

TOWN OF KITTY HAWK, NORTH CAROLINA

ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2021

Gary Perry, Mayor
Craig Garriss, Mayor Pro-Tem
David Hines, Council Member
Lynne McClean, Council Member
Jeff Pruitt, Council Member

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

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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, 2021, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 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, 2021, 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, 2021

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, 2021. 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 \$ 23,591,915 (*net position*).
- The government's total net position increased by \$ 525,608.
- The budget was adopted with a town-wide tax rate of \$.30 cents per \$ 100 of valuation (reduced from \$.34 cents due to revaluation) of which \$ 0.035 cents is restricted for beach nourishment.
- The budget was adopted with a municipal service district tax for beach nourishment at a rate of \$.10 cents per \$ 100 of valuation (reduced from \$.12 cents due to revaluation).
- At the end of the current fiscal year, the Town of Kitty Hawk's governmental funds reported combined ending fund balances of \$ 14,625,233. Approximately 45% of this amount or \$ 6,644,374 is non-spendable, restricted or assigned.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$ 7,980,859, an increase of \$ 401,812 over the prior year. The unassigned fund balance at June 30, 2021 represents 81% of total general fund expenditures for the year.
- 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 \$ 4,480,859.
- The Town has reserve funds for future capital improvements of \$ 4,728,060 at June 30, 2021 including \$ 1,960,602 for beach nourishment and \$ 2,120,000 for a public safety building.

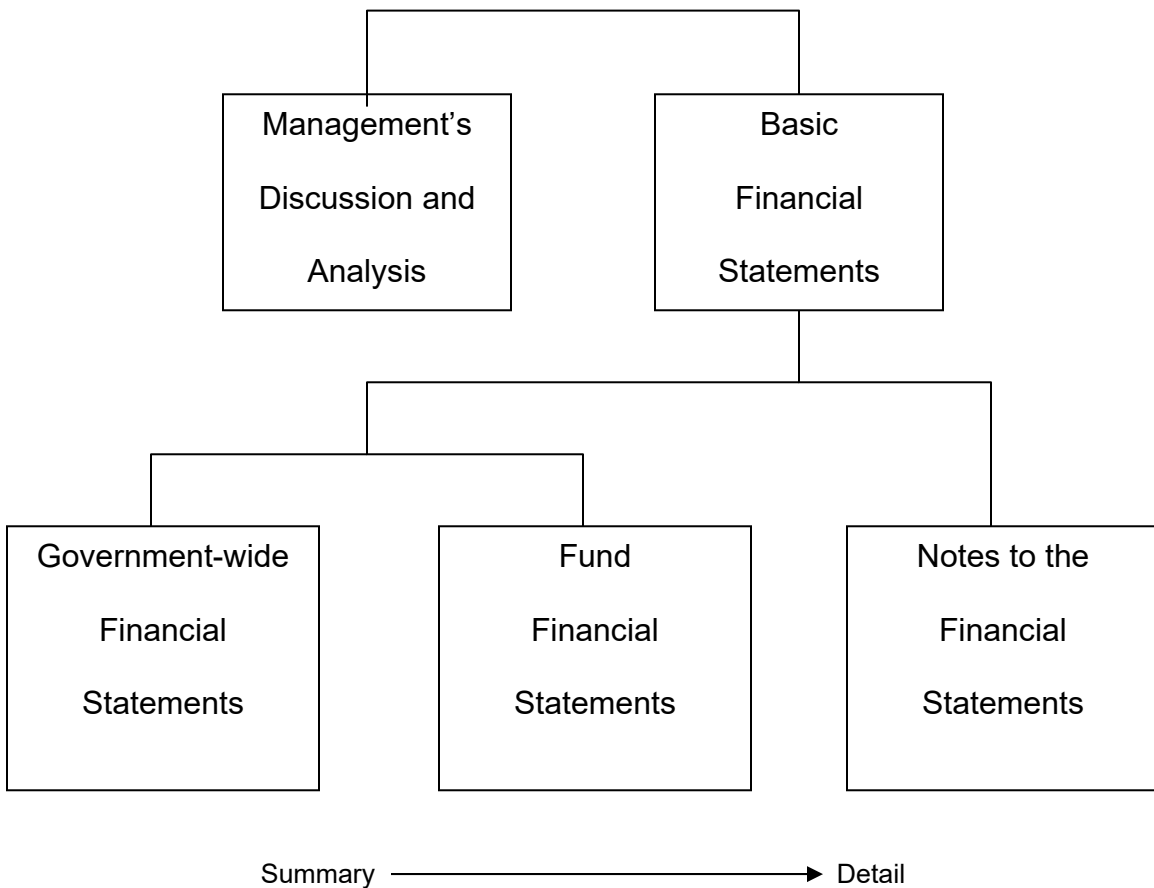
Management Discussion and Analysis Town of Kitty Hawk

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.

Management Discussion and Analysis

Town of Kitty Hawk

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 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

	June 30, 2021	June 30, 2020
Current and other assets	\$ 15,197,607	\$ 13,371,881
Capital assets	14,406,157	17,357,199
Deferred outflows of resources	1,438,835	940,325
Total assets and deferred outflows of resources	31,042,599	31,669,405
Long-term liabilities outstanding	6,452,249	7,979,851
Other liabilities	522,986	453,989
Deferred inflows of resources	475,449	169,258
Total liabilities and deferred inflows of resources	7,450,684	8,603,098
Net Position:		
Net investment in capital assets	12,406,357	13,357,599
Restricted	6,466,422	4,499,490
Unrestricted	4,719,136	5,209,218
Total net position	\$ 23,591,915	\$ 23,066,307

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 \$ 23,591,915 as of June 30, 2021. The town's total net position increased by \$ 525,608 for the fiscal year ended June 30, 2021. 53% or \$ 12,406,357 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 \$ 951,242 as depreciation on capital assets exceeded capital expenses and debt repayment on capital. 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 \$ 6,466,422 represents resources that are subject to external restrictions on how they may be used. The remaining \$ 4,719,136 is unrestricted.

Town of Kitty Hawk Changes in Net Position
Figure 3

	<u>June 30, 2021</u>	<u>June 30, 2020</u>
Revenues:		
Program Revenues:		
Charges for services	\$ 146,070	\$ 128,823
Operating grants and contributions	145,218	394,204
Capital grants and contributions	1,348,664	1,310,853
General Revenues:		
Property taxes	5,029,684	4,608,011
Sales, occupancy and land transfer taxes	4,665,267	3,187,369
Other unrestricted intergovernmental revenues	587,627	605,433
Investment earnings	3,622	163,269
Miscellaneous revenues	41,684	54,061
Total Revenues	<u>11,967,836</u>	<u>10,452,023</u>
Expenses:		
General government	6,271,471	6,599,191
Public safety	3,880,880	3,689,882
Transportation	144,313	131,082
Environmental protection	1,088,570	977,371
Interest	56,994	94,991
Total Expenses	<u>11,442,228</u>	<u>11,492,517</u>
Increase in net position	525,608	(1,040,494)
Net position, July 1	23,066,307	24,106,801
Net position, June 30	<u>\$ 23,591,915</u>	<u>\$ 23,066,307</u>

Operating grants and contributions decreased \$ 248,986 due primarily to FEMA revenues related to Hurricane Dorian received in prior fiscal year. Property taxes increased due to the estimated valuation used to calculate the revenue neutral tax rate resulting from revaluation. The projected revaluation anticipated a 5% decrease related to appeals and the actual decrease was just over 1%. The motor vehicle valuation increased 23% and personal property was not included in the estimate. Sales, occupancy and land transfer taxes increased \$ 1,447,898 due to an overall County 50% increase in occupancy taxes, an overall County 126% increase in land transfer taxes

Management Discussion and Analysis

Town of Kitty Hawk

and a 25% increase in sales tax. Investment earning rates have not rebounded since the onset of COVID 19, therefore investment income was minimal in the current fiscal year.

General government expenses decreased \$ 327,720 due primarily to storm related expenses in the prior year of \$ 247,525. Public safety expenses increased \$ 190,998 to an overall increase of approximately 6% in operating expenses. Environmental protection increased \$ 111,199 due to increases in the cost of garbage collection and disposal.

Interest expense decreased \$ 37,997 due to a decrease in beach nourishment debt of \$ 1,999,800.

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 \$ 7,980,859 while total fund balance reached \$ 14,476,134. The unassigned portion increased due to current year revenues that exceeded expenditures and no use 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, 2021. 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 81% which is comparable to the prior year.

General Fund Budgetary Highlights: During the fiscal year, the town revised the budget on several occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services. The largest amendments included 1) \$ 1,131,536 to increase anticipated revenues conservatively budgeted and reduce the appropriation of fund balance by \$ 716,484 to restore budgeted expenses cut from the adopted budget due to uncertainties of COVID 19, 2) \$ 1,950,000 to increase transfer to capital reserve fund for public safety building and increase transfer for future fire truck/equipment of \$ 50,000, 3) \$ 704,000 to transfer funds from capital reserve fund back to general fund for the initial payment on new fire truck/equipment.

Management Discussion and Analysis

Town of Kitty Hawk

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, 2021, totals \$ 14,406,157 (net of accumulated depreciation). These assets include buildings, land, machinery and equipment, and vehicles.

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

- 3 police vehicles and related equipment \$ 113,167
- Server for police body cameras \$ 14,499
- Trail connector project \$ 141,711
- Down payment on new fire truck/equipment \$ 698,553
- Beach nourishment expenses in capital project fund \$ 348,889

Town of Kitty Hawk's Governmental Activities Capital Assets

Figure 4

(net of depreciation)

	June 30, 2021	June 30, 2020
Land	\$ 2,630,281	\$ 2,630,281
Construction in process	1,047,442	-
Buildings	3,005,841	3,136,369
Infrastructure	6,830,619	10,587,081
Equipment	363,496	411,147
Vehicles	528,478	592,321
Total	<u>\$ 14,406,157</u>	<u>\$ 17,357,199</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, 2021, the Town had total long-term debt for beach nourishment special obligation bonds of \$ 1,999,800. 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 \$ 117,419,858.

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.

- Travel and tourism in Dare County were strong in fiscal year 2021. Overall County occupancy tax collections increased 50% and Kitty Hawk received \$ 649,132 or 46% more than the prior year.
- Kitty Hawk's portion of sales tax increased \$ 357,397 or 25%.
- Property sales in Dare County were extremely strong with record prices being paid for properties that generated multiple sales offers. Overall land transfer tax collections

Management Discussion and Analysis Town of Kitty Hawk

increased 126% in Dare County and Kitty Hawk received \$ 471,369 or 128% more than the prior year.

Budget Highlights for the Fiscal Year Ending June 30, 2022

- The town-wide property tax rate remains the same at 30 cents per hundred dollars of valuation (3.5 cents of this is designated for beach nourishment).
- The municipal service district tax for beach nourishment remains the same at 10 cents per hundred dollars of valuation.
- No unrestricted fund balance is used to balance the budget.
- The budget includes no increase in staffing levels and a 2% step increase for full-time and part-time employees.
- The budget includes a tentative 10% increase in health insurance premiums.
- A capital project ordinance was adopted for the Police, Fire/EMS Substation in the amount of \$ 3,500,000.

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, 2021

Exhibit 1

	<u>Governmental Activities</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 8,683,420
Restricted cash	4,965,061
Taxes receivable	49,388
Due from governmental units	1,465,272
Miscellaneous accounts receivable	5,613
Prepaid expenses	28,853
Total current assets	<u>15,197,607</u>
Capital assets (net of accumulated depreciation):	
Land	2,630,281
Construction in process	1,047,442
Buildings and other depreciable assets	10,728,434
Total capital assets	<u>14,406,157</u>
Total assets	<u>29,603,764</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pension deferrals	1,101,214
OPEB deferrals	337,621
Total deferred outflows of resources	<u>1,438,835</u>
LIABILITIES	
Current liabilities:	
Accounts payable	320,597
Accrued salaries and benefits	202,264
Deposits	125
Long-term liabilities:	
Due within one year	2,049,800
Due in more than one year	4,402,449
Total liabilities	<u>6,975,235</u>
DEFERRED INFLOWS OF RESOURCES	
Pension deferrals	107,301
OPEB deferrals	368,148
Total deferred inflows of resources	<u>475,449</u>
NET POSITION	
Net Investment in Capital Assets	12,406,357
Restricted for:	
Powell Bill - Streets	232,023
Stabilization by State Statute	1,501,361
Capital Reserve Funds	4,728,060
Public Safety	4,978
Unrestricted	4,719,136
Total net position	<u>\$ 23,591,915</u>

TOWN OF KITTY HAWK, NORTH CAROLINA

Exhibit 2

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2021

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	\$ 6,271,471	\$ 143,454	\$ 83,806	\$ 1,248,684	\$ (4,795,527)	\$ (4,795,527)
Public safety	3,880,880	2,616	61,412	-	(3,816,852)	(3,816,852)
Transportation	144,313	-	-	99,980	(44,333)	(44,333)
Environmental protection	1,088,570	-	-	-	(1,088,570)	(1,088,570)
Interest on long-term debt	56,994	-	-	-	(56,994)	(56,994)
	<u>11,442,228</u>	<u>146,070</u>	<u>145,218</u>	<u>1,348,664</u>	<u>(9,802,276)</u>	<u>(9,802,276)</u>
Total primary government	\$ 11,442,228	\$ 146,070	\$ 145,218	\$ 1,348,664	\$ (9,802,276)	\$ (9,802,276)

General revenues:

Taxes:

Property taxes, levied for general purpose	5,029,684	5,029,684
Sales, occupancy and land transfer taxes	4,665,267	4,665,267
Other unrestricted intergovernmental revenues	587,627	587,627
Investment earnings, unrestricted	3,622	3,622
Miscellaneous, unrestricted	41,684	41,684
Total general revenues, special items, and transfers	<u>10,327,884</u>	<u>10,327,884</u>
Change in net position	525,608	525,608
Net position-beginning	23,066,307	23,066,307
Net position-ending	<u>\$ 23,591,915</u>	<u>\$ 23,591,915</u>

TOWN OF KITTY HAWK, NORTH CAROLINA
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2021

Exhibit 3

	Major Fund	Non-Major Fund	
	General	Capital Project Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 8,484,313	\$ 199,107	\$ 8,683,420
Restricted cash	4,965,061	-	4,965,061
Taxes receivable	49,388	-	49,388
Due from governmental units	1,465,272	-	1,465,272
Miscellaneous accounts receivable	5,613	-	5,613
Prepaid expenses	28,853	-	28,853
Total Assets	<u>\$ 14,998,500</u>	<u>\$ 199,107</u>	<u>\$ 15,197,607</u>
LIABILITIES			
Accounts payable	\$ 270,589	\$ 50,008	\$ 320,597
Accrued salaries and taxes	202,264	-	202,264
Customer deposits	125	-	125
Total Liabilities	<u>472,978</u>	<u>50,008</u>	<u>522,986</u>
DEFERRED INFLOWS OF RESOURCES			
Property Taxes Receivable	49,388	-	49,388
Total Deferred Inflows of Resources	<u>49,388</u>	<u>-</u>	<u>49,388</u>
FUND BALANCES			
Non Spendable:			
Prepaid expenses	28,853	-	28,853
Restricted:			
Stabilization by State Statute	1,501,361	-	1,501,361
Streets - Powell Bill	232,023	-	232,023
Public Safety	4,978	-	4,978
Capital Reserve Fund	4,728,060	-	4,728,060
Assigned:			
Beach nourishment	-	149,099	149,099
Unassigned	7,980,859	-	7,980,859
Total Fund Balances	<u>14,476,134</u>	<u>149,099</u>	<u>14,625,233</u>
Total Liabilities, Deferred Inflows Of Resources and Fund Balances	<u>\$ 14,998,500</u>	<u>\$ 199,107</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.	14,406,157
Deferred outflows of resources related to pensions/OPEB are not reported in the funds	1,438,835
Liabilities for earned revenues considered deferred inflows of resources in fund statements	49,388
Deferred inflows of resources related to pensions/OPEB are not reported in the funds	(475,449)
Long-term liabilities used in governmental activities are not financial uses and are therefore not included in the funds.	<u>(6,452,249)</u>
Net position of governmental activities (Exhibit 1)	<u>\$ 23,591,915</u>

TOWN OF KITTY HAWK, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2021

Exhibit 4

	Major Fund	Non-Major Fund	Total
	General	Capital Project Fund	Governmental Funds
REVENUES:			
Ad valorem taxes	\$ 5,044,271	\$ -	\$ 5,044,271
Other taxes and licenses	4,665,267	-	4,665,267
Unrestricted intergovernmental revenue	587,627	-	587,627
Restricted intergovernmental revenue	1,493,882	-	1,493,882
Permits and fees	135,879	-	135,879
Sales and services	10,191	-	10,191
Investment earnings	3,622	-	3,622
Other revenues	41,684	-	41,684
TOTAL REVENUES	11,982,423	-	11,982,423
EXPENDITURES:			
General government	2,338,619	348,890	2,687,509
Public safety	4,347,938	-	4,347,938
Transportation	30,297	-	30,297
Environmental protection	1,088,569	-	1,088,569
Debt service:			
Principal	1,999,800	-	1,999,800
Interest	56,994	-	56,994
TOTAL EXPENDITURES	9,862,217	348,890	10,211,107
REVENUES OVER EXPENDITURES	2,120,206	(348,890)	1,771,316
OTHER FINANCING SOURCES (USES):			
Transfers	(497,989)	497,989	-
REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	1,622,217	149,099	1,771,316
FUND BALANCES:			
Beginning of year - July 1	12,853,917	-	12,853,917
End of year - June 30	<u>\$ 14,476,134</u>	<u>\$ 149,099</u>	<u>\$ 14,625,233</u>

TOWN OF KITTY HAWK, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2021

Exhibit 4
(continued)

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

Net changes in fund balances - total governmental funds \$ 1,771,316

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	1,316,819	
Depreciation expense for governmental assets	<u>(4,267,861)</u>	(2,951,042)

Contributions to the pension plan in the current fiscal year are not included in the Statement of Activities 277,116

Benefit payments paid and administrative expense for the LEOSSA are not included in the Statement of Activities 61,694

OPEB benefit payments and administrative costs made in the current fiscal year are not included in the Statement of Activities 65,248

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 (14,588)

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	(5,533)	
Pension expense-LGERS	(439,856)	
Pension expense-LEOSSA	(133,701)	
OPEB plan expense	<u>(104,846)</u>	

Total changes in net position of governmental activities (Exhibit 2) \$ 525,608

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, 2021

Exhibit 5

	General Fund			Variance with Final Budget- Positive (Negative)
	Original	Final	Actual Amounts	
REVENUE:				
Ad valorem taxes	\$ 4,564,983	\$ 4,564,983	\$ 5,044,271	\$ 479,288
Other taxes and licenses	1,965,800	3,051,200	4,665,267	1,614,067
Unrestricted intergovernmental revenues	518,660	564,560	587,627	23,067
Restricted intergovernmental revenues	1,383,684	1,535,339	1,493,882	(41,457)
Permits and fees	117,250	117,250	135,879	18,629
Sales and services	9,500	9,500	10,191	691
Investment earnings	20,000	20,000	3,542	(16,458)
Other revenue	20,100	38,054	41,684	3,630
<u>Total Revenues</u>	<u>8,599,977</u>	<u>9,900,886</u>	<u>11,982,343</u>	<u>2,081,457</u>
EXPENDITURES:				
General government	4,328,202	4,448,474	4,395,413	53,061
Public safety	3,570,082	4,543,882	4,347,938	195,944
Transportation	137,000	137,000	30,297	106,703
Environmental protection	1,191,000	1,191,000	1,088,569	102,431
<u>Total Expenditures</u>	<u>9,226,284</u>	<u>10,320,356</u>	<u>9,862,217</u>	<u>458,139</u>
REVENUES OVER EXPENDITURES	<u>(626,307)</u>	<u>(419,470)</u>	<u>2,120,126</u>	<u>2,539,596</u>
OTHER FINANCING SOURCES (USES):				
Fund balance appropriated	744,424	2,501,287	-	(2,501,287)
Transfer from capital reserve fund	-	709,000	709,000	-
Transfer to capital reserve fund	(118,117)	(2,790,817)	(2,790,817)	
	<u>626,307</u>	<u>419,470</u>	<u>(2,081,817)</u>	<u>(2,501,287)</u>
REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	<u>\$ -</u>	<u>\$ -</u>	<u>38,309</u>	<u>\$ 38,309</u>
FUND BALANCE:				
Beginning			<u>9,709,765</u>	
Ending			<u>\$ 9,748,074</u>	
A legally adopted Capital Reserve Fund is consolidated into the General Fund for reporting purposes:				
Interest income			80	
Transfer from General Fund			2,790,817	
Transfer to General Fund			(709,000)	
Transfer to capital project fund			(497,989)	
Fund Balance, Beginning			<u>3,144,152</u>	
Fund Balance, Ending (Exhibit 4)			<u>\$ 14,476,134</u>	

TOWN OF KITTY HAWK, NORTH CAROLINA
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
June 30, 2021

Exhibit 6

	<u>Agency Fund</u>
<u>ASSETS</u>	
Cash	\$ 80,781
Total Assets	<u>80,781</u>
<u>LIABILITIES AND NET POSITION</u>	
Liabilities:	
Due to Firemen's Relief Fund	<u>80,781</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, 2021

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.

The Town reports the following non-major governmental funds:

Beach Nourishment Capital Project Fund. This fund is used to account for the beach nourishment construction project.

TOWN OF KITTY HAWK, NORTH CAROLINA
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2021

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, 2021

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) \$ 1,131,536 to increase revenues and reduce appropriation of fund balance by \$ 716,484 to restore budgeted expenses cut from adopted budget due to uncertainties of COVID 19, 2) \$ 1,950,000 to increase transfer to capital reserve fund for police building and increase transfer for future fire truck of \$ 50,000, 3) \$ 704,000 to transfer funds from capital reserve fund back to general fund for the initial payment on new fire truck. 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. The NCCMT Government Portfolio, a SEC-registered (2a-7) money market mutual fund is measured at fair value. Because the NCCMT Government Portfolio has a weighted average of less than 90 days, it is presented as an investment with a maturity of less than 6 months.

2. Cash and Cash Equivalents

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

TOWN OF KITTY HAWK, NORTH CAROLINA
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2021

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	\$ 4,728,060
Streets	232,023
Public Safety	<u>4,978</u>
Total Restricted Cash	<u>\$ 4,965,061</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, 2020.

5. Allowances for Doubtful Accounts

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

6. Prepaid Items

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

7. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 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, 2021

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, 2021

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 items 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, 2021

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, 2021, the Town's deposits had a carrying amount of \$ 741,181 and a bank balance of \$ 807,382. 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, 2021

and the remainder was covered by collateral held under the pooling method. At June 30, 2021, the Town's petty cash fund totaled \$ 325.

2. Investments

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

	<u>Valuation Measurement Method</u>	<u>Book Value At 6/30/21</u>	<u>Maturity</u>	<u>Rating</u>
NC Capital Management Trust:				
Government Portfolio	Fair Value Level 1	\$ 12,987,756	N/A	AAAm
Total Investments		<u>\$ 12,987,756</u>		

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

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

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

Credit Risk. The Town's cash management policy does not address credit risk but has internal management procedures that limits the Town's investments to the provisions of G.S. 159-30. The Town's investment in the NC Capital Management Trust Government Portfolio carried a credit rating of AAAm by Standard & Poor's as of June 30, 2021.

TOWN OF KITTY HAWK, NORTH CAROLINA
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2021

3. Capital Assets

Capital asset activity for the primary government for the year ended June 30, 2021 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
Construction in process	-	1,047,442	-	1,047,442
Total capital assets not being depreciated	2,630,281	1,047,442	-	3,677,723
Capital assets being depreciated:				
Buildings	5,228,724	-	-	5,228,724
Infrastructure	23,606,548	141,711	-	23,748,259
Equipment	961,645	14,499	-	976,144
Vehicles	2,725,202	113,167	50,607	2,787,762
Total capital assets being depreciated	32,522,119	269,377	50,607	32,740,889
Less accumulated depreciation for:				
Buildings	2,092,355	130,528	-	2,222,883
Infrastructure	13,019,467	3,898,173	-	16,917,640
Equipment	550,498	62,150	-	612,648
Vehicles	2,132,881	177,010	50,607	2,259,284
Total accumulated depreciation	17,795,201	\$ 4,267,861	\$ 50,607	22,012,455
Total capital assets being depreciated (net)	14,726,918			10,728,434
Governmental activity capital assets, net	<u>\$17,357,199</u>			<u>\$14,406,157</u>

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

General Government	\$ 3,942,337
Public Safety	211,508
Transportation	114,016
	<u>\$ 4,267,861</u>

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

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

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

LGERS plan members who are LEOs are eligible to retire with full retirement benefits at age 55 with five years of creditable service as an officer, or at any age with 30 years of creditable service. LEO plan members are eligible to retire with partial retirement benefits at age 50 with 15 years of creditable service as an officer. 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, 2021, was 10.7% of compensation for law enforcement officers and 10.15% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town of Kitty Hawk were \$277,116 for the year ended June 30, 2021.

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

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

At June 30, 2021, the Town reported a liability of \$1,406,500 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2019. The total pension liability was then rolled forward to the measurement date of June 30, 2020 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension 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, 2020, the Town's proportion was 0.03936% which was a decrease of 0.00349% from its proportion measured as of June 30, 2019.

For the year ended June 30, 2021, the Town recognized pension expense of \$439,856. At June 30, 2021, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 177,616	\$ -
Changes of assumptions	104,671	-
Net difference between projected and actual earnings on pension plan investments	197,927	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	-	95,346
Town contributions subsequent to the measurement date	277,116	-
Total	<u>\$ 757,330</u>	<u>\$ 95,346</u>

\$277,116 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2022. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2022	\$ 100,057
2023	146,111
2024	80,125
2025	58,576
2026	-
Thereafter	-
	<u>\$ 384,869</u>

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

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

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

The actuarial assumptions used in the December 31, 2019 valuation were based on the results of an actuarial experience study 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, 2020 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 2019 asset liability and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

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

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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)	\$2,853,636	\$ 1,406,500	\$(203,829)

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

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, 2019 (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.

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Actuarial Assumptions. The entry age actuarial cost method was used in the December 31, 2019 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	3.25 to 7.75 percent, including inflation and productivity factor
Discount rate	1.93 percent

The discount rate used to measure the total pension liability is the S&P Municipal Bond 20 Year High Grade Rate Index. The actuarial assumptions used in the December 31, 2019 valuation were based on the results of an experience study completed by the Actuary for the Local Government Employee's Retirement System for the five-year period ended December 31, 2019.

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 \$ 69,802 as benefits came due for the reporting period.

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

At June 30, 2021, the Town reported a total pension liability of \$ 1,074,599. The total pension liability was measured as of December 31, 2020 based on a December 31, 2019 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2020 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2021, The Town recognized pension expense of \$ 133,701.

At June 30, 2021, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 76,042	\$ -
Changes of assumptions	236,995	11,955
Town benefit payments subsequent to the measurement date	30,847	-
Total	\$ 343,884	\$ 11,955

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\$ 30,847 reported as deferred outflows of resources related to pension resulting from benefits payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ended June 30, 2022. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2022	\$ 82,583
2023	78,383
2024	68,004
2025	59,088
2026	13,024
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 1.93 percent, as well as what the Town's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (.93 percent) or one percentage point higher (2.93 percent) than the current rate:

	1% Decrease (.93%)	Discount Rate (1.93%)	1% Increase (2.93%)
Town's pension liability	\$ 1,151,147	\$ 1,074,599	\$ 1,004,277

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

Total pension liability December 31, 2019	\$ 809,340
Changes for the year:	
Service cost at end of year	26,801
Interest	25,400
Change in benefit terms	0
Differences between expected and actuarial experience	9,850
Changes of assumptions and other inputs	263,584
Benefit payments	(60,376)
Other changes	<u>0</u>
Net changes	<u>\$ 265,259</u>
Total Pension liability December 31, 2020	<u>\$ 1,074,599</u>

Changes in Assumptions. The discount rate decreased from 3.26% (December 31, 2019 measurement date) to 1.93% (December 31, 2020 measurement date).

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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	\$ 439,856	\$ 133,701	\$ 573,557
Pension liability	1,406,500	1,074,599	2,481,099
Proportionate share of pension liability	.03936%	N/A	

Deferred of Outflows of Resources

Differences between expected and actual experience	177,616	76,042	253,658
Change of assumptions	104,671	236,995	341,666
Net difference between projected and actual earnings on plan investments	197,927	-	197,927
Changes in proportion and differences between contributions and proportionate share of contributions	-	-	-
Benefit payments and administrative costs paid subsequent to the measurement date	277,116	30,847	307,963

Deferred of Inflows of Resources

Differences between expected and actual experience	-	-	-
Change of assumptions	-	11,955	11,955
Net difference between projected and actual earnings on plan investments	-	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	95,346	-	95,346

c. Supplemental Retirement Income Plan for Law Enforcement Officers

Plan Description. The Town contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to law enforcement officers employed by the Town. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Supplemental Retirement Income Plan for Law Enforcement Officers is included in the Annual Comprehensive Financial Report for the State of North Carolina. The State's Annual Comprehensive Annual Financial Report 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, 2021, were \$ 89,631, which consisted of \$60,319 from the Town and \$ 29,312 from law enforcement officers.

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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, 2021, were \$81,332, which consisted of \$ 30,158 from the Town and \$ 51,174 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, 2021 were \$ 6,080, which consisted of \$ 4,780 from regular employees and \$ 1,300 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, 2020, 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>48</u>
Total Membership	59

TOTAL OPEB LIABILITY

The Town's total OPEB liability of \$ 1,755,008 was measured as of June 30, 2020 and was determined by an actuarial valuation as of that date.

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Actuarial assumptions and other inputs. The total OPEB liability in the June 30, 2020 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	3.50%
Measurement date	2.21%
Health Care Cost Trends:	
Pre-Medicare	7.00 for 2020 decreasing to an ultimate rate of 4.50% by 2030
Medicare	5.25% for 2020 decreasing to an ultimate rate of 4.50% by 2024

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, 2019	\$ 1,789,903
Changes for the year:	
Service cost at end of year	73,254
Interest on TOL and Cash Flows	64,351
Change in benefit terms	(15,743)
Differences between expected and actuarial experience	(349,092)
Changes of assumptions and other inputs	241,870
Benefit payments	(49,535)
Other changes	0
Net changes	<u>\$ (34,895)</u>
Total OPEB liability June 30, 2020	<u>\$ 1,755,008</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, 2020 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, 2020 valuation were based on a review of recent plan experience done concurrently with the June 30, 2020 valuation.

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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 2.21 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 (1.21 percent) or one percentage point higher (3.21 percent) than the current rate:

	1% Decrease (1.21%)	Discount Rate (2.21%)	1% Increase (3.21%)
Town's total OPEB liability	\$ 1,983,594	\$ 1,755,008	\$ 1,563,055

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	\$ 1,533,913	\$ 1,755,008	\$ 2,023,512

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

For the year ended June 30, 2021, the Town recognized OPEB expense of \$ 104,846. At June 30, 2021, 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	\$ 2,802	\$ 302,945
Changes of assumptions	269,571	65,203
Benefit payments and administrative costs subsequent to the measurement date	65,248	-
Total	\$ 337,621	\$ 368,148

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\$ 65,248 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, 2022. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2022	\$ (23,388)
2023	(23,388)
2024	(23,388)
2025	(8,834)
2026	(5,973)
Thereafter	(10,804)

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, 2021 the Town made contributions to the State for death benefits of \$ 3,222. The Town's required contributions for employees not engaged in law enforcement and for law enforcement officers represented 0.14% and 0.110% of covered payroll respectively.

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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	\$ 277,116
Benefit payments made for LEOSA subsequent to measurement date	30,847
Benefit payments made for OPEB subsequent to measurement date	65,248
Differences between expected and actual experience	256,460
Changes of assumptions	611,237
Net difference between projected and actual earnings on plan investments	197,927
Changes in proportion and difference between contributions and proportionate share of contributions	<u>-</u>
Total	<u>\$ 1,438,835</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)	\$ -	\$ 49,388
Differences between expected and actual experience	302,945	
Changes of assumptions	77,158	-
Net difference between projected and actual earnings on plan investments	-	-
Changes in proportion and difference between contributions and proportionate share of contributions	<u>95,346</u>	<u>-</u>
Total	<u>\$ 475,449</u>	<u>\$ 49,388</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.

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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 and has purchased that coverage for all eligible buildings.

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, 2021 including principal and interest are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2022	<u>1,999,800</u>	<u>18,998</u>
Total	<u>\$ 1,999,800</u>	<u>\$ 18,998</u>

b. Changes in Long-Term Liabilities

	Balance July 1, 2020	Increase	Decrease	Balance June 30, 2021	Current Portion of Balance
Governmental Activities:					
Compensated absences	\$ 210,808	\$ 5,534	\$ -	\$ 216,342	\$ 50,000
Direct placement installment purchase	3,999,600	-	1,999,800	1,999,800	1,999,800
Total pension obligation (LEO)	809,340	265,259	-	1,074,599	-
Net pension liability (LGERS)	1,170,200	236,300	-	1,406,500	-
Total OPEB liability	1,789,903	-	34,895	1,755,008	-
Governmental Activities Long-Term Liabilities	\$ 7,979,851	\$ 507,093	\$ 2,034,695	\$ 6,452,249	\$ 2,049,800

TOWN OF KITTY HAWK, NORTH CAROLINA
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2021

C. Inter-fund Transfers

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

From General Fund to Capital Reserve Fund (Fire Truck/Equipment)	\$ 500,000
From General Fund to Capital Reserve Fund (Boardwalks)	\$ 8,000
From General Fund to Capital Reserve Fund (Radio Equipment)	\$ 25,000
From General Fund to Capital Reserve Fund (Police Station)	\$ 2,000,000
From General Fund to the Capital Reserve Fund (Beach Nourishment)	<u>\$ 257,817</u>
	<u>\$ 2,790,817</u>
From Capital Reserve Fund to General Fund (IT Development)	\$ 5,000
From Capital Reserve Fund to General Fund (Fire Truck/Equipment)	<u>\$ 704,000</u>
	<u>\$ 709,000</u>
From Capital Reserve Fund to Beach Nourishment Capital Project Fund (Beach Nourishment)	<u>\$ 497,989</u>
	<u>\$ 497,989</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	\$ 14,476,134
Less:	
Prepaid items	\$ 28,853
Stabilization by State Statute	1,501,361
Streets-Powell Bill	232,023
Public Safety	4,978
Capital Reserve Fund	4,728,060
Appropriated fund balance in 2021-2022 budget	-
Working capital/fund balance policy	<u>3,500,000</u>
Total reductions	<u>\$ 9,995,275</u>
Remaining Fund Balance	<u>\$ 4,480,859</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.

Outstanding encumbrances at June 30, 2021 in the General Fund were \$ 30,476.

TOWN OF KITTY HAWK, NORTH CAROLINA
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2021

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, 4 cents in fiscal years 2016, 2017, 2018, 2019 and 2020 and 3.5 cents in fiscal year 2021) along with a municipal service district tax (twelve cents in fiscal years 2016, 2017, 2018, 2019 and 2020 and 10 cents in fiscal year 2021). The original beach nourishment construction in Kitty Hawk began in May 2017 and was completed in the Fall of 2017. At June 30, 2021 the Town was in the planning stages of a second beach nourishment project. Funds accumulated for debt repayment and beach nourishment included in the capital reserve fund at June 30, 2021 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
FY 20	480,151	514,868	162,881	(15,617)	(925,110)	(153,194)	63,979
FY 21	524,123	544,623	198,602	(16,809)	(925,110)	(565,601)	(240,172)
Totals	\$3,100,258	\$3,090,804	\$ 860,252	\$ (77,162)	\$(3,893,060)	\$ (1,120,490)	\$ 1,960,602

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, 2021, 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 Eight Fiscal Years *

	2021	2020	2019	2018	2017	2016	2015	2014
Town of Kitty Hawk's proportion of the net pension liability (asset) (%)	0.03936%	0.04285%	0.03490%	0.04608%	0.04391%	0.04690%	0.04920%	0.05360%
Town of Kitty Hawk's proportion of the net pension liability (asset) (\$)	\$ 1,406,500	\$ 1,170,200	\$ 1,041,458	\$ 703,975	\$ 931,917	\$ 209,542	\$ (290,391)	\$ 646,086
Town of Kitty Hawk's covered-employee payroll	\$ 2,542,931	\$ 2,530,703	\$ 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	55.31%	46.24%	41.77%	28.01%	40.07%	8.90%	-12.59%	26.02%
Plan fiduciary net position as a percentage of the total pension liability **	88.61%	90.86%	91.63%	94.18%	91.47%	98.08%	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 Eight Fiscal Years

Local Government Employees' Retirement System

	2021	2020	2019	2018	2017	2016	2015	2014
Contractually required contribution	\$ 277,116	\$ 232,986	\$ 201,506	\$ 192,289	\$ 187,415	\$ 158,178	\$ 172,444	\$ 167,897
Contributions in relation to the contractually required contribution	277,116	232,986	201,506	192,289	187,415	158,178	172,444	167,897
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Town of Kitty Hawk's covered-employee payroll	\$ 2,680,867	\$ 2,542,931	\$ 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	10.34%	9.16%	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, 2021

	2021	2020	2019	2018	2017
Beginning Balance	\$ 809,340	\$ 725,190	\$ 736,196	\$ 671,033	\$ 709,819
Service Cost	26,801	24,824	25,089	21,287	21,763
Interest on the total pension liability	25,400	25,404	22,401	24,503	24,068
Changes of benefit terms	-	-	-	-	-
Differences between expected and actual experience in the measurement of the total pension liability	9,850	68,135	19,332	55,181	-
Changes of assumptions or other inputs	263,584	20,366	(23,249)	36,669	(13,323)
Benefit payments	(60,376)	(54,579)	(54,579)	(72,477)	(71,294)
Other changes	-	-	-	-	-
Ending balance of the total pension liability	<u>\$ 1,074,599</u>	<u>\$ 809,340</u>	<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, 2021

	2021	2020	2019	2018	2017
Total pension liability	\$ 1,074,599	\$ 809,340	\$ 725,190	\$ 736,196	\$ 671,033
Covered payroll	\$ 928,685	\$ 955,762	\$ 911,211	\$ 874,336	\$ 874,838
Total pension liability as a percentage of covered payroll	115.71%	84.68%	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, 2021

Total OPEB Liability

	2021	2020	2019	2018
Service Cost	\$ 73,254	\$ 68,090	\$ 51,249	\$ 54,742
Interest on the total OPEB liability	64,351	62,174	55,240	48,345
Changes of benefit terms	(15,743)	-	-	-
Differences between expected and actual experience in the measurement of the total pension liability	(349,092)	1,468	2,778	(3,507)
Changes of assumptions or other inputs	241,870	81,689	(22,124)	(117,307)
Benefit payments	(49,535)	(43,206)	(37,923)	(35,645)
Other changes	-	-	-	-
Net change in total OPEB liability	(34,895)	170,215	49,220	(53,372)
Total OPEB liability - beginning	1,789,903	1,619,688	1,570,468	1,623,840
Total OPEB liability - ending	<u>\$ 1,755,008</u>	<u>\$ 1,789,903</u>	<u>\$ 1,619,688</u>	<u>\$ 1,570,468</u>
Covered payroll	\$ 2,341,899	\$ 2,362,360	\$ 2,362,360	\$ 2,134,362
Total OPEB liability as a percentage of covered payroll	74.94%	75.77%	68.56%	73.58%

Notes to Schedule

Changes of assumptions: Changes of assumptions and other inputs reflects the effects of changes in the discount rate each period.

Discount rates used in each period:	2.21%	3.50%	3.89%	3.56%
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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, 2021
With Comparative Actual Amounts for the Year Ended June 30, 2020

	2021		Variance Favorable (Unfavorable)	2020
	Budget	Actual		Actual
<u>REVENUES</u>				
<u>AD VALOREM TAXES:</u>				
Current year	\$ 4,014,854	\$ 4,466,163	\$ 451,309	\$ 4,059,819
Municipal service district taxes	518,629	542,344	23,715	513,977
Prior year	25,000	24,890	(110)	22,136
Prior year MSD	-	2,329	2,329	891
Penalties and interest	6,500	8,545	2,045	5,596
	<u>4,564,983</u>	<u>5,044,271</u>	<u>479,288</u>	<u>4,602,419</u>
<u>OTHER TAXES AND LICENSES:</u>				
Local option sales tax	1,298,700	1,770,069	471,369	1,412,672
Occupancy tax	1,377,500	2,054,762	677,262	1,405,630
Land transfer tax	375,000	840,436	465,436	369,067
	<u>3,051,200</u>	<u>4,665,267</u>	<u>1,614,067</u>	<u>3,187,369</u>
<u>UNRESTRICTED INTERGOVERNMENTAL REVENUES:</u>				
ABC Revenue	29,000	55,568	26,568	61,794
Utilities franchise tax	408,900	411,831	2,931	424,366
Video programming tax	84,500	75,953	(8,547)	76,565
PEG Channel	27,000	26,451	(549)	27,353
SW disposal tax	2,600	2,709	109	2,702
Beer and wine tax	12,560	15,115	2,555	15,355
	<u>564,560</u>	<u>587,627</u>	<u>23,067</u>	<u>608,135</u>
<u>RESTRICTED INTERGOVERNMENTAL REVENUES:</u>				
State and Federal:				
Powell Bill allocation	106,000	99,980	(6,020)	105,022
Public safety grants	58,655	57,674	(981)	25,306
NC Dept. Natural and Cultural Resources	-	69,408	69,408	-
Federal COVID Relief	-	-	-	55,691
FEMA revenues	159,408	64,886	(94,522)	272,264
Controlled substance distribution	5,000	3,738	(1,262)	8,626
Local:				
OBCF-Icarus grant	3,000	3,403	403	3,317
Dare Community Crime Line	-	-	-	36,150
Dare County Tourist Bureau-Trail Connector	47,592	47,592	-	-
Dare County- BN debt reimbursement	1,131,684	1,131,684	-	1,169,681
Dare County-Governmental Access Channel	-	-	-	5,000
Dare County - sand fencing	24,000	15,517	(8,483)	24,000
	<u>1,535,339</u>	<u>1,493,882</u>	<u>(41,457)</u>	<u>1,705,057</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, 2021
With Comparative Actual Amounts for the Year Ended June 30, 2020

	2021		Variance Favorable (Unfavorable)	2020
	Budget	Actual		Actual
<u>PERMITS AND FEES:</u>				
CAMA permits	3,500	5,050	1,550	2,355
Building permits	101,250	123,094	21,844	109,364
Other planning fees	12,500	7,735	(4,765)	8,600
	<u>117,250</u>	<u>135,879</u>	<u>18,629</u>	<u>120,319</u>
<u>SALES AND SERVICES:</u>				
Court costs	2,500	2,616	116	2,079
Garbage carts	7,000	7,575	575	6,425
	<u>9,500</u>	<u>10,191</u>	<u>691</u>	<u>8,504</u>
<u>INVESTMENT EARNINGS</u>				
	<u>20,000</u>	<u>3,542</u>	<u>(16,458)</u>	<u>158,771</u>
<u>OTHER REVENUES:</u>				
Rents	4,800	4,000	(800)	4,800
Sale of fixed assets	10,000	2,600	(7,400)	12,729
Insurance reimbursements	17,593	25,112	7,519	21,666
Fines and forfeitures	1,000	150	(850)	1,350
Code enforcement fines	3,000	3,255	255	3,525
Miscellaneous	1,661	6,567	4,906	7,289
	<u>38,054</u>	<u>41,684</u>	<u>3,630</u>	<u>51,359</u>
<u>TOTAL REVENUES</u>	<u>\$ 9,900,886</u>	<u>\$ 11,982,343</u>	<u>\$ 2,081,457</u>	<u>\$ 10,441,933</u>
<u>EXPENDITURES</u>				
<u>GENERAL GOVERNMENT:</u>				
Governing body:				
Fees to elected officials		\$ 10,775		\$ 7,875
Payroll taxes		993		654
Travel and training		430		608
Miscellaneous		122		191
Telephone & Communications		1,165		1,538
Professional Services - election		-		4,716
Committees		-		3,530
Dues and subscriptions		5,013		7,521
		<u>18,498</u>		<u>26,633</u>
Administration:				
Salaries		310,748		299,635
Payroll taxes		23,047		22,310
Group insurance		50,651		50,813
Retirement		37,782		31,926
Advertising		-		2,314
Printing - Codification		-		225
Contracted Services - Transcription		9,975		7,665
Professional services - other		1,075		-
Postage		160		175
Telephone		4,980		2,334
Professional services - legal		44,156		40,711
Travel		1,735		2,470
Supplies		856		2,103
Dues and subscriptions		1,335		4,954
Service contracts		1,775		1,650
		<u>488,275</u>		<u>469,285</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, 2021
With Comparative Actual Amounts for the Year Ended June 30, 2020

	2021		Variance	2020
	Budget	Actual	Favorable (Unfavorable)	Actual
Finance:				
Salaries		117,911		112,357
Payroll taxes		8,373		7,796
Group insurance		27,990		31,402
Retirement		12,575		11,064
Postage		231		346
Printing		55		1,503
Professional services		20,384		27,817
Service and maintenance contracts		37,198		10,764
Travel		3,168		1,763
Supplies		906		2,134
Telephone & Communications		818		742
Dues and subscriptions		411		25
Capital outlay		500		85,124
		<u>230,520</u>		<u>292,837</u>
Planning Department:				
Salaries		199,305		192,254
Payroll taxes		14,571		14,078
Group insurance		44,149		44,224
Retirement		24,067		19,991
Professional services		-		450
Vehicle supplies		2,507		1,454
Supplies		1,313		1,261
Travel		1,127		4,977
Postage		90		1,962
Advertising		386		160
Uniforms		136		158
Telephone		1,311		1,319
Printing		-		2,202
Vehicle maintenance and repairs		1,768		1,358
Dues and subscriptions		1,121		932
Service and maintenance contracts		4,000		2,000
Housing demolitions		-		19,562
State Homeowner Recovery fund		972		647
		<u>296,823</u>		<u>308,989</u>
Planning Board and Board of Adjustment:				
Salaries		3,500		2,000
Payroll taxes		268		153
Contract services		620		560
		<u>4,388</u>		<u>2,713</u>
Public Works:				
Salaries		249,505		242,281
Payroll taxes		18,431		17,848
Group insurance		53,193		47,187
Retirement		26,197		19,763
Uniforms		2,909		5,438
Vehicle supplies		10,041		9,401
Building and grounds maintenance		190,970		113,037
Storm events/debris removal		-		247,525
Supplies		19,457		10,535
Travel		2,037		492
Telephone		5,776		4,638
Utilities		14,107		13,168
Equipment maintenance and repairs		33,525		19,271
Service contracts		21,996		23,821
Dues and subscriptions		(77)		212
Equipment rental		2,098		2,078
Sand Fence project		15,167		43,028
Capital outlay - Moore Shore Road		-		8,283
Capital outlay - other		141,711		290,392
		<u>807,043</u>		<u>1,118,398</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, 2021
With Comparative Actual Amounts for the Year Ended June 30, 2020

	2021		Variance Favorable (Unfavorable)	2020
	Budget	Actual		Actual
Storm Damage Reduction:				
Beach nourishment tax collection fee		16,809		15,617
Beach nourishment engineering		67,612		107,080
Debt payment		2,056,794		2,094,791
		<u>2,141,215</u>		<u>2,217,488</u>
Non-Departmental:				
Vehicle supplies		62		44
Supplies		5,288		5,566
PEG Government Channel to Dare County		26,717		20,550
Employee event		5,662		3,882
Tax collection fees		63,861		58,036
Telephone		11,518		7,395
Postage		236		204
Utilities		3,981		4,113
Advertising		868		-
Equipment maintenance and repairs		-		1,693
IT services		66,668		67,564
Service and maintenance contracts		7,269		5,274
Dues and Subscriptions		3,536		939
Special Liabilities		980		875
Insurance and bonding		207,720		173,541
Employee assistance program		1,578		4,234
Fines and forfeitures to Board of Educations		150		1,350
Government access channel grant		2,557		2,500
		<u>408,651</u>		<u>357,760</u>
TOTAL GENERAL GOVERNMENT	<u>4,448,474</u>	<u>4,395,413</u>	<u>53,061</u>	<u>4,794,103</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, 2021
With Comparative Actual Amounts for the Year Ended June 30, 2020

	2021		Variance Favorable (Unfavorable)	2020
	Budget	Actual		Actual
PUBLIC SAFETY:				
Police Department:				
Salaries		1,023,291		982,920
Payroll taxes		71,577		73,658
Group insurance		288,343		266,706
Retirement		180,302		150,227
Separation allowance		75,053		54,719
Professional services		7,134		11,245
Postage		1,379		1,225
Travel and training		18,925		8,937
Telephone and communications		21,296		18,265
Dues and subscriptions		1,832		1,470
Printing		1,035		670
Utilities		5,465		4,907
Uniforms		15,830		12,518
Department supplies		10,821		7,810
Vehicle supplies		26,827		28,957
Vehicle and equipment repairs		49,527		42,173
Service and maintenance contracts		21,873		25,163
Employee events		1,342		745
Special investigations		6,332		14,319
Equipment rental		4,354		-
Capital outlay		168,365		203,566
Grant operating and capital expenses		58,965		25,395
		<u>2,059,868</u>		<u>1,935,595</u>
Fire Department:				
Salaries		901,605		865,814
Payroll Taxes		66,340		63,546
Group Insurance		193,586		191,982
Retirement		101,720		87,642
Professional services		7,278		9,888
Telephone		18,607		20,355
Postage		73		125
Travel and training		13,806		11,617
Utilities		11,650		11,886
Vehicle and equipment repairs		71,534		56,000
Service and maintenance contracts		9,310		9,298
Vehicle supplies		10,927		10,038
Departmental supplies		14,538		14,397
Uniforms		12,998		18,645
Dues and subscriptions		2,081		2,159
Capital outlay		698,544		40,185
		<u>2,134,597</u>		<u>1,413,577</u>
Ocean Rescue:				
Salaries		122,060		111,708
Payroll taxes		9,337		8,595
Telephone and communications		117		106
Printing		630		574
Travel and training		918		380
Professional services		935		55
Vehicle and equipment repairs		3,810		2,189
Vehicle Supplies		2,677		1,896
Departmental supplies		4,652		4,465
Uniforms		3,976		4,286
Dues and subscriptions		-		30
Equipment rental		4,361		4,000
		<u>153,473</u>		<u>138,284</u>
TOTAL PUBLIC SAFETY	<u>4,543,882</u>	<u>4,347,938</u>	<u>195,944</u>	<u>3,487,456</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, 2021
With Comparative Actual Amounts for the Year Ended June 30, 2020

	2021		Variance Favorable (Unfavorable)	2020
	Budget	Actual		Actual
TRANSPORTATION:				
Powell Bill street maintenance and construction		26,707		151,058
Non Powell Bill street maintenance		3,590		739
		<u>30,297</u>		<u>151,797</u>
TOTAL TRANSPORTATION	<u>137,000</u>	<u>30,297</u>	<u>106,703</u>	<u>151,797</u>
ENVIRONMENTAL PROTECTION:				
Sanitation:				
Contracted services		553,987		491,793
Solid waste disposal		534,582		485,578
		<u>1,088,569</u>		<u>977,371</u>
TOTAL ENVIRONMENTAL PROTECTION	<u>1,191,000</u>	<u>1,088,569</u>	<u>102,431</u>	<u>977,371</u>
TOTAL EXPENDITURES	<u>10,320,356</u>	<u>9,862,217</u>	<u>458,139</u>	<u>9,410,727</u>
REVENUES OVER EXPENDITURES	<u>(419,470)</u>	<u>2,120,126</u>	<u>2,539,596</u>	<u>1,031,206</u>
OTHER FINANCING SOURCES (USES):				
Fund balance appropriated	2,501,287	-	(2,501,287)	-
Transfer from capital reserve fund	709,000	709,000	-	116,114
Transfer to capital reserve fund	(2,790,817)	(2,790,817)	-	(509,093)
	<u>419,470</u>	<u>(2,081,817)</u>	<u>(2,501,287)</u>	<u>(392,979)</u>
OVER EXPENDITURES AND OTHER USES	<u>\$ -</u>	<u>38,309</u>	<u>\$ 38,309</u>	<u>638,227</u>
FUND BALANCE:				
Beginning of year, July 1		<u>9,709,765</u>		<u>9,071,538</u>
End of year, June 30		<u>\$ 9,748,074</u>		<u>\$ 9,709,765</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, 2021

With Comparative Actual Amounts For The Year Ended June 30, 2020

	2021		Variance Favorable (Unfavorable)	2020
	Budget	Actual		Actual
<u>REVENUES:</u>				
Investment income	\$ -	\$ 80	\$ 80	\$ 4,498
	-	80	80	4,498
<u>TOTAL REVENUES</u>	-	80	80	4,498
<u>OTHER FINANCING SOURCES (USES)</u>				
Fund balance appropriated	1,206,989	-	(1,206,989)	-
Additions to reserve	(2,666,117)	-	2,666,117	-
Transfer to capital project fund	(497,989)	(497,989)	-	(116,114)
Transfer to general fund	(709,000)	(709,000)	-	-
Transfer from general fund	2,666,117	2,790,817	124,700	509,093
	-	1,583,828	1,583,828	392,979
<u>REVENUES AND OTHER FINANCIAL SOURCES OVER OTHER USES</u>	\$ -	1,583,908	1,583,908	397,477
<u>FUND BALANCE</u>				
Beginning of year, July 1		3,144,152		2,746,675
End of year, June 30		\$ 4,728,060		\$ 3,144,152

TOWN OF KITTY HAWK, NORTH CAROLINA
BEACH NOURISHMENT CAPITAL PROJECT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
From Inception and For the Year Ended June 30, 2021

	Project Authorization	Actual Prior Years	Actual Current Year	Project To Date	Variance Favorable (Unfavorable)
REVENUES:					
Interest income	-	-	-	-	\$ -
TOTAL REVENUES	-	-	-	-	-
EXPENDITURES					
Design and permitting	75,241	-	40,836	40,836	34,405
Preconstruction	422,748	-	308,054	308,054	114,694
TOTAL EXPENDITURES	497,989	-	348,890	348,890	149,099
REVENUES OVER (UNDER) EXPENDITURES	(497,989)	-	(348,890)	(348,890)	149,099
OTHER FINANCING SOURCES					
Special obligation bonds Issued	-	-	-	-	-
Transfer from capital reserve fund	497,989	-	497,989	497,989	-
TOTAL OTHER FINANCING SOURCES	497,989	-	497,989	497,989	-
REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	\$ -	\$ -	149,099	149,099	\$ 149,099
FUND BALANCE					
Beginning of year, July 1			-		
End of year, June 30			\$ 149,099		

TOWN OF KITTY HAWK, NORTH CAROLINA

Agency Fund - Firemen's Relief Fund
Statement of Changes in Assets and Liabilities
June 30, 2021

	<u>Firemen's Relief Fund</u>
Balance June 30, 2020	\$ 78,666
<u>Additions</u>	
Department of Insurance	6,370
Investment earnings	279
Total Additions	<u>6,649</u>
<u>Deductions</u>	
Benefits	<u>4,534</u>
Balance June 30, 2021	<u>\$ 80,781</u>

TOWN OF KITTY HAWK, NORTH CAROLINA
SCHEDULE OF AD VALOREM TAXES RECEIVABLE
June 30, 2021

Fiscal Year	Uncollected Balance June 30, 2020	Additions	Releases/ Adjustments	Collections and Credits	Uncollected Balance June 30, 2021
2020-2021	\$ -	\$ 4,483,258	\$ (3,322)	\$ 4,466,163	\$ 13,773
2020-2021 MSD	-	544,099	(916)	542,344	839
2019-2020	28,724	-	(72)	19,701	8,951
2019-2020 MSD	2,613	-	-	2,098	515
2018-2019	6,579	-	(45)	1,665	4,869
2018-2019 MSD	479	-	-	171	308
2017-2018	3,164	-	(25)	238	2,901
2017-2018 MSD	190	-	-	30	160
2016-2017	3,435	-	(26)	694	2,715
2016-2017 MSD	125	-	-	23	102
2015-2016	3,766	-	(26)	867	2,873
2015-2016 MSD	115	-	-	9	106
2014-2015	2,482	-	-	523	1,959
2013-2014	4,320	-	-	462	3,858
2012-2013	3,010	-	-	81	2,929
2011-2012	2,612	-	-	82	2,530
2010-2011	2,361	-	-	2,361	-
2009-2010	-	-	-	-	-
	<u>\$ 63,975</u>	<u>\$ 5,027,357</u>	<u>\$ (4,432)</u>	<u>\$ 5,037,512</u>	<u>\$ 49,388</u>

Reconciliation of collections and credits to revenues:

Ad valorem taxes - Schedule 1	\$ 5,044,271
Taxes written off over 10 years	2,273
Written off taxes collected	(487)
Penalties and interest	(8,545)
	<u>\$ 5,037,512</u>

TOWN OF KITTY HAWK, NORTH CAROLINA
ANALYSIS OF CURRENT TAX LEVY
June 30, 2021

	<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	\$ 1,493,845,003	0.30	\$ 4,481,535	\$ 4,277,799	\$ 203,736
Pick-ups	8,103	0.30	24	24	-
Abatements	(1,107,380)	0.30	(3,322)	(3,322)	-
Late list penalties	-		1,699	1,699	-
Adjustments	-		-	-	-
Total property valuation	<u>\$ 1,492,745,727</u>				
Net levy			<u>4,479,936</u>	<u>4,276,200</u>	<u>203,736</u>
Uncollected taxes at June 30, 2021			<u>(13,773)</u>	<u>(13,773)</u>	<u>-</u>
Current year's taxes collected			<u>\$ 4,466,163</u>	<u>\$ 4,262,427</u>	<u>\$ 203,736</u>
Current levy collection percentage			<u>99.69%</u>	<u>99.68%</u>	<u>100.00%</u>

**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, 2021, 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, 2021.

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.

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, 2021