140	387,139	1
Total public safety	3,191,134	3,138,541	52,593
Transportation:			
Streets:			
Temporary services		46,568	
Professional services		9,030	
Repairs and maintenance		33,874	
Utilities		17,868	
Other operating expenditures		20,646	
Capital outlay		1,157,442	
Total transportation	1,427,570	1,285,428	142,142

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, 2019

	Budget	Actual	Variance Positive (Negative)
Environmental protection:			
Solid waste:			
Subsidies and allocations		1,054,665	
Dune preservation		135,953	
Debt service		1,469,611	
Total environmental protection	2,665,611	2,660,229	5,382
Economic and physical development:			
Planning and Zoning			
Salaries and employee benefits		244,779	
Professional services		22,485	
Supplies and materials		1,154	
Other operating expenditures		44,773	
Debt service		14,373	
Total economic and physical development	374,964	327,564	47,400
Parks			
Temporary help services		36,050	
Professional services		3,050	
Supplies and materials		4,440	
Other operating expenditures		294,846	
	342,500	338,386	4,114
Total expenditures	9,453,378	9,146,149	307,229
Revenues over (under) expenditures	(691,707)	247,974	939,680
Other financing sources (uses):			
Transfers from other funds	1,500,268	1,221,390	(278,878)
Transfers to other funds	(1,469,611)	(1,221,390)	248,221
Fund Balance Appropriated	661,050	-	(661,050)
Total	\$ 691,707	-	\$ (691,707)
Revenues and other financing sources over expenditures and other financing uses	\$ -	247,974	\$ 247,973
Fund balances, beginning		6,182,445	
Fund balances, ending		\$ 6,430,419	

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, 2019

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Investment earnings	<u>-</u>	<u>20,196</u>	<u>20,196</u>
Total revenues	<u>-</u>	<u>20,196</u>	<u>20,196</u>
Other financing sources (uses):			
Transfers from other funds	1,469,611	1,221,390	(248,221)
Transfers to other funds	(1,500,268)	(1,221,390)	278,878
Appropriated fund balance	<u>30,657</u>	<u>-</u>	<u>(30,657)</u>
Total	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>20,196</u>	<u>\$ 20,196</u>
Fund balances, beginning		<u>2,045,020</u>	
Fund balances, ending		<u>\$ 2,065,216</u>	

Town of Duck, North Carolina
Analysis of Current Tax Levy
Town - Wide Levy
For the Fiscal Year Ended June 30, 2019

Fiscal Year	Uncollected Balance June 30, 2018	Additions	Collections	Pickups & Adjustments	Uncollected Balance June 30, 2019
2018-2019	\$ -	\$ 3,624,857	\$ 3,638,497	\$ 16,306	\$ 2,666
2018-2019 MSD		995,851	995,689	(10)	152
2017-2018	3,247	-	2,602	-	645
2017-2018 MSD	724	-	702	-	22
2016-2017	303	-	67	-	236
2016-2017 MSD	45	-	45	-	-
2015-2016	261	-	23	-	238
2014-2015	98	-	-	-	98
2013-2014	175	-	-	-	175
2012-2013	125	-	-	-	125
2011-2012	28	-	-	-	28
2010-2011	27	-	-	-	27
2009-2010	75	-	-	-	75
	-	-	-	-	-
	<u>\$ 5,108</u>	<u>\$ 4,620,708</u>	<u>\$ 4,637,625</u>	<u>\$ 16,296</u>	<u>\$ 4,487</u>

Reconcilement with revenues:

Ad valorem taxes - General Fund	\$ 4,641,850
Reconciling items:	
Interest and penalties collected	(4,223)
Total collections and credits	<u>\$ 4,637,625</u>

Town of Duck, North Carolina
Analysis of Current Tax Levy
Town - Wide Levy
For the Fiscal Year Ended June 30, 2019

	Town - Wide			Total Levy	
	Property Valuation	Rate	Total Levy	Property excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed	\$ 1,610,309,577	0.225	\$ 3,623,201	\$ 3,596,783	\$ 26,418
Penalties	1,656		1,656	1,656	-
Total	1,610,311,233		3,624,857	3,598,439	26,418
Adjustments:					
Discoveries	7,292,530	0.225	16,408	16,408	-
Releases/Abatements-Property	(10,632)	0.225	(24)	(24)	-
Adjustments	(78)		(78)	(78)	-
			16,306	16,306	-
Total property valuation	\$ 1,617,593,053				
Net levy			3,641,163	3,614,745	26,418
Uncollected taxes at June 30, 2019			(2,666)	(2,666)	-
Current year's taxes collected			3,638,497	3,612,079	26,418
Current levy collection percentage			99.93%	99.92%	100.00%

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

In planning and performing our audit of the financial statements of the Town of Duck as of and for the year ended June 30, 2019, in accordance with auditing standards generally accepted in the United State of America, we considered the Town's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatement on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

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

The Town administers a single-employer defined benefit pension plan that provides retirement benefits to the Town's qualified sworn law enforcement officers. The Law Enforcement Officers Special Separation Allowance covers all full-time law enforcement officers of the Town. The Town is required by State Statue to provide these retirement benefits and has chosen to fund the benefit payments on a pay as you go basis through appropriation made in the General Fund operating budget. The Town had an actuarial study done for this plan in December, 2018. We recommend that the Town consider having an actuarial study done every year to determine the Town's liability in regards to this plan.

MEMBERS OF AICPA AND NCACPA

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

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

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

Johnson, Mizelle, Straub & Murphy, LLP

Kitty Hawk, North Carolina
October 23, 2019