

TOWN OF KITTY HAWK, NORTH CAROLINA
ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2019

Gary Perry, Mayor
Craig Garriss, Mayor Pro-Tem
Ervin Bateman, Council Member
Lynne McClean, Council Member
Jeff Pruitt, Council Member

Andy Stewart, Town Manager
Liliana Noble, Finance Officer
Casey Varnell, Town Attorney

TOWN OF KITTY HAWK, NORTH CAROLINA
TABLE OF CONTENTS
June 30, 2018

<u>Exhibit</u>		<u>Page</u>
	Financial Section:	
	Independent Auditor's Report	1-2
	Management Discussion and Analysis	3-10
	Basic Financial Statements:	
	Government-wide Financial Statements:	
1	Statement of Net Position	11
2	Statement of Activities	12-13
	Fund Financial Statements:	
3	Balance Sheet-Governmental Funds	14
3	Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	14
4	Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds	15
4	Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	16
5	Statement of Revenues, Expenditures, and Changes in Fund Balances – Annual Budget and Actual – General Fund	17
6	Statement of Fiduciary Net Position	18
	Notes to Financial Statements	19-42
	Required Supplemental Financial Data:	
	Local Government Employees' Retirement System – Schedule of Proportionate Share of Net Pension Liability (Asset)	43
	Local Government Employees' Retirement System – Schedule of Contributions	44
	Schedule of Changes in Total Pension Liability – Law Enforcement Officers' Special Separation Allowance	45
	Schedule of Total Pension Liability as a Percentage of Covered Payroll	46
	Schedule of Changes in Total OPEB Liability and Related Ratios	47
	Individual Fund Statements and Schedules:	
	Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	48-53
	Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Capital Reserve Fund	54

TOWN OF KITTY HAWK, NORTH CAROLINA
TABLE OF CONTENTS
June 30, 2018

Statement of Changes in Assets and Liabilities – Agency Fund – Firemen’s Relief Fund	55
Other Schedules:	
Schedule of Ad Valorem Taxes Receivable	56
Analysis of Current Tax Levy – Town-Wide Levy	57
Compliance Section:	
Report on Internal Control Over Financial Reporting and on Compliance And Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	58-59

Dowdy & Osborne LLP

CERTIFIED PUBLIC ACCOUNTANTS

Jeff Dowdy, CPA • Teresa Osborne, CPA

INDEPENDENT AUDITOR'S REPORT

To the Mayor and Members of the Town Council
Kitty Hawk, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Kitty Hawk, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 presentation of the financial statements.

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

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, each major fund, and the aggregate remaining fund information of the Town of Kitty Hawk, 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 3-10, the Local Government Employees' Retirement System Schedule of Proportionate Share of Net Pension Liability (Asset) and Schedule of Contributions on pages 43-44, and the Law Enforcement Officers' Special Separation Allowance Schedules of the Change in Total Pension Liability and Total Pension Liability as a Percentage of Covered Payroll on pages 45-46 and the Schedule of Changes in Total OPEB Liability and Related Ratios on page 47 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We 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 Kitty Hawk, North Carolina. The individual fund statements, budgetary schedules and other schedules, are presented for the purposes of additional analysis and are not a required part of the basic financial statements.

The individual fund statements, budgetary schedules and other schedules are the responsibility of management and were derived from and relate 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 by us. In our opinion, based on our audit, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2019, on our consideration of the Town of Kitty Hawk's internal control over financial reporting and on our tests of its compliance with certain laws, regulations, contracts, and grant agreements, and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Kitty Hawk's internal control over financial reporting and compliance.

Dowdy & Osborne, LLP

Dowdy & Osborne, LLP
Certified Public Accountants

Nags Head, North Carolina

October 25, 2019

Management Discussion and Analysis

Town of Kitty Hawk

Management's Discussion and Analysis

As management of the Town of Kitty Hawk, we offer readers of the Town of Kitty Hawk's financial statements this narrative overview and analysis of the financial activities of the Town of Kitty Hawk 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 of Kitty Hawk's financial statements, which follow this narrative.

Financial Highlights

- The assets and deferred outflows of resources of the Town of Kitty Hawk exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$ 24,106,801 (*net position*).
- The government's total net position decreased by \$ 408,090.
- The budget was adopted with a town-wide tax rate of \$ 0.34 cents per \$ 100 of valuation (same as prior year) with \$ 0.04 cents restricted for beach nourishment. This \$.04 cent tax resulted in \$477,577 designated for beach nourishment.
- The budget also included a municipal service district tax for beach nourishment at a rate of \$ 0.12 cents. This resulted in \$ 514,848 designated for beach nourishment.
- At the end of the current fiscal year, the Town of Kitty Hawk's governmental funds reported combined ending fund balances of \$ 11,818,213. Approximately 34% of this amount or \$ 4,033,294 is non-spendable, restricted or committed.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$ 7,784,949, an increase of \$ 1,227,108 over the of the prior year. The unassigned fund balance at June 30, 2019 represents 85% of total general fund expenditures for the year. The increase is a result of revenues exceeding expenses by \$ 1,034,091 and a decrease in restrictions of total fund balance.
- The Town has established a fund balance policy further reducing unassigned fund balance by \$ 3,500,000 for unanticipated expenditures and revenue shortfalls as may be determined by Council. The portion of general fund balance that is available for appropriation is \$ 4,284,919.

Management Discussion and Analysis

Town of Kitty Hawk

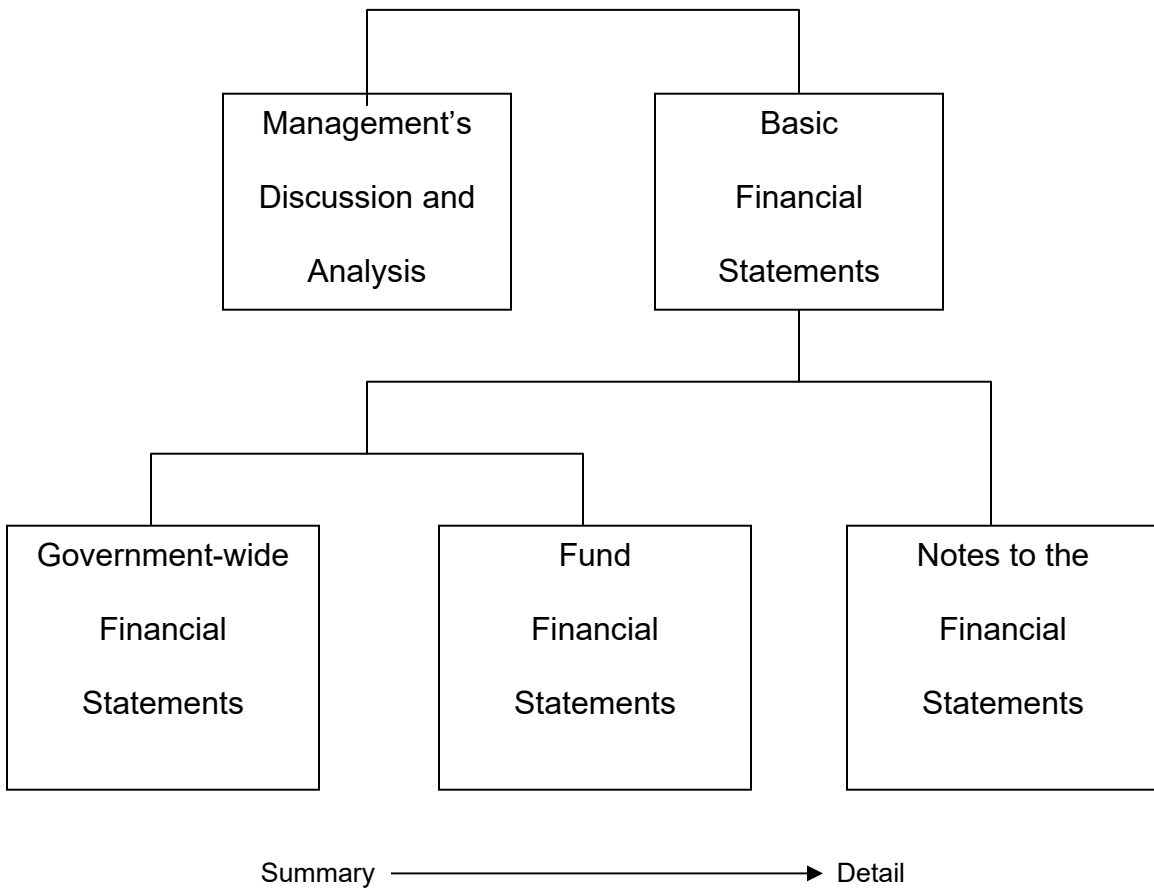
Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Town of Kitty Hawk'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 Kitty Hawk.

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 7) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the town's government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial

Management Discussion and Analysis

Town of Kitty Hawk

Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; and 3) the fiduciary fund statements.

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

Government-wide Financial Statements

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

The two government-wide statements report the town's net position and how they have changed. Net position is the difference between the Town's deferred outflows of resources 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 general government administration, planning and development, public safety including police, fire and ocean rescue, streets and garbage collection. Property taxes and shared revenues including sales tax, occupancy tax, land transfer tax and utilities franchise tax finance most of these activities. The town does not have any business-type activities or component units.

The government-wide financial statements are in 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, 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 budget ordinance. All of the funds of the Town of Kitty Hawk can be divided into two categories: governmental funds and proprietary funds. The town has only governmental funds.

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. All of the Town of Kitty Hawk'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* that provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the town's programs. The relationship between government activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The Town of Kitty Hawk 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

Management Discussion and Analysis Town of Kitty Hawk

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 council 2) the final budget as amended by the council 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges. To account for the difference between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reported activities is shown at the end of the budgetary statement.

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 are on pages 19-42 of this report.

Required Supplementary Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the town's progress in funding its obligation to provide pension benefits and retiree healthcare benefits to its employees. Required supplementary information can be found beginning on pages 43-47 of this report.

Other Supplementary Information – This includes combining statements for selected funds showing additional detail for revenues and expenditures.

Government-Wide Financial Analysis

The Town of Kitty Hawk's Net Position

Figure 2

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Current and other assets	\$ 12,336,655	\$ 10,755,258
Capital assets	21,060,063	24,825,122
Deferred outflows of resources	937,751	649,491
Total assets and deferred outflows of resources	<u>34,334,469</u>	<u>36,229,871</u>
Long-term liabilities outstanding	9,569,741	11,183,234
Other liabilities	460,059	336,741
Deferred inflows of resources	197,868	195,005
Total liabilities and deferred inflows of resources	<u>10,227,668</u>	<u>11,714,980</u>
Net Position:		
Net investment in capital assets	15,060,663	16,825,922
Restricted	3,994,237	3,743,912
Unrestricted	5,051,901	3,945,057
Total net position	<u>\$ 24,106,801</u>	<u>\$ 24,514,891</u>

Management Discussion and Analysis

Town of Kitty Hawk

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 Kitty Hawk exceeded deferred inflows by \$ 24,106,801 as of June 30, 2019. The town's total net position decreased by \$ 408,090 for the fiscal year ended June 30, 2019. 62% or \$ 15,060,663 of total net position reflects the town's net investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt still outstanding that was issued to acquire those items. This is a decrease over the prior year of \$ 1,765,259 as depreciation on capital assets exceeded capital expenses. The Town of Kitty Hawk uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Kitty Hawk's net investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town's net position of \$ 3,394,37 represents resources that are subject to external restrictions on how they may be used. The remaining \$ 5,051,901 is unrestricted.

Town of Kitty Hawk Changes in Net Position Figure 3

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Revenues:		
Program Revenues:		
Charges for services	\$ 177,845	\$ 166,525
Operating grants and contributions	238,353	313,935
Capital grants and contributions	1,343,216	8,066,583
General Revenues:		
Property taxes	4,579,146	4,533,616
Sales, occupancy and land transfer taxes	3,314,868	3,365,905
Other unrestricted intergovernmental revenues	624,880	612,593
Investment earnings	222,885	104,563
Miscellaneous revenues	88,973	86,721
Total Revenues	<u>10,590,166</u>	<u>17,250,441</u>
Expenses:		
General government	6,181,455	5,269,717
Public safety	3,578,483	3,449,931
Transportation	147,246	124,408
Environmental protection	958,085	914,294
Interest	132,987	205,521
Total Expenses	<u>10,998,256</u>	<u>9,963,871</u>
Increase in net position	(408,090)	7,286,570
Net position, July 1, previously reported	24,514,891	17,228,411
Net position, June 30	<u>\$ 24,106,801</u>	<u>\$ 24,514,891</u>

Management Discussion and Analysis

Town of Kitty Hawk

Capital grants and contributions decreased \$ 6,723,367 due to reimbursements from Dare County of \$ 6,652,050 for beach nourishment project in prior year. Sales, occupancy and land transfer taxes decreased slightly due to growth in these revenues along with a change in the proportionate levies which reduced Kitty Hawk's portion of these revenues. Investment earnings increased due to overall increases in investment earning rates and larger balances invested.

General government expenses increased \$ 911,738 due primarily to increase in depreciation for beach nourishment of \$ 635,812 (partial year depreciation in fiscal year 2018) and an increase of \$ 89,957 for beach nourishment maintenance expenses (beach surveys). Public safety expenses increased \$ 128,552 due to an increase of \$ 25,398 in depreciation and an increase of \$ 106,000 in salaries and benefits. Environmental protection expenses increased \$ 43,791 due to increased fees.

Interest expense decreased \$ 72,534 since the fire station debt was paid off in December 2017 and the interest on beach nourishment debt decreased due to a lower principal balance.

Financial Analysis of the Town of Kitty Hawk's Funds

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

Governmental Funds. The focus of the Town of Kitty Hawk's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Town of Kitty Hawk's financing requirements. Specifically, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the Town of Kitty Hawk. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$ 7,784,919 while total fund balance reached \$ 11,818,213. The unassigned portion increased due to current year revenues that exceeded expenses offset by a decrease in other restricted portions of fund balance.

The Town has established a fund balance policy to maintain a minimum of \$ 3,500,000 fund balance available for unanticipated expenditures and revenue shortfalls, therefore the board met its target at June 30, 2019. As a measure of the general fund's liquidity, it may be useful to compare general fund balance available to total fund general fund expenditures which is 85%. This is increase from the prior year of 65% as the unassigned portion of fund balance increased \$1,227,078 and total expenditures decreased \$ 1,007,104.

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 largest amendments included 1) \$ 30,000 from NCDOT for Moore Shore Road project, 2) \$62,041 for post construction beach nourishment monitoring, 3) \$ 157,950 for resurfacing W Eckner and Beacon and 4) \$ 49,775 for repairs to Tateway pumping station.

Capital Asset and Debt Administration

Capital assets. The Town of Kitty Hawk's investment in capital assets for its governmental activities as of June 30, 2019, totals \$ 21,060,063 (net of accumulated depreciation). These assets include buildings, land, machinery and equipment, and vehicles.

Management Discussion and Analysis

Town of Kitty Hawk

Major capital asset transactions during the year include the following additions:

- Tateway pumping station improvements \$ 107,862
- W Eckner and Beacon resurfacing \$ 148,473
- Moore Shore Road improvements \$ 182,182
- 3 police vehicles \$ 101,074
- Public works truck \$ 32,851
- Ocean rescue truck \$ 34,865

Town of Kitty Hawk's Governmental Activities Capital Assets

Figure 4

(net of depreciation)

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Land	\$ 2,630,281	\$ 2,630,281
Buildings	3,063,776	3,189,510
Infrastructure	14,491,814	18,068,411
Equipment	220,897	269,525
Vehicles	653,295	667,395
Total	<u>\$ 21,060,063</u>	<u>\$ 14,045,303</u>

Additional information on the town's capital assets can be found in the Notes to The Financial Statements on page 27.

Long-Term Debt. As of June 30, 2019, the Town had total long-term debt for beach nourishment special obligation bonds of \$ 5,999,400. North Carolina General Statutes limit the amount of general obligation, installment purchase and capitalized lease debt that a unit may have up to 8% of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the Town of Kitty Hawk is \$ 89,501,635.

Additional information regarding the Town's long-term debt can be found in the Notes To The Financial Statements on page 40.

Economic Factors and Next Year's Budgets and Rates

Nationwide economic factors have not typically been applicable to the Town of Kitty Hawk due to a tourist-based economy that experiences seasonal activity and population fluctuations.

- Overall land transfer tax collections increased 4.86% indicating an increase in real estate sales. The Town's portion of land transfer tax was flat due to a combination of overall growth combined with a decrease due to the changes in the proportionate tax levies among the other local governments in Dare County.
- Travel and tourism has remained constant in Dare County and gross occupancy tax collections increased 3.27%. The Town's portion of occupancy tax decreased \$ 21,526 or 1.4% due to a combination of overall growth combined with a decrease due to the changes in the proportionate tax levies among the other local governments in Dare County.
- Building related revenues increased over the prior year indicating a steady building economy.

Management Discussion and Analysis

Town of Kitty Hawk

Budget Highlights for the Fiscal Year Ending June 30, 2020

- The Town adopted a tax rate of \$.34 cents per hundred; the same as the prior year. \$ 0.04 cents of this town-wide tax is restricted for beach nourishment. The municipal service district (MSD) was continued at a tax rate of \$ 0.12 cents. The \$ 0.04 cent town-wide tax and the \$ 0.12 cent MSD tax are necessary to pay the five-year debt service on the issuance of special obligation bonds for the beach nourishment project.
- The budget includes no new positions and a one step 2% increase for all full-time employees.
- The budget includes increases to NC Retirement System employer retirement rates.
- The budget includes a 5% increase in health insurance premiums.
- The budget funds critical capital needs and reserves consistent with the Town's five-year capital improvements program in the amount of \$ 943,000.
- The budget establishes a contingency line items \$ 130,293 for unforeseen expenses.
- The adopted budget utilizes no fund balance.
- The budget maintains the \$ 3,500,000 emergency reserve.

Requests for Information

This report is designed to provide an overview of the town's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Finance Director, Town of Kitty Hawk, P.O. Box 549, Kitty Hawk, North Carolina, 27949.

TOWN OF KITTY HAWK, NORTH CAROLINA
STATEMENT OF NET POSITION
June 30, 2019

Exhibit 1

	<u>Governmental Activities</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 8,271,871
Restricted cash	2,961,035
Taxes receivable	58,383
Due from governmental units	1,002,337
Miscellaneous accounts receivable	4,002
Prepaid expenses	39,027
Total current assets	<u>12,336,655</u>
Capital assets (net of accumulated depreciation):	
Land	2,630,281
Buildings and other depreciable assets	18,429,782
Total capital assets	<u>21,060,063</u>
Total assets	<u>33,396,718</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pension deferrals	884,652
OPEB deferrals	53,099
Total deferred outflows of resources	<u>937,751</u>
LIABILITIES	
Current liabilities:	
Accounts payable	310,779
Accrued salaries and benefits	149,130
Deposits	150
Long-term liabilities:	
Due within one year	2,024,800
Due in more than one year	7,544,941
Total liabilities	<u>10,029,800</u>
DEFERRED INFLOWS OF RESOURCES	
Pension deferrals	91,608
OPEB deferrals	106,260
Total deferred inflows of resources	<u>197,868</u>
NET POSITION	
Net Investment in Capital Assets	15,060,663
Restricted for:	
Powell Bill - Streets	202,805
Stabilization by State Statute	1,033,202
Capital Reserve Funds	2,746,675
Public Safety	11,555
Unrestricted	5,051,901
Total net position	<u>\$ 24,106,801</u>

TOWN OF KITTY HAWK, NORTH CAROLINA

Exhibit 2

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2019

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Total
Primary government:						
Governmental activities:						
General government	\$ 6,181,455	\$ 175,331	\$ 206,871	\$ 1,207,677	\$ (4,591,576)	\$ (4,591,576)
Public safety	3,578,483	2,514	31,482		(3,544,487)	(3,544,487)
Transportation	147,246	-	-	135,539	(11,707)	(11,707)
Environmental protection	958,085	-	-	-	(958,085)	(958,085)
Interest on long-term debt	132,987	-	-	-	(132,987)	(132,987)
	<u>10,998,256</u>	<u>177,845</u>	<u>238,353</u>	<u>1,343,216</u>	<u>(9,238,842)</u>	<u>(9,238,842)</u>
Total primary government	\$ 10,998,256	\$ 177,845	\$ 238,353	\$ 1,343,216	\$ (9,238,842)	\$ (9,238,842)

General revenues:

Taxes:

Property taxes, levied for general purpose	4,579,146	4,579,146
Sales, occupancy and land transfer taxes	3,314,868	3,314,868
Other unrestricted intergovernmental revenues	624,880	624,880
Investment earnings, unrestricted	222,885	222,885
Miscellaneous, unrestricted	88,973	88,973
Total general revenues, special items, and transfers	<u>8,830,752</u>	<u>8,830,752</u>
Change in net position	(408,090)	(408,090)
Net position-beginning	24,514,891	24,514,891
Net position-ending	<u>\$ 24,106,801</u>	<u>\$ 24,106,801</u>

TOWN OF KITTY HAWK, NORTH CAROLINA
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2019

Exhibit 3

	<u>Major Fund</u>	<u>Total</u>
	<u>General</u>	<u>Governmental</u>
		<u>Funds</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 8,271,871	\$ 8,271,871
Restricted cash	2,961,035	2,961,035
Taxes receivable	58,383	58,383
Due from governmental units	1,002,337	1,002,337
Miscellaneous accounts receivable	4,002	4,002
Prepaid expenses	39,027	39,027
Total Assets	<u>\$ 12,336,655</u>	<u>\$ 12,336,655</u>
<u>LIABILITIES</u>		
Accounts payable	\$ 310,779	\$ 310,779
Accrued salaries and taxes	149,130	149,130
Customer deposits	150	150
Total Liabilities	<u>460,059</u>	<u>460,059</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>		
Property Taxes Receivable	58,383	58,383
Total Deferred Inflows of Resources	<u>58,383</u>	<u>58,383</u>
<u>FUND BALANCES</u>		
Non Spendable:		
Prepaid expenses	39,027	39,027
Restricted:		
Stabilization by State Statute	1,033,202	1,033,202
Streets - Powell Bill	202,805	202,805
Public Safety	11,555	11,555
Capital Reserve Fund	2,746,675	2,746,675
Unassigned	7,784,949	7,784,949
Total Fund Balances	<u>11,818,213</u>	<u>11,818,213</u>
Total Liabilities, Deferred Inflows Of Resources and Fund Balances	<u>\$ 12,336,655</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.	21,060,063
Deferred outflows of resources related to pensions/OPEB are not reported in the funds	937,751
Liabilities for earned revenues considered deferred inflows of resources in fund statements	58,383
Deferred inflows of resources related to pensions/OPEB are not reported in the funds	(197,868)
Long-term liabilities used in governmental activities are not financial uses and are therefore not included in the funds.	<u>(9,569,741)</u>
Net position of governmental activities (Exhibit 1)	<u>\$ 24,106,801</u>

TOWN OF KITTY HAWK, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2019

Exhibit 4

	Major Fund	Total Governmental Funds
	General	
REVENUES:		
Ad valorem taxes	\$ 4,583,850	\$ 4,583,850
Other taxes and licenses	3,314,868	3,314,868
Unrestricted intergovernmental revenue	624,880	624,880
Restricted intergovernmental revenue	1,581,569	1,581,569
Permits and fees	166,356	166,356
Sales and services	11,489	11,489
Investment earnings	222,885	222,885
Other revenues	88,973	88,973
TOTAL REVENUES	10,594,870	10,594,870
EXPENDITURES:		
General government	2,382,165	2,382,165
Public safety	3,393,497	3,393,497
Transportation	265,553	265,553
Environmental protection	958,085	958,085
Debt service:		
Principal	1,999,800	1,999,800
Interest	132,987	132,987
TOTAL EXPENDITURES	9,132,087	9,132,087
REVENUES OVER EXPENDITURES	1,462,783	1,462,783
FUND BALANCES:		
Beginning of year - July 1	10,355,430	10,355,430
End of year - June 30	\$ 11,818,213	\$ 11,818,213

TOWN OF KITTY HAWK, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2019

Exhibit 4
(continued)

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

Net changes in fund balances - total governmental funds \$ 1,462,783

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.

Capital outlay expenditures which were capitalized	607,307	
Depreciation expense for governmental assets	<u>(4,372,366)</u>	(3,765,059)

Contributions to the pension plan in the current fiscal year are not included in the Statement of Activities 201,506

Benefit payments paid and administrative expense for the LEOSSA are not included in the Statement of Activities 50,861

OPEB benefit payments and administrative costs made in the current fiscal year are not included in the Statement of Activities 50,677

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 revenue (4,705)

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 affect of these differences in the treatment of long-term debt and related items:

Principal payments on long-term debt 1,999,800

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:

Increase in compensated absences	(11,610)	
Pension expense-LGERS	(244,646)	
Pension expense-LEOSSA	(60,609)	
OPEB plan expense	<u>(87,088)</u>	

Total changes in net position of governmental activities (Exhibit 2) \$ (408,090)

TOWN OF KITTY HAWK, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended June 30, 2019

Exhibit 5

	General Fund			Variance with Final Budget- Positive (Negative)
	Original	Final	Actual Amounts	
REVENUE:				
Ad valorem taxes	\$ 4,463,085	\$ 4,463,085	\$ 4,583,850	\$ 120,765
Other taxes and licenses	3,057,100	3,057,100	3,314,868	257,768
Unrestricted intergovernmental revenues	599,745	599,745	624,880	25,135
Restricted intergovernmental revenues	1,371,677	1,468,989	1,581,569	112,580
Permits and fees	128,700	128,700	166,356	37,656
Sales and services	9,000	9,000	11,489	2,489
Investment earnings	20,000	20,000	214,565	194,565
Other revenue	22,850	22,950	88,973	66,023
<u>Total Revenues</u>	<u>9,672,157</u>	<u>9,769,569</u>	<u>10,586,550</u>	<u>816,981</u>
EXPENDITURES:				
General government	4,476,956	4,691,950	4,514,952	176,998
Public safety	3,549,185	3,565,419	3,393,497	171,922
Transportation	137,000	294,950	265,553	29,397
Environmental protection	1,116,000	1,116,000	958,085	157,915
<u>Total Expenditures</u>	<u>9,279,141</u>	<u>9,668,319</u>	<u>9,132,087</u>	<u>536,232</u>
REVENUES OVER EXPENDITURES	<u>393,016</u>	<u>101,250</u>	<u>1,454,463</u>	<u>1,353,213</u>
OTHER FINANCING SOURCES (USES):				
Fund balance appropriated	-	291,766	-	(291,766)
Transfer from capital reserve fund	31,000	31,000	-	(31,000)
Transfer to capital reserve fund	(424,016)	(424,016)	(420,372)	3,644
	<u>(393,016)</u>	<u>(101,250)</u>	<u>(420,372)</u>	<u>(319,122)</u>
REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	<u>\$ -</u>	<u>\$ -</u>	<u>1,034,091</u>	<u>\$ 1,034,091</u>
FUND BALANCE:				
Beginning			<u>8,037,447</u>	
Ending			<u>\$ 9,071,538</u>	
A legally adopted Capital Reserve Fund is consolidated into the General Fund for reporting purposes:				
Interest income			8,320	
Transfer from General Fund			420,372	
Transfer to General Fund			0	
Fund Balance, Beginning			<u>2,317,983</u>	
Fund Balance, Ending (Exhibit 4)			<u>\$ 11,818,213</u>	

TOWN OF KITTY HAWK, NORTH CAROLINA
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
June 30, 2019

Exhibit 6

	<u>Agency Fund</u>
<u>ASSETS</u>	
Cash	\$ 93,091
Total Assets	<u>93,091</u>
<u>LIABILITIES AND NET POSITION</u>	
Liabilities:	
Due to Firemen's Relief Fund	<u>93,091</u>
<u>NET POSITION</u>	<u><u>\$ -</u></u>

TOWN OF KITTY HAWK, NORTH CAROLINA
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2019

I. Summary of Significant Accounting Policies

The accounting policies of the Town of Kitty Hawk 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 Kitty Hawk is a municipal corporation that is governed by an elected mayor and a four-member council.

B. Basis of Presentation

Government-wide Statements: The statement of net position and the statement of activities display information about the primary government. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the Town. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties. The town only has governmental activities.

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

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

The Town reports the following major governmental funds:

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

TOWN OF KITTY HAWK, NORTH CAROLINA
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2019

The Town reports the following fiduciary fund types:

Agency Funds. Agency funds are custodial in nature and do not involve the measurement of operating results. Agency funds are used to account for assets the Town holds on behalf of others. The Town maintains one agency fund for the Firemen's Relief Fund, which accounts for the money invested and distributed on behalf of the Firemen's Relief Fund. The fund is established based on state statutes to provide funds for specific expenses and to assist firefighters injured or killed in the line of duty and to provide length of service awards to eligible firefighters.

C. Measurement Focus and Basis of Accounting

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

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

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

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad-valorem taxes receivable are not accrued as 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 on behalf of all municipalities and special tax districts. Property taxes are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed in periods prior to September 1, 2013 and for limited registration plates are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

Sales taxes and certain intergovernmental revenues, such as the beer and wine tax and 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 of Kitty Hawk because the tax is levied by Dare County and then remitted to and distributed by the State. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Grant revenues, which are unearned at year-end are recorded as unearned revenues. Under the terms of grant agreements, the Town

TOWN OF KITTY HAWK, NORTH CAROLINA
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2019

funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

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 the fiscal-year end. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds. During the year, several amendments to the original budget were necessary. The largest amendments included 1) \$ 30,000 from NCDOT for Moore Shore Road project, 2) \$62,041 for post construction beach nourishment monitoring, 3) \$ 157,950 for resurfacing W Eckner and Beacon and 4) \$ 49,775 for repairs to Tateway pumping station. 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/Inflow of Resources, and Fund Equity

1. Deposits and Investments

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

State law [G.S. 159-30(c)] authorizes the Town to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances and the North Carolina Capital Management Trust (NCCMT).

The Town's investments are reported at fair value. Non-participating interest earning contracts are accounted for at cost. The NCCMT is a SEC-registered money market mutual fund allowable by G.S. 159-30(c)(8). The NCCMT Government Portfolio is a 2a-7 fund maintaining an AAAM rating from S&P. The NCCMT Term Portfolio is a bond fund, has no rating and has a duration of .11 years. Both the NCCMT Government and Term Portfolios are reported at fair value.

2. Cash and Cash Equivalents

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

TOWN OF KITTY HAWK, NORTH CAROLINA
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2019

3. Restricted Assets

Money in the Capital Reserve Fund is classified as restricted assets because its use is restricted to the Capital Reserve Fund per G.S. 159-18. Powell Bill funds are classified as restricted cash because it can be expended only for the purposes of maintaining, repairing, constructing, or reconstructing or widening of streets per G.S. 136-41.1 through 136-41.4. Lastly, drug forfeiture funds are classified as restricted cash because its use is restricted for purposes that enhance law enforcement activities.

Town of Kitty Hawk Restricted Cash

Governmental Activities:

General Fund:

Capital reserve fund	\$ 2,746 675
Streets	202,805
Public Safety	11,555
Total Restricted Cash	<u>\$ 2,961,035</u>

4. Ad-Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad-valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2018.

5. Allowances for Doubtful Accounts

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

6. Prepaid Items

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

7. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. General infrastructure assets acquired prior to July 1, 2003, consist of the road network, which is not capitalized as the town has not opted to do retroactive reporting for infrastructure. 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.

TOWN OF KITTY HAWK, NORTH CAROLINA
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2019

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

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

8. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town has several items that meet this criterion, contributions made to the pension plans and OPEB plan in the 2019 fiscal year and other pension and OPEB deferrals. In addition to liabilities, the statements of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Town has several items that meet the criterion for this category – property taxes receivable, pension and OPEB deferrals.

9. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

10. Compensated Absences

The vacation policy of the Town provides for the accumulation of up to thirty days 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 first-in, first-out method of using accumulated compensated time. The portion of that time that is estimated to be used in the next fiscal year has been designated as a current liability in the government-wide financial statements.

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

11. Net position/Fund Balances

Net position

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

TOWN OF KITTY HAWK, NORTH CAROLINA
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2019

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:

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

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

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

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

Restricted for Streets - Powell Bill portion of fund balance that is restricted by revenue source for street construction and maintenance expenditures. This amount represents the balance of the total unexpended Powell Bill funds.

Restricted for Public Safety – portion of fund balance that is restricted by revenue source for use by the Police Department to enhance law enforcement activities.

Restricted for Capital Reserve Fund – portion of fund balance that is restricted for the legally adopted Capital Reserve Fund which has been consolidated with the General Fund due to GASB 54.

Committed Fund Balance – portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of Town of Kitty Hawk'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.

TOWN OF KITTY HAWK, NORTH CAROLINA
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2019

Assigned Fund Balance – portion of fund balance that Town of Kitty Hawk 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 has also adopted a fund balance policy for the general fund which sets aside \$ 3,500,000 for unanticipated expenditures, revenue shortfalls and emergencies. If this amount is not available after the audit is complete, Council will develop a plan to restore the balance within 24 months.

12. Defined Benefit Cost-Sharing Plans

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

II. Detail Notes on All Funds

A. Assets

1. Deposits

All the deposits of the Town are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Town's agents in these units' names. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town of Kitty Hawk, these deposits are considered to be held by the Town's agents in their names. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town, or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method.

At June 30, 2019, the Town's deposits had a carrying amount of \$ 1,972,875 and a bank balance of \$ 2,059,066. Of the bank balance, \$ 250,000 was covered by federal depository insurance,

TOWN OF KITTY HAWK, NORTH CAROLINA
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2019

and the remainder was covered by collateral held under the pooling method. At June 30, 2019, the Town's petty cash fund totaled \$ 325.

2. Investments

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

	<u>Valuation Measurement Method</u>	<u>Book Value At 6/30/19</u>	<u>Maturity</u>	<u>Rating</u>
NC Capital Management Trust:				
Government Portfolio	Fair Value Level 1	\$ 3,664,696	N/A	AAAm
Term Portfolio	Fair Value Level 1	<u>5,688,102</u>	.11 years	Unrated
Total Investments		<u>\$ 9,352,798</u>		

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

Level of fair value hierarchy: Level 1: Debt securities valued using directly observable, quoted prices (unadjusted) in active markets for identical assets.

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

Credit Risk. The Town's cash management policy does not address credit risk but has internal management procedures that limits the Town's investments to the provisions of G.S. 159-30. The Town's investment in the NC Capital Management Trust Government Portfolio carried a credit rating of AAAm by Standard & Poor's as of June 30, 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 U.S. government and agencies, and in high grade money market instruments as permitted under North Carolina General Statutes 159-30 as amended.

TOWN OF KITTY HAWK, NORTH CAROLINA
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2019

3. Capital Assets

Capital asset activity for the primary government for the year ended June 30, 2019 was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 2,630,281	\$ -	\$ -	\$2,630,281
Total capital assets not being depreciated	2,630,281	-	-	2,630,281
Capital assets being depreciated:				
Buildings	5,030,560	-	-	5,030,560
Infrastructure	23,039,715	438,517	-	23,478,232
Equipment	740,580	-	12,368	728,212
Vehicles	2,783,234	168,790	273,326	2,678,698
Total capital assets being depreciated	31,594,089	607,307	285,694	31,915,702
Less accumulated depreciation for:				
Buildings	1,841,050	125,732	-	1,966,782
Infrastructure	4,971,304	4,015,116	-	8,986,420
Equipment	471,055	48,629	12,368	507,316
Vehicles	2,115,839	182,889	273,326	2,025,402
Total accumulated depreciation	9,399,248	\$ 4,372,366	\$ 285,694	13,485,920
Total capital assets being depreciated (net)	22,194,841			18,429,782
Governmental activity capital assets, net	<u>\$24,825,122</u>			<u>\$ 21,060,063</u>

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

General Government	\$ 4,001,559
Public Safety	281,754
Transportation	<u>89,053</u>
	\$ 4,372,366

B. Liabilities

1. Pension Plan and Postemployment Obligations

a. Local Governmental Employees' Retirement System

Plan Description. The Town of Kitty Hawk 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

TOWN OF KITTY HAWK, NORTH CAROLINA
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2019

the State Treasurer and State Superintendent, who serve as ex-officio members. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 707-0500, or at www.osc.nc.gov.

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

LGERS plan members who are LEOs are eligible to retire with full retirement benefits at age 55 with five years of creditable service as an officer, or at any age with 30 years of creditable service. LEO plan members are eligible to retire with partial retirement benefits at age 50 with 15 years of creditable service as an officer. 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 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 of Kitty Hawk employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town of Kitty Hawk's contractually required contribution rate for the year ended June 30, 2019, was 8.36% of compensation for law enforcement officers and 7.75% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town of Kitty Hawk were \$201,506 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.

TOWN OF KITTY HAWK, NORTH CAROLINA
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2019

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 \$1,041,458 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 of all participating LGERS employers, actuarially determined. At June 30, 2018, the Town's proportion was 0.04390% which was an increase of 0.00218% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the Town recognized pension expense of \$244,646. At June 30, 2019, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 160,672	\$ 5,391
Changes of assumptions	276,363	-
Net difference between projected and actual earnings on pension plan investments	142,961	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	-	61,052
Town contributions subsequent to the measurement date	201,506	-
Total	<u>\$ 781,502</u>	<u>\$ 66,443</u>

\$201,506 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 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	\$ 251,725
2021	163,917
2022	23,344
2023	74,567
2024	-
Thereafter	-
	<u>\$ 513,553</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 percent
Investment rate of return	7.00 percent, net of pension plan investment expense, including inflation

TOWN OF KITTY HAWK, NORTH CAROLINA
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2019

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.

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	6.0%	4.0%
Total	100%	

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 KITTY HAWK, NORTH CAROLINA
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2019

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:

	1% Decrease <u>(6.00%)</u>	Discount Rate <u>(7.00%)</u>	1% Increase <u>(8.00%)</u>
Town's proportionate share of the net Pension liability (asset)	\$2,501,673	\$ 1,041,458	\$(178,720)

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 Kitty Hawk 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 valuation date), the Separation Allowance's membership consisted of:

Retirees receiving benefits	3
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	<u>16</u>
Total	<u>19</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 are recognized when due and payable in accordance with terms of the plan.

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

TOWN OF KITTY HAWK, NORTH CAROLINA
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2019

Actuarial Assumptions. The entry age actuarial cost method was used in the December 31, 2017 valuation. The total pension liability 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 used to measure the total pension liability is the S&P Municipal Bond 20 Year High Grade Rate Index. The actuarial assumptions used in the December 31, 2017 valuation were based on the results of an experience study completed by the Actuary for the Local Government Employee's Retirement System for the five-year period ended December 31, 2014.

The plan currently uses mortality tables that vary by age and gender. 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.

Contributions. The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned on a pay as you go basis through appropriations in the General Fund operating budget. There were no contributions made by employees. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. The Town paid \$ 50,677 as benefits came due for the reporting period.

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

At June 30, 2019, the Town reported a total pension liability of \$ 725,190. 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 incorporating the actuarial assumptions. For the year ended June 30, 2019, The Town recognized pension expense of \$ 60,609.

At June 30, 2019, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 51,519	\$ -
Changes of assumptions	23,711	25,165
Town benefit payments subsequent to the measurement date	27,920	-
Total	<u>\$ 103,150</u>	<u>\$ 25,165</u>

TOWN OF KITTY HAWK, NORTH CAROLINA
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2019

\$ 27,920 reported as deferred outflows of resources related to pension resulting from benefits payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ended June 30, 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	\$ 13,119
2021	13,119
2022	14,202
2023	10,002
2024	(377)
Thereafter	-

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 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 (2.64 percent) or one percentage point higher (4.64 percent) than the current rate:

	1% Decrease (2.64%)	Discount Rate (3.64%)	1% Increase (4.64%)
Town's pension liability	\$ 774,673	\$ 725,190	\$ 679,640

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

Total pension liability December 31, 2017	\$ 736,196
Changes for the year:	
Service cost at end of year	25,089
Interest	22,401
Change in benefit terms	0
Differences between expected and actuarial experience	19,332
Changes of assumptions and other inputs	(23,249)
Benefit payments	(54,579)
Other changes	0
Net changes	<u>\$ (11,006)</u>
Total Pension liability December 31, 2018	<u>\$ 725,190</u>

Changes in Assumptions. The discount rate increased from 3.16% (December 31, 2017 measurement date) to 3.64% (December 31, 2018 measurement date).

TOWN OF KITTY HAWK, NORTH CAROLINA
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2019

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

	<u>LGERS</u>	<u>LEOSSA</u>	<u>TOTAL</u>
Pension expense	\$ 244,646	\$ 60,609	\$ 305,255
Pension liability	1,041,458	725,190	1,766,648
Proportionate share of pension liability	.04390%	N/A	

Deferred of Outflows of Resources

Differences between expected and actual experience	160,672	51,519	212,191
Change of assumptions	276,363	23,711	300,074
Net difference between projected and actual earnings on plan investments	142,961	-	142,961
Changes in proportion and differences between contributions and proportionate share of contributions	-	-	-
Benefit payments and administrative costs paid subsequent to the measurement date	201,506	27,920	229,426

Deferred of Inflows of Resources

Differences between expected and actual experience	5,391	-	5,391
Change of assumptions	-	25,165	25,165
Net difference between projected and actual earnings on plan investments	-	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	61,052	-	61,052

c. Supplemental Retirement Income Plan for Law Enforcement Officers

Plan Description. The Town contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to law enforcement officers employed by the Town. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Supplemental Retirement Income Plan for Law Enforcement Officers is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes the pension trust fund financial statements for the Internal Revenue Code Section 401(k) plan that includes the Supplemental Retirement Income Plan for Law Enforcement Officers. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 707-0500.

Funding Policy. Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to 5% of each officer's salary; and beginning July 1, 2002 the Town began matching an additional contribution of 2% for officers who contribute to the plan for a possible total of 7% and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2019, were \$ 95,455 which consisted of \$59,564 from the Town and \$ 35,891 from law enforcement officers.

TOWN OF KITTY HAWK, NORTH CAROLINA
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2019

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

Plan Description. The Town contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to non-law enforcement officers employed by the Town. The Town has no requirement or obligation under North Carolina General Statutes to contribute to the plan.

Funding Policy. Beginning July 1, 2002 the Town began making a matching contribution of 2% for non-law enforcement officers who contribute to the plan and all amounts contributed are vested immediately. Contributions for the year ended June 30, 2019, were \$70,010, which consisted of \$ 30,152 from the Town and \$ 39,858 from employees.

e. 457 Deferred Compensation

Plan Description. The Town adopted a Supplemental Retirement Income Plan, a defined contribution plan, for regular employees and law enforcement employees beginning April, 2010.

Funding Policy. The Town does not match contributions to the 457 deferred compensation plan. Total contributions for the year ended June 30, 2019 were \$ 10,470, which consisted of \$ 5,330 from regular employees and \$ 5,140 from law enforcement employees.

f. Firemen's Relief Fund and Supplemental Retirement for Firemen

The Town maintains a Firemen's Relief Fund pursuant to North Carolina General Statutes to financially assist a firefighter that has been injured or killed while performing fire department duties. Additionally, a portion of these funds are set aside to provide supplemental incentive benefits to fire fighters that meet minimum requirements.

g. Other Postemployment Benefit - Healthcare Benefits

Plan Description. Under the terms of a Town policy, the Town administers a single-employer defined Healthcare Benefits Plan (the HCB Plan). As of July 1, 2012 this plan provides postemployment healthcare benefits to retirees of the Town as defined by the Local Government Employees' Retirement System, until the employee becomes Medicare eligible. Benefits are calculated on a prorated basis using years of service. Some "grandfathered" retirees still receive Medicare coverage. Also, the Town's retirees can purchase coverage for their dependents at the Town group rates. A separate report was not issued for the plan.

Membership of the HCB Plan consisted of the following at June 30, 2018, the date of the latest actuarial valuation:

Inactive Members or Beneficiaries Currently Receiving Benefits	11
Inactive Members Entitled To, But Not Yet Receiving Benefits	0
Active Members	<u>46</u>
Total Membership	57

TOTAL OPEB LIABILITY

The Town's total OPEB liability of \$ 1,619,688 was measured as of June 30, 2019 and was determined by an actuarial valuation as of that date.

TOWN OF KITTY HAWK, NORTH CAROLINA
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2019

Actuarial assumptions and other inputs. The total OPEB liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Inflation	2.50%
Real wage growth	1.000%
Wage inflation	3.50%
Salary increases, including wage inflation:	
General Employees	3.50%-7.75%
Law Enforcement Officers	3.50%-7.35%
Municipal Bond Index Rate:	
Prior measurement date	3.56%
Measurement date	3.89%
Health Care Cost Trends:	
Pre-Medicare	7.75% for 2018 decreasing to an ultimate rate of 5.00% by 2028
Medicare	5.38% for 2018 decreasing to an Ultimate rate of 4.75% by 2022

The discount rate used to measure the total OPEB liability was based on the June average of the Bond Buyer General Obligation 20-year Municipal Bond Index published weekly by The Bond Buyer.

Changes in Total OPEB Liability

Total OPEB liability June 30, 2017	\$ 1,570,468
Changes for the year:	
Service cost at end of year	51,249
Interest on TOL and Cash Flows	55,240
Change in benefit terms	0
Differences between expected and actuarial experience	2,778
Changes of assumptions and other inputs	(22,124)
Benefit payments	(37,923)
Other changes	0
Net changes	<u>\$ 49,220</u>
Total OPEB liability June 30, 2018	<u>\$ 1,619,688</u>

Mortality rates were based on the RP-2014 mortality tables, with adjustments for LGERS experience and generational mortality improvements using Scale MP-2015.

The demographic actuarial assumptions for retirement, disability incidence, withdrawal, and salary increases used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period January 1, 2010 – December 31, 2014, adopted by LGERS.

The remaining actuarial assumptions (e.g. initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2018 valuation were based on a review of recent plan experience done concurrently with the June 30, 2018 valuation.

TOWN OF KITTY HAWK, NORTH CAROLINA
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2019

Sensitivity of the Town's total OPEB liability to changes in the discount rate. The following presents the Town's total OPEB liability calculated using the discount rate of 3.89 percent, as well as what the Town's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.89 percent) or one percentage point higher (4.89 percent) than the current rate:

	1% Decrease (2.89%)	Discount Rate (3.89%)	1% Increase (4.89%)
Town's total OPEB liability	\$ 1,836,287	\$ 1,619,688	\$ 1,437,375

Sensitivity of the Town's total OPEB liability to changes in the healthcare cost trend rates. The following presents the Town's total current OPEB liability as well as what the Town's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease	Current	1% Increase
Town's total OPEB liability	\$ 1,411,359	\$ 1,619,688	\$ 1,871,856

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2019, the Town recognized OPEB expense of \$ 87,088. At June 30, 2019, the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 2,422	\$ 2,525
Changes of assumptions	-	103,735
Benefit payments and administrative costs subsequent to the measurement date	50,677	-
Total	\$ 53,099	\$ 106,260

TOWN OF KITTY HAWK, NORTH CAROLINA
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2019

\$ 50,677 reported as deferred outflows of resources related to OPEB resulting from benefits payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ended June 30, 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	\$ (19,401)
2021	(19,401)
2022	(19,401)
2023	(19,401)
2024	(19,401)
Thereafter	(6,833)

2. Other Employment Benefit

The Town has also elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$ 50,000 or be less than \$ 25,000. Because all death benefits are made from the Death Benefit Plan and not by the Town, the Town does not determine the number of eligible participants. The Town has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. Contributions are determined as a percentage of monthly payroll based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. For the fiscal year ended June 30, 2019 the Town made contributions to the State for death benefits of \$ 4,203. The Town's required contributions for employees not engaged in law enforcement and for law enforcement officers represented 0.18% and 0.14% of covered payroll respectively.

TOWN OF KITTY HAWK, NORTH CAROLINA
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2019

3. Deferred Outflows and Inflows of Resources

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

	<u>Statement of Net Position</u>
Contributions to pension plan in the current fiscal year LGERS	\$ 201,506
Benefit payments made for LEOSSA subsequent to measurement date	27,920
Benefit payments made for OPEB subsequent to measurement date	50,677
Differences between expected and actual experience	214,613
Changes of assumptions	300,074
Net difference between projected and actual earnings on plan investments	142,961
Changes in proportion and difference between contributions and proportionate share of contributions	<u>-</u>
Total	<u>\$ 937,751</u>

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

	<u>Statement of Net Position</u>	<u>General Fund Balance Sheet</u>
Taxes receivable (General Fund)	\$ -	\$ 58,383
Differences between expected and actual experience	7,916	
Changes of assumptions	128,900	-
Net difference between projected and actual earnings on plan investments	-	-
Changes in proportion and difference between contributions and proportionate share of contributions	<u>61,052</u>	<u>-</u>
Total	<u>\$ 197,868</u>	<u>\$ 58,383</u>

4. Risk Management

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

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

TOWN OF KITTY HAWK, NORTH CAROLINA
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2019

The Town carries flood insurance through the National Flood Insurance Plan (NFIP). Because the town is in an area designated an "AE" area (a special flood hazard area) by the Federal Emergency Management Agency, the town is eligible to purchase coverage of \$ 500,000 per structure through the NFIP. The Town has coverage on its police department building for \$ 500,000 and contents of \$ 108,400. The Town has coverage on its fire department building of \$ 500,000 and contents of \$ 270,000.

The Town carries a bond on its finance officer in the amount of \$ 50,000, on its tax collector for \$ 10,000 and a blanket bond on all other employees in the amount of \$ 50,000.

5. Long Term Obligations

a. Installment Purchase Contract

In June 2016, the Town entered into an installment purchase contract for an issue of limited obligation bonds to fund a portion of beach nourishment costs. The amount financed was \$ 9,999,000 and was directly placed with a financial institution under a five-year installment financing agreement. The financing agreement requires semi-annual interest payments beginning in December 2016 and annual principal payments beginning in December 2017 with a fixed interest rate of 1.9% for five years. The debt is secured by occupancy tax revenues and amounts distributed from Dare County to the Town under an inter-local agreement dated April 22, 2015 and updated on June 6, 2016.

Annual debt service payments on these agreements as of June 30, 2019 including principal and interest are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2020	\$ 1,999,800	\$ 94,991
2021	1,999,800	56,994
2022	<u>1,999,800</u>	<u>18,998</u>
Total	<u>\$ 5,999,400</u>	<u>\$ 170,983</u>

b. Changes in Long-Term Liabilities

	Balance July 1, 2018	Increase	Decrease	Balance June 30, 2019	Current Portion of Balance
Governmental Activities:					
Compensated absences	\$ 172,395	\$ 11,610	\$ -	\$ 184,005	\$ 25,000
Direct placement installment purchase	7,999,200	-	1,999,800	5,999,400	1,999,800
Total pension obligation (LEO)	736,196	-	11,006	725,190	-
Net pension liability (LGERS)	704,975	336,483	-	1,041,458	-
Total OPEB liability	1,570,468	49,220	-	1,619,688	-
Governmental Activities Long-Term Liabilities	<u>\$ 11,183,234</u>	<u>\$ 397,313</u>	<u>\$2,010,806</u>	<u>\$9,569,741</u>	<u>\$ 2,024,800</u>

TOWN OF KITTY HAWK, NORTH CAROLINA
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2019

C. Inter-fund Transfers

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

From General Fund to the Capital Reserve Fund (Bath House)	\$ 20,000
From General Fund to Capital Reserve Fund (Fire Truck/Equipment)	\$ 80,000
From General Fund to Capital Reserve Fund (Document Imaging)	\$ 20,000
From General Fund to Capital Reserve Fund (Finance Software Upgrade)	\$ 5,000
From General Fund to Capital Reserve Fund (Boardwalks)	\$ 8,000
From General Fund to Capital Reserve Fund (Training Equipment)	\$ 15,000
From General Fund to Capital Reserve Fund (Land Use Plan Update)	\$ 15,000
From General Fund to Capital Reserve Fund (Police Department Building)	\$ 120,000
From General Fund to Capital Reserve Fund (Fuel storage tank)	\$ 12,000
From General Fund to the Capital Reserve Fund (Phone replacement)	\$ 5,000
From General Fund to the Capital Reserve Fund (Beach Nourishment)	<u>\$ 120,372</u>
	<u>\$ 420,372</u>

D. Fund Balance

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

Total fund balance – General Fund	\$ 11,818,213
Less:	
Prepaid items	\$ 39,027
Stabilization by State Statute	1,033,232
Streets-Powell Bill	202,805
Public Safety	11,555
Capital Reserve Fund	2,746,675
Appropriated fund balance in 2019-2020 budget	-
Working capital/fund balance policy	<u>3,500,000</u>
Total reductions	<u>\$ 7,533,294</u>
Remaining Fund Balance	<u>\$ 4,284,919</u>

The Town has also adopted a fund balance policy for the general fund which sets aside \$ 3,500,000 for unanticipated expenditures, revenue shortfalls and emergencies. After the annual audit is complete, if this amount is not available, Council will develop a plan to restore the balance within 24 months.

TOWN OF KITTY HAWK, NORTH CAROLINA
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2019

Outstanding encumbrances at June 30, 2019 in the General Fund were \$ 26,863.

E. Beach Nourishment

The Town began the planning phase of a beach nourishment project in fiscal year June 30, 2014 in conjunction with Dare County and the Towns of Duck and Kill Devil Hills. The Town's portion is estimated to cost \$ 19,000,000. The project was financed with the issuance of special obligation bonds which occurred in June, 2016 in the amount of \$ 9,999,000 with the remaining amount of approximately \$ 9,000,000 coming from Dare County. The debt service on the special obligation bonds will be repaid with funds from Dare County along with a town-wide tax designated for beach nourishment (two cents in fiscal year 2015 and 4 cents in fiscal years 2016, 2017, 2018 and 2019) along with a municipal service district tax (twelve cents in fiscal years 2016, 2017, 2018 and 2019). The beach nourishment construction in Kitty Hawk began in May 2017 and was completed in the Fall of 2017. Funds accumulated for debt repayment and beach nourishment included in the capital reserve fund at June 30, 2019 are as follows:

	Town-wide	MSD	Sales Tax/MSD	Tax Collection Fees	Debt Payment	Beach Nourishment	Total
FY 15	\$ 224,904	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 224,904
FY 16	455,562	499,184	-	-	-	-	954,746
FY 17	464,484	504,202	162,354	(14,128)	(192,620)	-	924,292
FY 18	473,457	513,079	170,808	(15,083)	(925,110)	(304,670)	(87,519)
FY 19	477,577	514,848	165,607	(15,525)	(925,110)	(97,025)	120,372
Totals	\$2,095,984	\$2,031,313	\$ 498,769	\$ (44,736)	\$(2,042,840)	\$ (401,695)	\$ 2,136,795

III. Summary Disclosure of Significant Contingencies

Federal and State Assisted Programs

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

Subsequent Events

Management has evaluated subsequent events through October 25, 2019, the date on which the financial statements were available to be issued.

TOWN OF KITTY HAWK, NORTH CAROLINA
Town of Kitty Hawk's Proportionate Share of Net Pension Liability (Asset)
Required Supplementary Information
Last Six Fiscal Years *

	2019	2018	2017	2016	2015	2014
Town of Kitty Hawk's proportion of the net pension liability (asset) (%)	0.03490%	0.04608%	0.04391%	0.04690%	0.04920%	0.05360%
Town of Kitty Hawk's proportion of the net pension liability (asset) (\$)	\$ 1,041,458	\$ 703,975	\$ 931,917	\$ 209,542	\$ (290,391)	\$ 646,086
Town of Kitty Hawk's covered-employee payroll	\$ 2,493,079	\$ 2,513,483	\$ 2,325,577	\$ 2,354,317	\$ 2,306,283	\$ 2,482,587
Town of Kitty Hawk's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	41.77%	28.01%	40.07%	8.90%	-12.59%	26.02%
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 KITTY HAWK, NORTH CAROLINA

Town of Kitty Hawk's Contributions Required Supplementary Information Last Six Fiscal Years Local Government Employees' Retirement System

	2019	2018	2017	2016	2015	2014
Contractually required contribution	\$ 201,506	\$ 192,289	\$ 187,415	\$ 158,178	\$ 172,444	\$ 167,897
Contributions in relation to the contractually required contribution	201,506	192,289	187,415	158,178	172,444	167,897
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Town of Kitty Hawk's covered-employee payroll	\$ 2,530,703	\$ 2,493,079	\$ 2,513,483	\$ 2,325,577	\$ 2,354,317	\$ 2,306,283
Contributions as a percentage of covered-employee payroll	7.96%	7.71%	7.46%	6.80%	7.32%	7.28%

TOWN OF KITTY HAWK, NORTH CAROLINA

Schedule of Changes in Total Pension Liability

Law Enforcement Officers' Special Separation Allowance

June 30, 2019

	2019	2018	2017
Beginning Balance	\$ 736,196	\$ 671,033	\$ 709,819
Service Cost	25,089	21,287	21,763
Interest on the total pension liability	22,401	24,503	24,068
Changes of benefit terms	-	-	-
Differences between expected and actual experience in the measurement of the total pension liability	19,332	55,181	-
Changes of assumptions or other inputs	(23,249)	36,669	(13,323)
Benefit payments	(54,579)	(72,477)	(71,294)
Other changes	-	-	-
Ending balance of the total pension liability	<u>\$ 725,190</u>	<u>\$ 736,196</u>	<u>\$ 671,033</u>

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

TOWN OF KITTY HAWK, NORTH CAROLINA

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	\$ 725,190	\$ 736,196	\$ 671,033
Covered payroll	\$ 911,211	\$ 874,336	\$ 874,838
Total pension liability as a percentage of covered payroll	79.59%	84.20%	76.70%

Notes to the schedules:

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

TOWN OF KITTY HAWK, NORTH CAROLINA
Schedule of Changes in Total OPEB Liability and Related Ratios
June 30, 2019

Total OPEB Liability

	<u>2019</u>	<u>2018</u>
Service Cost	\$ 51,249	\$ 54,742
Interest on the total OPEB liability	55,240	48,345
Changes of benefit terms	-	-
Differences between expected and actual experience in the measurement of the total pension liability	2,778	(3,507)
Changes of assumptions or other inputs	(22,124)	(117,307)
Benefit payments	(37,923)	(35,645)
Other changes	-	-
Net change in total OPEB liability	<u>49,220</u>	<u>(53,372)</u>
Total OPEB liability - beginning	<u>1,570,468</u>	<u>1,623,840</u>
Total OPEB liability - ending	<u>\$ 1,619,688</u>	<u>\$ 1,570,468</u>
Covered payroll	\$ 2,362,360	\$ 2,134,362
Total OPEB liability as a percentage of covered payroll	68.56%	73.58%

Notes to Schedule

Changes of assumptions: Changes of assumptions and other inputs reflect the effects of changes in the discount rate each period. Discount rates used in each period: 3.89% 3.56%

TOWN OF KITTY HAWK, NORTH CAROLINA

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN

FUND BALANCE - BUDGET AND ACTUAL

For the Year Ended June 30, 2019

With Comparative Actual Amounts for the Year Ended June 30, 2018

	2019		Variance Favorable (Unfavorable)	2018
	Budget	Actual		Actual
<u>REVENUES</u>				
<u>AD VALOREM TAXES:</u>				
Current year	\$ 3,949,868	\$ 4,035,212	\$ 85,344	\$ 3,990,729
Municipal service district taxes	505,217	512,369	7,152	509,257
Prior year	5,000	26,889	21,889	36,141
Prior year MSD	-	2,479	2,479	3,823
Penalties and interest	3,000	6,901	3,901	8,261
	<u>4,463,085</u>	<u>4,583,850</u>	<u>120,765</u>	<u>4,548,211</u>
<u>OTHER TAXES AND LICENSES:</u>				
Local option sales tax	1,432,100	1,428,882	(3,218)	1,457,405
Occupancy tax	1,320,000	1,511,393	191,393	1,532,919
Land transfer tax	305,000	374,593	69,593	375,581
	<u>3,057,100</u>	<u>3,314,868</u>	<u>257,768</u>	<u>3,365,905</u>
<u>UNRESTRICTED INTERGOVERNMENTAL REVENUES:</u>				
ABC Revenue	57,817	58,947	1,130	57,717
Utilities franchise tax	411,400	444,309	32,909	428,638
Video programming tax	87,624	79,267	(8,357)	84,252
PEG Channel	27,000	27,027	27	26,757
Beer and wine tax	15,904	15,330	(574)	15,229
	<u>599,745</u>	<u>624,880</u>	<u>25,135</u>	<u>612,593</u>
<u>RESTRICTED INTERGOVERNMENTAL REVENUES:</u>				
State and Federal:				
Powell Bill allocation	106,000	105,539	(461)	106,118
Public safety grants	26,000	25,548	(452)	63,655
NC Dept. Transportation-Moore Shore Road	30,000	30,000	-	-
NC Dept. Natural and Cultural Resources	-	-	-	57,722
NC Department of Agriculture	29,000	31,663	2,663	-
FEMA revenues	28,312	149,489	121,177	-
NC Division of Soil and Water Conservation	-	-	-	201,236
Controlled substance distribution	2,000	5,934	3,934	10,538
Local:				
OBCF-Icarus grant	6,000	3,657	(2,343)	4,506
Dare County- BN debt reimbursement	1,207,677	1,207,677	-	1,245,673
Dare County-Governmental Access Channel	10,000	1,666	(8,334)	10,000
Dare County - sand fencing	24,000	20,396	(3,604)	24,000
	<u>1,468,989</u>	<u>1,581,569</u>	<u>112,580</u>	<u>1,723,448</u>

TOWN OF KITTY HAWK, NORTH CAROLINA**GENERAL FUND****SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN****FUND BALANCE - BUDGET AND ACTUAL**

For the Year Ended June 30, 2019

With Comparative Actual Amounts for the Year Ended June 30, 2018

	2019		Variance Favorable (Unfavorable)	2018
	Budget	Actual		Actual
PERMITS AND FEES:				
CAMA permits	3,500	3,055	(445)	3,375
Building permits	110,000	147,580	37,580	133,981
Other planning fees	15,200	15,721	521	19,502
	<u>128,700</u>	<u>166,356</u>	<u>37,656</u>	<u>156,858</u>
SALES AND SERVICES:				
Court costs	3,500	2,514	(986)	2,967
Garbage carts	5,500	8,975	3,475	6,700
	<u>9,000</u>	<u>11,489</u>	<u>2,489</u>	<u>9,667</u>
INVESTMENT EARNINGS				
	<u>20,000</u>	<u>214,565</u>	<u>194,565</u>	<u>94,702</u>
OTHER REVENUES:				
Rents	4,800	4,800	-	4,800
SW disposal tax	2,300	2,636	336	2,336
Sale of fixed assets	10,000	32,371	22,371	21,795
Insurance reimbursements	-	35,000	35,000	43,063
Fines and forfeitures	250	750	500	1,250
Code enforcement fines	4,000	6,040	2,040	3,670
Miscellaneous	1,600	7,376	5,776	9,807
	<u>22,950</u>	<u>88,973</u>	<u>66,023</u>	<u>86,721</u>
TOTAL REVENUES	\$ 9,769,569	\$ 10,586,550	\$ 816,981	\$ 10,598,105
EXPENDITURES				
GENERAL GOVERNMENT:				
Governing body:				
Fees to elected officials		\$ 7,675		\$ 6,725
Payroll taxes		624		545
Travel and training		223		150
Miscellaneous		156		541
Telephone & Communications		866		825
Professional Services - election		-		3,685
Committees		16,133		3,885
Dues and subscriptions		7,695		6,131
		<u>33,372</u>		<u>22,487</u>
Administration:				
Salaries		280,980		269,812
Payroll taxes		20,749		19,939
Group insurance		44,811		46,603
Retirement		29,894		26,221
Advertising		2,499		3,744
Printing - Codification		4,123		1,871
Contracted Services - Transcription		6,495		7,600
Professional services - other		2,342		363
Postage		92		195
Telephone		1,981		1,964
Professional services - legal		39,820		39,075
Travel		3,407		1,068
Supplies		820		1,289
Dues and subscriptions		364		488
Service contracts		2,272		3,552
		<u>440,649</u>		<u>423,784</u>

TOWN OF KITTY HAWK, NORTH CAROLINA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended June 30, 2019
With Comparative Actual Amounts for the Year Ended June 30, 2018

	2019		Variance	2018
	Budget	Actual	Favorable (Unfavorable)	Actual
Finance:				
Salaries		108,196		105,610
Payroll taxes		7,158		7,260
Group insurance		35,006		28,499
Retirement		10,657		10,086
Postage		339		314
Printing		1,269		785
Professional services		23,229		22,109
Service and maintenance contracts		11,828		10,174
Travel		6,418		11,786
Supplies		1,366		1,164
Telephone & Communications		702		675
Dues and subscriptions		98		234
		<u>206,266</u>		<u>198,696</u>
Planning Department:				
Salaries		183,836		184,136
Payroll taxes		13,833		13,943
Group insurance		37,112		35,375
Retirement		19,451		17,490
Professional services		6,759		690
Vehicle supplies		1,239		1,219
Supplies		1,693		1,668
Travel		5,191		5,132
Postage		1,210		423
Advertising		287		90
Uniforms		52		181
Telephone		1,253		1,252
Printing		1,956		1,328
Vehicle maintenance and repairs		1,112		1,511
Dues and subscriptions		1,093		984
Service and maintenance contracts		2,000		2,000
State Homeowner Recovery fund		918		639
		<u>278,995</u>		<u>268,061</u>
Planning Board:				
Salaries		3,600		4,100
Payroll taxes		275		314
Contract services		885		1,270
		<u>4,760</u>		<u>5,684</u>
Public Works:				
Salaries		212,873		200,736
Payroll taxes		15,655		14,799
Group insurance		45,090		43,713
Retirement		19,497		16,745
Uniforms		1,857		2,716
Vehicle supplies		15,815		7,770
Building and grounds maintenance		116,956		78,598
Icarus expenses		728		2,242
Stream events/debris removal		114,033		201,236
Supplies		13,658		4,723
Travel		1,075		1,104
Telephone		4,124		2,786
Utilities		11,354		13,249
Equipment maintenance and repairs		20,488		12,461
Service contracts		22,073		16,912
Dues and subscriptions		206		200
Equipment rental		2,683		5,728
Sand Fence project		22,075		24,585
Drainage projects - Tateway		48,975		76,060
Capital putlay - Moore Shore Road		182,182		-
Capital outlay - other		32,851		164,909
		<u>904,248</u>		<u>891,272</u>

TOWN OF KITTY HAWK, NORTH CAROLINA**GENERAL FUND****SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN****FUND BALANCE - BUDGET AND ACTUAL**

For the Year Ended June 30, 2019

With Comparative Actual Amounts for the Year Ended June 30, 2018

	2019		Variance	2018
	Budget	Actual	Favorable (Unfavorable)	Actual
Storm Damage Reduction:				
Beach nourishment tax collection fee		15,525		15,083
Beach maintenance		659		7,068
Beach nourishment engineering		96,366		-
Debt payment		2,132,787		2,170,783
		<u>2,245,337</u>		<u>2,192,934</u>
Non-Departmental:				
Vehicle supplies		172		338
Supplies		3,229		4,124
PEG Government Channel to Dare County		27,027		26,757
Employee event		3,804		5,161
Tax collection fees		57,458		57,082
Telephone		6,904		5,105
Postage		182		166
Utilities		4,438		6,217
Printing		1,196		600
Equipment maintenance and repairs		752		627
IT services		60,635		101,869
Service and maintenance contracts		11,190		11,734
Dues and Subscriptions		3,967		357
Special Liabilities		20,021		6,766
Insurance and bonding		197,547		199,504
Fines and forfeitures to Board of Educations		1,139		1,250
Pruitt Path improvements		-		59,518
Government access channel grant		1,664		-
Capital outlay		-		10,823
		<u>401,325</u>		<u>497,998</u>
TOTAL GENERAL GOVERNMENT	<u>4,691,950</u>	<u>4,514,952</u>	<u>176,998</u>	<u>4,500,916</u>

TOWN OF KITTY HAWK, NORTH CAROLINA

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN

FUND BALANCE - BUDGET AND ACTUAL

For the Year Ended June 30, 2019

With Comparative Actual Amounts for the Year Ended June 30, 2018

	2019		Variance Favorable (Unfavorable)	2018
	Budget	Actual		Actual
PUBLIC SAFETY:				
Police Department:				
Salaries		974,416		953,181
Payroll taxes		73,010		72,284
Group insurance		249,666		246,602
Retirement		144,935		137,896
Separation allowance		54,579		65,627
Professional services		8,710		4,925
Postage		1,421		1,738
Travel and training		11,875		13,259
Telephone and communications		17,893		20,500
Dues and subscriptions		817		783
Printing		997		1,216
Utilities		5,143		5,477
Uniforms		9,340		9,179
Department supplies		8,027		8,063
Vehicle supplies		34,849		34,256
Vehicle and equipment repairs		46,057		42,213
Service and maintenance contracts		28,897		31,385
Special investigations		3,001		9,968
Capital outlay		125,117		115,141
Grant operating and capital expenses		25,384		64,653
		<u>1,824,134</u>		<u>1,838,346</u>
Fire Department:				
Salaries		889,673		841,702
Payroll Taxes		64,242		61,742
Group Insurance		207,427		178,175
Retirement		85,008		77,988
Professional services		11,604		7,444
Telephone		15,513		15,796
Postage		156		124
Travel and training		16,236		13,992
Utilities		12,005		13,824
Vehicle and equipment repairs		37,248		28,803
Service and maintenance contracts		3,433		8,047
Vehicle supplies		10,669		12,193
Departmental supplies		14,791		13,557
Uniforms		18,220		17,612
Dues and subscriptions		1,519		2,052
Debt service		-		1,318,888
Capital outlay		25,500		61,237
		<u>1,413,244</u>		<u>2,673,176</u>
Ocean Rescue:				
Salaries		94,677		95,739
Payroll taxes		7,243		7,324
Telephone and communications		373		372
Printing		556		538
Travel and training		456		1,039
Professional services		1,167		1,040
Vehicle and equipment repairs		2,861		1,209
Vehicle Supplies		2,228		2,458
Departmental supplies		3,717		2,816
Uniforms		4,046		3,593
Dues and subscriptions		30		30
Equipment rental		3,900		3,900
Capital outlay		34,865		11,429
		<u>156,119</u>		<u>131,487</u>
TOTAL PUBLIC SAFETY	3,565,419	3,393,497	171,922	4,643,009

TOWN OF KITTY HAWK, NORTH CAROLINA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended June 30, 2019
With Comparative Actual Amounts for the Year Ended June 30, 2018

	2019		Variance Favorable (Unfavorable)	2018
	Budget	Actual		Actual
TRANSPORTATION:				
Powell Bill street maintenance and construction		265,553		80,972
		265,553		80,972
TOTAL TRANSPORTATION	294,950	265,553	29,397	80,972
ENVIRONMENTAL PROTECTION:				
Sanitation:				
Contracted services		512,792		457,740
Solid waste disposal		445,293		456,554
TOTAL ENVIRONMENTAL PROTECTION	1,116,000	958,085	157,915	914,294
TOTAL EXPENDITURES	9,668,319	9,132,087	536,232	10,139,191
REVENUES OVER EXPENDITURES	101,250	1,454,463	1,353,213	458,914
OTHER FINANCING SOURCES (USES):				
Fund balance appropriated	291,766	-	(291,766)	-
Transfer from capital reserve fund	31,000	-	(31,000)	50,332
Transfer to capital reserve fund	(424,016)	(420,372)	3,644	(245,083)
	<u>(101,250)</u>	<u>(420,372)</u>	<u>(319,122)</u>	<u>(194,751)</u>
REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	\$ -	1,034,091	\$ 1,034,091	264,163
FUND BALANCE:				
Beginning of year, July 1		8,037,447		7,773,284
End of year, June 30		<u>\$ 9,071,538</u>		<u>\$ 8,037,447</u>

TOWN OF KITTY HAWK, NORTH CAROLINA

CAPITAL RESERVE FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN

FUND BALANCE - BUDGET AND ACTUAL

For the Year Ended June 30, 2019

With Comparative Actual Amounts For The Year Ended June 30, 2018

	2019		Variance Favorable (Unfavorable)	2018
	Budget	Actual		Actual
REVENUES:				
Investment income	\$ -	\$ 8,320	\$ 8,320	\$ 5,257
	-	8,320	8,320	5,257
TOTAL REVENUES	-	8,320	8,320	5,257
OTHER FINANCING SOURCES (USES)				
Fund balance appropriated	31,000	-	(31,000)	-
Additions to reserve	(424,016)	-	424,016	-
Transfer to general fund	(31,000)	-	31,000	(50,332)
Transfer to beach nourishment	-	-	-	(297,601)
Transfer from general fund	424,016	420,372	(3,644)	245,083
	-	420,372	420,372	(102,850)
REVENUES AND OTHER FINANCIAL SOURCES OVER OTHER USES	\$ -	428,692	428,692	(97,593)
FUND BALANCE				
Beginning of year, July 1		2,317,983		2,415,576
End of year, June 30		\$ 2,746,675		\$ 2,317,983

TOWN OF KITTY HAWK, NORTH CAROLINA

Agency Fund - Firemen's Relief Fund
Statement of Changes in Assets and Liabilities
June 30, 2019

	<u>Firemen's Relief Fund</u>
Balance June 30, 2018	\$ 84,824
<u>Additions</u>	
Department of Insurance	6,319
Investment earnings	<u>1,948</u>
Total Additions	8,267
<u>Deductions</u>	
Benefits	<u>-</u>
Balance June 30, 2019	<u>\$ 93,091</u>

TOWN OF KITTY HAWK, NORTH CAROLINA
SCHEDULE OF AD VALOREM TAXES RECEIVABLE
June 30, 2019

Fiscal Year	Uncollected Balance June 30, 2018	Additions	Releases/ Adjustments	Collections and Credits	Uncollected Balance June 30, 2019
2018-2019	\$ -	\$ 4,064,393	\$ (2,826)	\$ 4,035,107	\$ 26,460
2018-2019 MSD	-	513,685	(415)	512,354	916
2017-2018	24,715	-	-	19,603	5,112
2017-2018 MSD	1,775	-	-	1,124	651
2016-2017	8,498	-	-	4,969	3,529
2016-2017 MSD	1,228	-	-	1,098	130
2015-2016	4,605	-	(219)	611	3,775
2015-2016 MSD	374	-	-	259	115
2014-2015	3,040	-	-	535	2,505
2013-2014	5,522	-	-	1,163	4,359
2012-2013	3,017	-	-	5	3,012
2011-2012	2,772	-	-	4	2,768
2010-2011	2,555	-	-	3	2,552
2009-2010	2,498	-	-	-	2,498
2008-2009	2,487	-	-	2,487	-
	<u>\$ 63,086</u>	<u>\$ 4,578,078</u>	<u>\$ (3,460)</u>	<u>\$ 4,579,322</u>	<u>\$ 58,382</u>

Reconciliation of collections and credits to revenues:

Ad valorem taxes - Schedule 1	\$ 4,583,850
Taxes written off over 10 years	2,487
Adjustments	(114)
Penalties and interest	(6,901)
	<u>\$ 4,579,322</u>

TOWN OF KITTY HAWK, NORTH CAROLINA
ANALYSIS OF CURRENT TAX LEVY
June 30, 2019

	<u>Property Valuation</u>	<u>Rate</u>	<u>Total Levy</u>	<u>Property Excluding Registered Motor Vehicles</u>	<u>Registered Motor Vehicles</u>
Original levy:					
Property taxed at current year's rate	\$ 1,194,511,176	0.34	\$ 4,061,338	\$ 3,873,592	\$ 187,746
Pick-ups	82,941	0.34	282	282	-
Abatements	(831,176)	0.34	(2,826)	(2,826)	-
Late list penalties	-		2,773	2,773	-
Adjustments	-		-	-	-
Total property valuation	<u>\$ 1,193,762,941</u>				
Net levy			<u>4,061,567</u>	<u>3,873,821</u>	<u>187,746</u>
Uncollected taxes at June 30, 2019			<u>(26,460)</u>	<u>(26,460)</u>	<u>-</u>
Current year's taxes collected			<u>\$ 4,035,107</u>	<u>\$ 3,847,361</u>	<u>\$ 187,746</u>
Current levy collection percentage			<u>99.35%</u>	<u>99.32%</u>	<u>100.00%</u>

Dowdy & Osborne LLP

CERTIFIED PUBLIC ACCOUNTANTS

Jeff Dowdy, CPA • Teresa Osborne, CPA

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Mayor and Members of the Town Council
Town of Kitty Hawk, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregated remaining fund information of the Town of Kitty Hawk, 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 of Kitty Hawk's basic financial statements, and have issued our report thereon dated October 25, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Kitty Hawk's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Kitty Hawk's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Kitty Hawk'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 misstatements on a timely basis. *A material weakness* is a deficiency, or a 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. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit our attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given those limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Kitty Hawk, North Carolina's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dowdy & Osborne, LLP

Dowdy & Osborne, LLP
Certified Public Accountants

Nags Head, North Carolina

October 25, 2019