
TOWN OF NAGS HEAD, NORTH CAROLINA

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2016

*Prepared by the Town of Nags Head Administrative Services Department
Amy M. Miller, Finance Officer
Kim M. Blankenburg, Deputy Finance Officer*

**Town of Nags Head
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30 2016**

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INTRODUCTORY SECTION

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Robert C Edwards
Mayor

Susie Walters
Mayor Pro Tem

Cliff Ogburn
Town Manager

Town of Nags Head

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Nags Head, North Carolina 27959
Telephone 252-441-5508
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M. Renée Cahoon
Commissioner

John Ratzenberger
Commissioner

Marvin Demers
Commissioner

November 23, 2016

To the Honorable Mayor, Board of Commissioners,
and Citizens of the Town of Nags Head:

The Local Government Commission of the North Carolina State Treasurer's Office requires that all general-purpose local governments publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principals (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the Town of Nags Head for the fiscal year ended June 30, 2016.

The report consists of management's representations concerning the finances of the Town of Nags Head. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the Town of Nags Head has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the Town of Nags Head's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the Town of Nags Head's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management we assert, that to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The financial statements contained herein have been audited by Martin Starnes and Associates, CPAs, P.A., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Town of Nags Head for the fiscal year ended June 30, 2016, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used by management, and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified, "clean" opinion that the Town of Nags Head's financial statements for the fiscal year ended June 30, 2016, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in



Town of Nags Head

conjunction with it. The Town of Nags Head's MD&A can be found immediately following the report of the independent auditors.

Profile of the Town. The Town of Nags Head is located in Dare County on Bodie Island on the coast of eastern North Carolina. This area is approximately 200 miles east of Raleigh, the State capital, and 90 miles south of Virginia Beach and Norfolk, Virginia, a metropolitan area. The county is named in honor of Virginia Dare, the first-born child of English parents in America. This area contains much of what are known as North Carolina's "Outer Banks" resort and vacation areas and is home to such attractions as the Cape Hatteras National Seashore and the North Carolina Aquarium. Nags Head is proud to have included among its distinguishing features Jockey's Ridge State Park, the tallest natural sand dune system in the Eastern United States and one of the most significant landmarks on the Outer Banks, as well as Nags Head Woods Preserve, a designated National Natural Landmark owned and operated by The Nature Conservancy.

Nags Head received its municipal charter from the North Carolina General Assembly on June 14, 1961. The Town operates under the commissioner-manager form of government. Policy making authority is vested in the governing Board of Commissioners consisting of a mayor and four commissioners, including the mayor pro tem who is appointed by the governing board. The governing board is responsible for, among other things, establishing policy, passing ordinances, adopting the budget, appointing committees and appointing the Town's manager and attorney. The manager is responsible for carrying out the policies and ordinances of the governing board and for overseeing the day-to-day operations of the Town. All board members, including the mayor and mayor pro tem, are elected to four-year staggered terms, all on a non-partisan basis.

The Town provides a full range of services. These services include tax collection, planning and inspections, police, animal control, fire and ocean rescue protection, sanitation and recycling, and the construction and maintenance of streets and infrastructure. In addition to general government activities, the Town provides water and storm water services.

The Board is required to hold at least one public hearing on the proposed budget and must adopt a final budget by no later than June 30, the close of the fiscal year. This annual budget serves as the foundation for the Town of Nags Head's financial planning and control. An annual budget is adopted for the General, Capital Reserve, and Enterprise Funds. Multi-year project budgets are adopted for Capital Project Funds. Appropriations in the General and Enterprise Funds are made at the department level and at the project level for all Capital Project Funds. The Town Manager may transfer resources within a department as he sees fit. Transfers between departments, however, need special approval from the Board.

Local Economy. The Town's economy is based on travel, tourism and related service industries and is directly tied to national and local economies especially those in the mid-Atlantic region. Nags Head remains one of the most desirable destinations in the country. The result is that tourists and vacationers not only come to our area during the busy summer season, but are also visiting the Outer Banks during the non-peak months of March through May and September through November. The longer tourist season has extended and increased rental income and other economic benefits to local businesses. The Town's travel and tourism industry not only encompasses those revenues that have a direct relationship, such as sales and occupancy taxes, but also revenues related to property transactions and construction, such as land transfer tax, as



Town of Nags Head

the majority of those activities come from non-residents and residential construction for rental purposes. This steady stream of income has helped to maintain a healthy balance in the tax base that has enabled the Town to keep property tax rates at moderate levels while providing the infrastructure and high level of services demanded by citizens. In planning for the future, the Town continues to maintain a high priority on both the delivery of quality services and financial stability.

Long-term financial planning and major initiatives. July 6, 2016 was the ground breaking for Dowdy Park which will be used as a “park for all ages in perpetuity”. It will include a centralized green space and gazebo for events, an events plaza to host craft fairs and similar activities, a multi-purpose playing field, sport court, fitness and walking trails, formal and informal children’s play areas, garden spaces and creative art components. The first phase of construction to be completed late 2016 and the entire project construction is anticipated to be substantially complete by mid-January of 2017. Landscaping will follow and is estimated to be complete by March of 2017. This \$2,657,750 project is being funded in large part by grants (\$2,000,000) from the Outer Banks Visitors Bureau, Trillium Health Resources, the North Carolina Parks and Recreation Trust Fund, and the Outer Banks Community Foundation, along with designated Parks and Paths funds (\$270,000) and the general fund (\$387,750).

The final debt payment for the 2011 Beach Nourishment project was made in fiscal year 2016, bringing the Town into the planning stages of a Beach Nourishment maintenance project. This project has an estimated budget of \$22,000,000. The funding will come from a combination of a grant from Dare County, a special revenue bond with mainly tourism driven revenue being pledged as collateral and excess funds in the Capital Reserve Fund held for beach nourishment. The Municipal Service District established for Beach Nourishment will be assessed a tax, as will the entire town with the General Fund’s current tax equivalent of .027 cents appropriated to pay the remaining portion of debt service, both which are proportionate to their level of direct benefit. The Town has contracted with Coastal Science and Engineering for permitting and design, along with other services related to the project.

FOCUS Nags Head is a Board initiated planning effort concentrated on assessing where the Town is in accomplishing its long term goals and plans, determining our current needs, and navigating the future. It is a \$100,000 two part project including a Comprehensive Plan that will replace the currently adopted Land Use Plan and work to consolidate numerous plans into a concise, implementable document and a Unified Development Ordinance consolidating all development regulations into a standalone document. An additional initiative is the Sea Level Rise Study, funded mainly by grants, specifically the NC Sea Grant. It is an ongoing effort with multiple phases and goals including assessing the Town’s vulnerability with regard to Shoreline Management, Onsite Waste Water, and Storm Water Management.

In fiscal year 2017 the Enterprise Storm Water Fund was closed to the General Fund and \$.01 of the Ad Valorem tax (approximately \$230,904), in lieu of the fee on the water bill, was designated for Storm Water Projects which will now be administered as a capital reserve by the General Fund. There is a \$137,500 Water System Master Plan budgeted for 2016/17 and a Decentralized Waste Water Master Plan proposed for 2017/18, at \$150,000, both of which will consider infrastructural improvements, replacements, and upgrades in order to sustain reliable operations



Town of Nags Head

and fund capital improvements. Further out in 2021, if pre-determined plan requirements are met, a new water tank is planned to be debt financed with an estimated cost of \$3,380,000.

The pay-as-you-go plan for street and storm water improvements, funded in large part by state Powell Bill funding and the storm water capital reserve, will continue with \$267,737 estimated for the next fiscal year. A Street Master Plan is set to be undertaken in fiscal year 2018, with a proposed budget of \$50,000, which will prioritize street and drainage improvements to areas within the Town according to condition rating. An extension of the Multi-Use path is planned, funded by money set aside for Parks and Paths in the Capital Reserve Fund and by grants. Additionally, the Bonnet Street Bathhouse will be replaced with a budget of \$350,000. A residential recycling program began in February 2016, with the Town purchasing carts for each residence. Fiscal year 2017 will be the first full year of the program with the fiscal year cost of \$97,193 less \$15,000 tipping fee savings. Police facility fees held in the Capital Reserve Fund will be used to construct a Sally Port budgeted at \$90,000. A five year capitalized lease will be for the implementation of new financial software and a four year capitalized lease for three police cars, a service truck and a culvert cleaner.

Funding the capital reserve continues and sets aside revenue sources including a penny of the ad valorem tax designated for Parks and Paths, a penny of the ad valorem tax designated for Storm Water Management projects, Facility Fees, town-wide and municipal service district tax in excess of the amount needed for debt costs, and sales tax revenues derived from the municipal service district levy due to an increase in shared revenues.

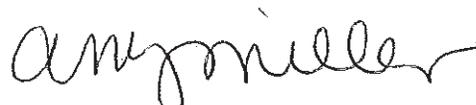
Awards and Acknowledgements. The Government Finance Officers Association of the United States and Canada (GFOA) awards a Certificate of Achievement for Excellence in Financial Reporting to governmental units that publish an easily readable and efficiently organized comprehensive annual financial report (CAFR), whose contents conform to program standards. The CAFR must satisfy both generally accepted accounting principles and applicable legal requirements. The Certificate of Achievement is a prestigious national award that recognizes conformance with the highest standards for preparation of state and local government financial reports.

A Certificate of Achievement is valid for a period of one year only. The Town of Nags Head has not been a previous participant in the Certificate of Achievement Program. However, we believe our current report conforms to the Certificate of Achievement program requirements, and we are submitting it to GFOA.

We wish to express our appreciation to each member of the Finance Department who has assisted in the preparation of this report. We also thank the Mayor and the Board of Commissioners for their continued support for maintaining the highest standards of professionalism in the management of the Town of Nags Head's finances.

Respectfully submitted,


Cliff Ogburn
Town Manager


Amy Miller
Finance Officer

Town of Nags Head, North Carolina
List of Elected and Appointed Officials
For the Fiscal Year Ended June 30, 2016

Elected Officials

Mayor	Robert C. Edwards
Mayor Pro Tempore	Susie Walters
Commissioner	M. Renee Cahoon
Commissioner	Marvin Demers
Commissioner	John Ratzenberger

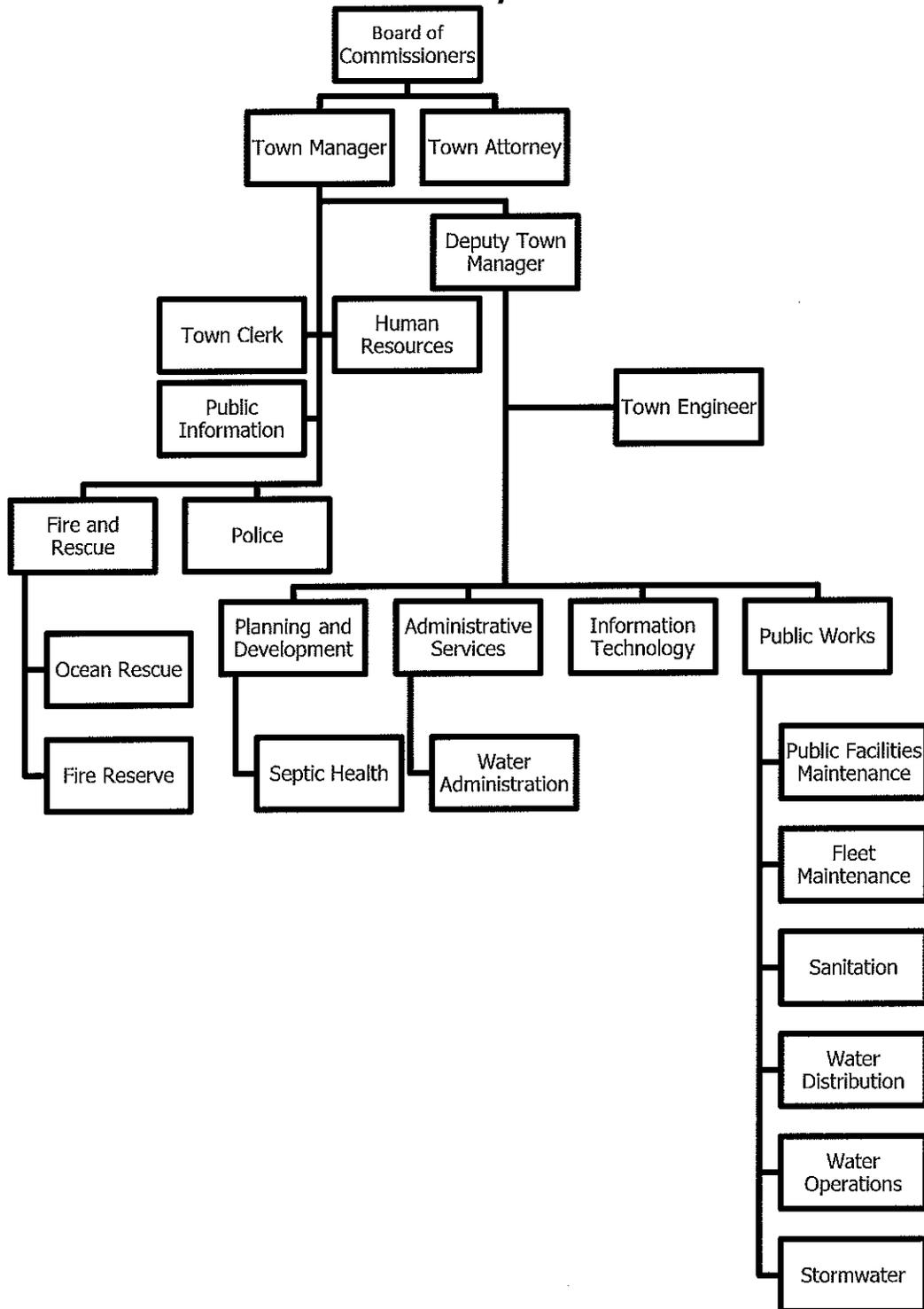
Appointed

Town Attorney	John Leidy
Town Manager	Cliff Ogburn

Town Administration

Town Clerk	Carolyn Morris
Deputy Town Manager	Andy Garman
Finance Officer	Amy Miller
Planning Director	Andy Garman
Public Works Director	Ralph Barile
Fire Chief	Kevin Zorc
Police Chief	Kevin Brinkley

Town of Nags Head, North Carolina Organizational Chart June 30, 2016



FINANCIAL SECTION

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MARTIN ♦ STARNES & ASSOCIATES, CPAs, P.A.

"A Professional Association of Certified Public Accountants and Management Consultants"

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Board of Commissioners
Town of Nags Head, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Nags Head, North Carolina, as of and for the year ended June 30, 2016, 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 financial statement presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Nags Head, North Carolina, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof 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, the Law Enforcement Officers' Special Separation Allowance's Schedule of Funding Progress, the Other Post-Employment Benefits' Schedule of Funding Progress and Schedule of Employer Contributions, and the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Asset (Liability) and Contributions 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, economical, 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 Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Nags Head, North Carolina's basic financial statements. The introductory information, budget and actual schedules, supplemental ad valorem tax schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The budget and actual schedules and supplemental ad valorem tax 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 financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budget and actual schedules and supplemental ad valorem tax schedules are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The introductory information and statistical section have not been subjected to the auditing procedures applies in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2016 on our consideration of the Town of Nags Head, North Carolina's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that 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 the 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 Nags Head's internal control over financial reporting and compliance.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, NC
November 23, 2016

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Management Discussion and Analysis
Town of Nags Head
June 30, 2016

Management's Discussion and Analysis

As management of the Town of Nags Head, we offer readers of the Town of Nags Head's financial statements this narrative overview and analysis of the financial activities of the Town of Nags Head for the fiscal year ended June 30, 2016. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town of Nags Head's financial statements, which follow this narrative.

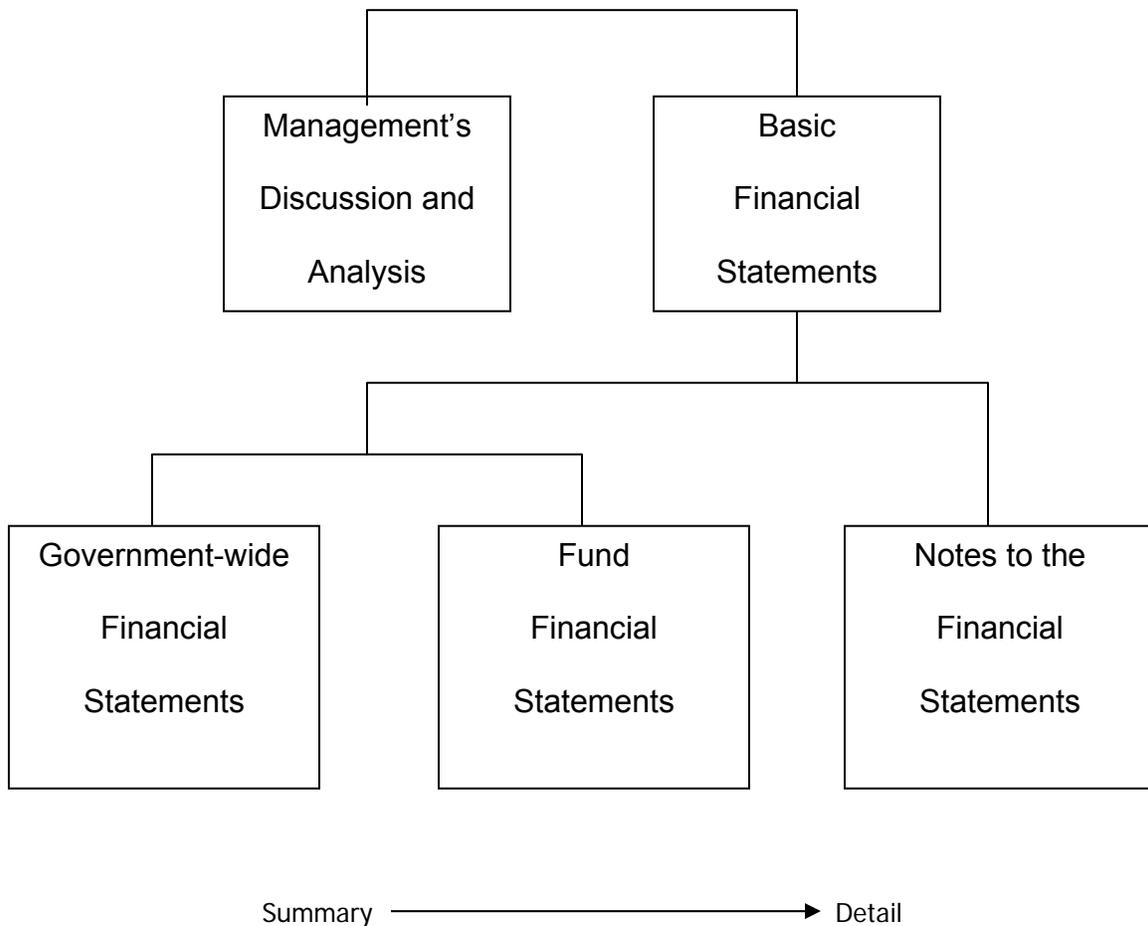
Financial Highlights

- The assets and deferred outflows of resources of the Town of Nags Head exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$ 51,303,289 (*net position*).
- The Town's total net position decreased by \$ 994,900. This includes a decrease in the governmental activities of \$ 1,366,782 and an increase in the business-type activities of \$ 371,882.
- As of the close of the current fiscal year, the Town of Nags Head's governmental funds reported combined ending fund balances of \$ 15,081,269, an increase of \$ 2,144,954 over the prior year. Approximately 62% of this total amount, or \$ 9,345,185, is non-spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$ 5,398,644, or 32% of total general fund expenditures for the fiscal year. This is a \$ 339,596 decrease over the prior year of \$ 5,738,240, which is primarily a result of encumbrances, unexpended debt proceeds, and committing a portion of fund balance for health insurance.
- The Town's total governmental debt for financing contracts, capital leases and bonded debt decreased \$ 3,566,144 primarily as a result of the final year's payment of special bond obligation debt of \$ 3,600,000 plus interest with no annual payments remaining.
- The General Fund budget for the fiscal year June 30, 2016 was adopted with a tax rate of 26.7 cents per \$ 100 of assessed valuation reflecting no increase over the prior year. 2.7 cents of this town-wide tax rate is designated by the Board for beach nourishment and 1.0 cent is designated by the Board for parks and paths.
- The General Fund budget also includes 23 cents per \$ 100 of assessed valuation for property located in the municipal service district designated for beach nourishment.
- The total overall assessed property valuation including property and registered motor vehicles increased \$ 19,191,460 from \$ 2,332,706,201 in fiscal year 2015 to \$ 2,351,897,661 in the current fiscal year. There was an increase in both the property valuation and motor vehicle valuation.

Overview of the Financial Statements

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

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 8) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the town's government. These statements provide more detail than the government-wide statements. There are four parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; 3) the proprietary fund statements; and 4) 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.

Management Discussion and Analysis
Town of Nags Head
June 30, 2016

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 total assets and deferred outflows of resources and total liabilities and deferred inflows of resources. Measuring net position is one way to gauge the town's financial condition.

The government-wide statements are divided into three categories: 1) governmental activities; 2) business-type activities; and 3) component units. The governmental activities include most of the town's basic services such as public safety, general administration and street and solid waste services. Property taxes, occupancy, sales and land transfer taxes, permit fees and state and federal grant funds finance most of these activities. The business-type activities are those that the town charges customers to provide. These include the water services offered by the Town of Nags Head. The town does not have any component units.

The government-wide financial statements are on 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 Nags Head can be divided into three categories: governmental funds, proprietary funds and fiduciary 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 Nags Head's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* that provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the town's programs. The relationship between government activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The Town of Nags Head 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 Board 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.

Management Discussion and Analysis
Town of Nags Head
June 30, 2016

The statement shows four columns: 1) the original budget as adopted by the board; 2) the final budget as amended by the board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges. 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.

Proprietary Funds – The Town of Nags Head has one type of proprietary fund. Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town of Nags Head uses enterprise funds to account for its water and storm water operations. These funds are the same as those functions shown in the business-type activities in the Statement of Position and the Statement of Activities.

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 25-64 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the town's progress in funding its obligation to provide pension benefits and retiree health benefits to its employees. Required supplementary information can be found on pages 65-70 of this report.

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

Government-Wide Financial Analysis
Town of Nags Head Net Position

	<u>Governmental</u>		<u>Business-Type</u>		<u>Totals</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Current and other assets	\$ 15,929,089	\$ 14,417,313	\$ 4,539,327	\$ 4,418,650	\$ 20,468,416	\$ 18,835,963
Capital assets	29,758,606	36,455,582	7,474,678	7,305,522	37,233,284	43,761,104
Deferred outflows of resources	368,764	352,832	27,714	31,265	396,478	384,097
Total assets and deferred outflows of resources	46,056,459	51,225,727	12,041,719	11,755,437	58,098,178	62,981,164
Long-term liabilities	4,453,767	7,271,615	468,948	509,046	4,922,715	7,780,661
Other liabilities	837,366	841,731	603,763	539,543	1,441,129	1,381,274
Deferred inflows of resources	280,009	1,453,100	151,036	260,758	431,045	1,713,858
Total liabilities and deferred inflows of resources	5,571,142	9,566,446	1,223,747	1,309,347	6,794,889	10,875,793
Net position:						
Net investment in capital assets	27,708,368	31,135,962	7,151,840	6,893,822	34,860,208	38,029,784
Restricted	9,021,585	6,624,621	-	-	9,021,585	6,624,621
Unrestricted	3,755,364	3,898,698	3,666,132	3,552,268	7,421,496	7,450,966
Total net position	\$ 40,485,317	\$ 41,659,281	\$ 10,817,972	\$ 10,446,090	\$ 51,303,289	\$ 52,105,731

Management Discussion and Analysis
Town of Nags Head
June 30, 2016

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 resources of the Town of Nags Head exceeded liabilities and deferred inflows of resources by \$ 51,303,289 as of June 30, 2016. The largest portion of net position, \$ 34,860,208 (68%) reflects the town's investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt still outstanding that was issued to acquire those items. The Town of Nags Head uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Nags Head's 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, \$ 9,021,585 represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$ 7,421,496 is unrestricted and may be used to meet the Town's ongoing obligations to citizens and creditors.

As of June 30, 2016, the Town of Nags Head is able to report positive balances in all three categories of net position, for the government as a whole, as well as its governmental activities and net effect of its business-type activities. The same situation held true for the prior fiscal year.

Also, the Town of Nags Head implemented GASB Statement 73 this year. With the new reporting change, the Town reclassified the Law Enforcement Officers' Special Separation Allowance trust fund into the General Fund. A restatement to record the effects of the new reporting guidance increased beginning net position for governmental activities by \$ 192,818.

Town of Nags Head Changes in Net Position

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Revenues:						
Program revenues:						
Charges for services	\$ 411,689	\$ 474,070	\$ 2,954,462	\$ 2,778,776	\$ 3,366,151	\$ 3,252,846
Operating grants and contributions	309,809	129,890	-	-	309,809	129,890
Capital grants and contributions	2,143,076	2,253,784	102,500	162,500	2,245,576	2,416,284
General revenues:						
Property taxes	8,125,911	8,072,173	-	-	8,125,911	8,072,173
Other taxes	5,843,050	5,714,342	-	-	5,843,050	5,714,342
Other unrestricted intergovernmental	1,080,122	841,649	-	-	1,080,122	841,649
Investment income	113,379	75,122	31,578	21,810	144,957	96,932
Other	187,746	188,115	2,120	19,211	189,866	207,326
Total Revenues	<u>18,214,782</u>	<u>17,749,145</u>	<u>3,090,660</u>	<u>2,982,297</u>	<u>21,305,442</u>	<u>20,731,442</u>
Expenses:						
General government	9,974,716	10,812,062	-	-	9,974,716	10,812,062
Public safety	5,402,779	5,274,035	-	-	5,402,779	5,274,035
Public Works/Transportation	2,174,552	2,137,237	-	-	2,174,552	2,137,237
Environment Protection	1,886,219	1,726,901	-	-	1,886,219	1,726,901
Interest on long-term debt	143,298	226,348	-	-	143,298	226,348
Water Utility	-	-	2,718,778	2,791,782	2,718,778	2,791,782
Total Expenses	<u>19,581,564</u>	<u>20,176,583</u>	<u>2,718,778</u>	<u>2,791,782</u>	<u>22,300,342</u>	<u>22,968,365</u>
Increase (decrease) in Net Position	<u>(1,366,782)</u>	<u>(2,427,438)</u>	<u>371,882</u>	<u>(190,515)</u>	<u>(994,900)</u>	<u>(2,236,923)</u>
Net position – July 1 (previously reported)	41,659,281	44,931,934	10,446,090	10,330,472	52,105,371	55,262,406
Restatement due to GASB 73 implementation	192,818	-	-	-	192,818	-
Restatement due to GASB 68 implementation	-	(845,215)	-	(74,897)	-	(920,112)
Net position – July 1 (restated)	<u>41,852,099</u>	<u>44,086,719</u>	<u>10,446,090</u>	<u>10,255,575</u>	<u>52,298,189</u>	<u>54,342,294</u>
Net position – June 30	<u>\$ 40,485,317</u>	<u>\$ 41,659,281</u>	<u>\$ 10,817,972</u>	<u>\$ 10,446,090</u>	<u>\$ 51,303,289</u>	<u>\$ 52,105,371</u>

Management Discussion and Analysis
Town of Nags Head
June 30, 2016

Governmental activities. Governmental activities decreased the town's net position by \$ 1,366,782. Sales tax collections increased \$ 142,416. Other unrestricted intergovernmental revenues increased \$ 238,473 due primarily to utilities sales tax increased collections of \$220,710. General government expenses decreased \$ 595,019 due primarily to a \$ 1,702,182 legal settlement in fiscal year 2015 as well as debt service interest on the Town's beach nourishment special obligation bonds decreasing by \$88,908 as the final debt payment was made in fiscal year 2016. However, increases in pension expense of \$209,562, and increased liabilities of OPEB funding of \$182,935 and compensated absences of \$84,253 caused for increased expenses. A residential recycling program began in February 2016 in which the Town purchased recycling carts for each household and paid an independent contractor to pick up recycling in May and June. The initiation of this program caused recycling costs to increase by \$229,516 compared to the prior fiscal year.

Business-type activities. Business-type activities increased the town's net position by \$ 371,882. This includes an increase of \$ 240,577 in the water fund and an increase of \$ 131,305 in the storm water fund.

The increase in net position of \$ 240,577 in the water fund compares to an increase in the prior year of \$ 143,974. This is a result of a 2.6% increase in water sales. Operating expenses including depreciation decreased 3.78% primarily due to a \$105,425 or 12.27% decrease in the cost of wholesale water purchased. The wholesale water rate decreased from \$1.815 to \$1.778 per million gallons purchased.

The increase in net position of \$ 131,305 in the storm water fund compares to an increase in the prior year of \$ 46,541. This is primarily a result of an increase to the storm water fee from \$4 every other month to \$8 every other month. Capital expenses include the first installment of \$62,500 paid to the North Carolina Department of Transportation (NCDOT), with the second and final installment of \$62,500 paid in fiscal year 2017. The Town shared in the cost of this project with NCDOT since some of the Town's street right of ways flow through this outfall. This cost was treated as an intangible asset and will be amortized over the estimated life of the improvement. Capital expenses of \$42,347 and \$100,711 were made for Eighth Street drainage improvements in conjunction with street improvements as well as improvements made for South Nags Head drainage, respectively.

Financial Analysis of the Town of Nags Head's Funds

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

Governmental Funds. The focus of the Town of Nags Head'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 Nags Head's financing requirements. Specifically, unassigned fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

Management Discussion and Analysis

Town of Nags Head

June 30, 2016

The general fund is the chief operating fund of the Town of Nags Head. At the end of the current fiscal year, unassigned fund balance of the general fund was \$ 5,398,644, while total fund balance reached \$ 15,043,123. The Governing Body of the Town of Nags Head has determined that the Town should maintain an available fund balance of 50% of expenditures less bond debt, but not less than \$5 million as per audited financial statements at the end of each fiscal year in case of unforeseen needs or opportunities, in addition to meeting the cash flow needs of the Town. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents 32% of total general fund budgeted expenditures for the fiscal year.

At June 30, 2016, the governmental funds of Town of Nags Head reported a combined fund balance of \$ 15,081,269, a 16.60% increase over last year. Included in this change in fund balance is an increase in the general fund and a decrease in the beach nourishment fund.

Proprietary Funds. The Town of Nags Heads' proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Water Fund and Storm Water Fund at the end of the fiscal year amounted to \$3,666,132, a 3.21% increase over last year. Other factors concerning the finances of these funds have already been addressed in the discussion of the Town of Nags Head's business-type activities.

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 primary changes to the adopted budget were to appropriate \$1,015,777 of lease purchase funds for budgeted capital purchases, to record \$550,000 in additional grants awarded for Dowdy Park, and to increase actual revenues received for utilities sales by \$53,257 in order to increase tipping fees due to higher tonnage than estimated.

Capital Asset and Debt Administration

Capital assets. The Town of Nags Head's investment in capital assets for its governmental and business-type activities as of June 30, 2016, totals \$ 37,233,284 (net of accumulated depreciation). These assets include land, construction in process, buildings, other improvements, equipment, vehicles and intangible assets in the water fund.

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

- A dumpster garbage truck costing \$ 185,855; a sanitation truck costing 307,231; (a sanitation truck costing \$ 245,420 was ordered during the fiscal year but was not received at year-end)
- Three police vehicles costing \$ 122,214
- Beach nourishment costs of \$ 415,806
- Street improvements costing \$ 152,356
- Land purchased on Mustian costing 50,456
- Construction in Progress \$97,802 related to Dowdy Park
- 8th street water tank repair \$ 94,695
- Waterline from Bonnett to Baltic costing \$ 155,040
- Storm water improvements to Red Drum state owned ocean outfall, South Nags Head drainage, 8th Street, and Vista costing \$ 218,159

Management Discussion and Analysis
Town of Nags Head
June 30, 2016

Town of Nags Head Capital Assets (net of accumulated depreciation)

	<u>Governmental</u> <u>Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Land	\$ 10,315,495	\$ 10,262,546	\$ 1,853,473	\$ 1,853,473	\$ 12,168,968	\$ 12,116,019
Construction in progress	150,782	49,596	-	10,320	150,782	59,916
Buildings/Plant	6,256,618	6,502,302	3,686,120	3,387,892	9,942,738	9,890,194
Other improvements	9,977,946	16,664,419	-	-	9,977,946	16,664,419
Equipment	622,974	778,818	250,487	271,355	873,461	1,050,173
Vehicles	2,434,791	2,197,901	92,596	59,398	2,527,387	2,257,299
Intangibles	-	-	1,592,002	1,723,084	1,592,002	1,723,084
Total	\$ 29,758,606	\$ 36,455,582	\$ 7,474,678	\$ 7,305,522	\$ 37,233,284	\$ 43,761,104

Additional information on the town's capital assets can be found on pages 40-41 in the notes to the financial statements.

Long-term Debt. As of June 30, 2016 the town had long-term debt totaling \$ 4,922,715. \$ 4,453,767 of this amount is reported in the governmental activities and \$ 468,948 is reported in the business-type activities. New debt during the year consisted of \$ 1,067,231 for capital purchases. GASB Statement 68 requires the Town to recognize its proportionate share of the Local Government Employees' Retirement System's net pension asset or liability. The Town's proportionate share of the Local Government Employees' Retirement System net pension asset was \$ 632,268 at June 30, 2015 which became a net pension liability of \$ 511,850 at June 30, 2016.

Town of Nags Head Outstanding Debt

	<u>Governmental</u> <u>Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Finance contract	\$ 590,000	\$ 838,184	\$260,000	\$ 341,002	\$ 850,000	\$ 1,179,186
Capital leases	1,705,663	1,423,623	62,838	70,698	1,768,501	1,494,321
Bonded debt (beach nourishment)	-	3,600,000	-	-	-	3,600,000
Post-employment benefits	1,087,595	904,660	63,967	63,199	1,151,562	967,859
Net pension obligation (LEO)	15,543	10,507	-	-	15,543	10,507
Net pension liability (LGERs)	476,072	-	35,778	-	511,850	-
Compensated absences	578,894	494,641	46,365	34,147	625,259	528,788
Total	\$ 4,453,767	\$ 7,271,615	\$ 468,948	\$ 509,046	\$ 4,922,715	\$ 7,780,661

Additional information in the Town's debt can be found on pages 53-57 in the notes to the financial statements.

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the Town of Nags Head is \$ 185,533,312.

Management Discussion and Analysis
Town of Nags Head
June 30, 2016

Economic Factors and Next Year's Budgets and Rates

- Average unemployment rate in Dare County of 7.3% is higher than the State of North Carolina's 2016 average of 5.45%, however, Dare County experiences significant seasonality in rates with a high of 13.1% in January 2016 and a low of 4.6% in June of 2016.
- Investment earnings were up town-wide by \$48,025 relative to the prior year due to further diversification and a new investment policy.
- The Town's portion of land transfer tax revenues and occupancy tax revenues were consistent with last year.
- Travel and tourism has remained constant in Dare County, and Nags Head realized increases in sales and occupancy taxes due in part to growth and changes in proportionate levies among the Towns. The Town's portion of sales tax revenues increased \$ 142,416 or 6%.
- Utility Sales Tax has shown a steady increase for the past two years due primarily to a new allocation method for sales tax beginning FY 2015, recording a 38% increase for fiscal year end June 30, 2016, or \$220,710.
- Steady growth is expected in building related income.
- A beach re-nourishment maintenance project is in the initial planning stages with an estimated \$2,600,000 budget being funded by fund balance from the beach nourishment capital reserve from excess collections from town-wide and MSD beach nourishment tax, along with excess collections of sales tax from our increase in shared revenue.
- The Town of Nags Head's approximate year round population is 2954, while summer season population is estimated at 35-40,000 persons a day. Twenty four hour services are required for these fluctuating populations, for residents and non-residents alike.

Budget Highlights for the Fiscal Year Ending June 30, 2017

- The adopted budget for the June 30, 2017 fiscal year includes a tax rate increase of \$.03 to \$.297 per \$ 100 of assessed valuation. \$.027 of this total is designated by the Board for beach nourishment and \$.01 is designated by the Board for parks and paths. Of the \$.03 increase, \$.01, which generates \$230,904 is recommended to set aside funding in a Capital Reserve Fund for storm water management in lieu of the previous fee. The Municipal Service District (MSD) tax for the purpose of beach nourishment has been eliminated for fiscal year 2017.
- The Storm Water Fund will be closed to the General Fund since the fee is now part of the Ad Valorem Tax which is administered by the General Fund. All Storm Water Maintenance projects will become General Fund activities and will no longer be Business Type activities.
- There are no rate increases included in the water fund budget as these rates were increased in the June 30, 2015 fiscal year and covered normal operating expenses including depreciation.
- A 1.4% cost of living adjustment is included in the budget for all employees. Funds are budgeted to implement recommendations from a pay and class study that was performed in early 2016.
- The Town contracted with a health insurance brokerage firm which resulted in a 6% decrease in health insurance premiums.
- The adopted budget includes a \$ 25 business registration fee so all businesses can be tracked for zoning and fire inspection compliance.
- The budget includes the first full year of implementation of a town-wide mandatory residential recycling program. The fiscal year cost is \$97,193 less \$15,000 tipping fee savings.

Management Discussion and Analysis
Town of Nags Head
June 30, 2016

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- Due to changes in Dare County municipality's MSDs for their beach nourishment projects, the projected growth factor's and shared revenue losses have been established: Occupancy growth factor 2.5%, Nags Head loss in shared revenue distribution change 2.98% (for land transfer and occupancy), Land transfer growth factor decrease (.79%), Sales tax growth factor 4%, Nags Head loss in shared revenue distribution change .31%.
 - General Fund budgeted expenditures are anticipated to be \$16,004,089 which is approximately a 17.70% decrease over the prior year budget primarily due to the beach nourishment special revenue bond being paid off in fiscal year 2016.
 - Business-type activities budgeted expenditures are anticipated to be \$3,079,346 which is approximately a 5.85% decrease over the prior year budget primarily due to the Storm Water Fund become part of the Capital Reserve fund and funded by ad-valorem taxes in Governmental Activities. The adopted budget maintains the same water rates, base quantity, current rate structure of base charge, and commodity charges.
 - Capital Reserve Fund expenditures from this funding for FY2016-17 includes:
 - Dowdy Park purchase debt (year 4 of 5) \$102,360
 - Dowdy Park phase 1 development \$120,000
 - Beach Road multi-use path repairs \$ 25,000
 - Dog Park \$ 30,000
 - Capital projects included in the general fund budget are:
 - Cash funded:
 - Web site re-design \$ 25,000
 - Boardwalk Planning (Easement Acquisition) \$ 15,000
 - New Toro Z Master Mower \$ 8,500
 - Hargrove Beach Access Improvements \$ 25,300
 - Outer Banks Medical Center \$ 25,000
 - Station 16 Roof-Additional Funding \$ 28,000
 - Station 21 Roof \$ 40,000
 - Maintenance of PW Garage \$ 25,000
 - Taser Replacements \$ 6,473
 - Ferno Power Stair Chair \$ 8,000
 - Financed:
 - Financial Software (\$278,855) debt service: \$ 59,116
 - Ford F-350 Service Truck (\$72,000) debt service: \$ 18,806
 - Compressor (\$28,000) debt service: \$ 7,313
 - Funded by Reserves:
 - Enclose Office Space in Planning Department (Admin Facility Fee) \$ 35,000
 - Culvert Cleaner (Storm Water Capital Reserve) (\$55,000) debt service: \$ 14,366
 - Funded by Grants:
 - Dowdy Park Phase II \$500,000
 - Active Shooter Project Grant \$ 24,500
 - Capital projects included in the water fund budget are:
 - Water System Master Plan \$137,000 cash
 - Waterline Extension Morning View/Becker \$ 8,541 cash
 - Excavator (\$34,000) \$ 8,880 financed
 - Septic Health Oil/Water separator for trucks \$ 25,000 cash
 - Utility bill software (\$39,925) \$ 8,464 financed

Management Discussion and Analysis
Town of Nags Head
June 30, 2016

- Capital projects included in the storm water fund budget are:
 - Infrastructure Mapping \$ 57,500
 - Draining Improvement Projects \$ 18,000
 - Red Drum Outfall (2400 block of SVDT) \$ 62,500
 - Soundside Road \$ 37,000

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 Officer, Town of Nags Head, P.O. Box 99, Nags Head, North Carolina 27959. You can also call (252) 441-5508, visit our web site www.nagsheadnc.gov or send an email to Amy.Miller@nagsheadnc.gov for more information.

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BASIC FINANCIAL STATEMENTS

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Town of Nags Head, North Carolina
Statement of Net Position
June 30, 2016

Exhibit 1

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 8,315,288	\$ 3,485,614	\$ 11,800,902
Taxes receivable (net)	499	-	499
Accounts receivable (net)	32,007	573,693	605,700
Accrued interest receivable	17,145	4,676	21,821
Due from other governments	1,536,497	-	1,536,497
Inventories	52,007	56,841	108,848
Prepaid items	26,168	-	26,168
Restricted cash and cash equivalents	5,949,478	418,503	6,367,981
Total current assets	15,929,089	4,539,327	20,468,416
Capital Assets:			
Land, non-depreciable			
improvements and construction in progress	10,466,277	1,853,473	12,319,750
Other capital assets, net of depreciation	19,292,329	5,621,205	24,913,534
Total capital assets	29,758,606	7,474,678	37,233,284
Total assets	45,687,695	12,014,005	57,701,700
DEFERRED OUTFLOWS OF RESOURCES			
Contributions to pension plan in current fiscal year	368,764	27,714	396,478
Total deferred outflows of resources	368,764	27,714	396,478
LIABILITIES			
Current liabilities:			
Accounts payable	317,403	155,229	472,632
Salaries and benefits	455,939	28,978	484,917
Accrued interest payable	11,666	1,053	12,719
Due to other governments	432	-	432
Current portion of long-term liabilities	1,190,611	137,982	1,328,593
Liabilities to be paid from restricted assets	51,926	418,503	470,429
Long-term liabilities:			
Net pension liability	476,072	35,778	511,850
Due in more than one year	2,787,084	295,188	3,082,272
Total liabilities	5,291,133	1,072,711	6,363,844
DEFERRED INFLOWS OF RESOURCES			
Pension deferrals	279,909	21,036	300,945
Prepaid taxes	100	-	100
Prepaid water impact fees	-	130,000	130,000
Total deferred inflows of resources	280,009	151,036	431,045
NET POSITION			
Net investment in capital assets	27,708,368	7,151,840	34,860,208
Restricted for:			
Stabilization by state statute	3,326,442	-	3,326,442
Public safety	14,193	-	14,193
Capital reserve fund	5,680,950	-	5,680,950
Unrestricted	3,755,364	3,666,132	7,421,496
Total net position	\$ 40,485,317	\$ 10,817,972	\$ 51,303,289

The accompanying notes are an integral part of the financial statements.

Town of Nags Head, North Carolina
Statement of Activities
For the Year Ended June 30, 2016

Exhibit 2

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Primary Government:							
Governmental Activities							
General Government	\$ 9,974,716	\$ 407,776	\$ 185,181	\$ 2,000,000	\$ (7,381,759)	\$ -	\$ (7,381,759)
Public Safety	5,402,779	3,913	70,628	7,000	(5,321,238)	-	(5,321,238)
Public Works/Transportation	2,174,552	-	24,000	136,076	(2,014,476)	-	(2,014,476)
Environmental Protection	1,886,219	-	30,000	-	(1,856,219)	-	(1,856,219)
Interest on long-term debt	143,298	-	-	-	(143,298)	-	(143,298)
Total governmental activities	19,581,564	411,689	309,809	2,143,076	(16,716,990)	-	(16,716,990)
Business-type activities:							
Water	2,616,111	2,720,922	-	102,500	-	207,311	207,311
Storm Water	102,667	233,540	-	-	-	130,873	130,873
Total business-type activities	2,718,778	2,954,462	-	102,500	-	338,184	338,184
Total primary government	22,300,342	3,366,151	309,809	2,245,576	(16,716,990)	338,184	(16,378,806)
General revenues:							
Taxes:							
Property taxes levied for general purpose					6,302,099	-	6,302,099
Municipal service district taxes					1,823,812	-	1,823,812
Occupancy tax					2,637,733	-	2,637,733
Land transfer taxes					658,595	-	658,595
Sales taxes					2,486,409	-	2,486,409
Other taxes and licenses					60,313	-	60,313
Other unrestricted intergovernmental revenues					1,080,122	-	1,080,122
Unrestricted investment earnings					113,379	31,578	144,957
Miscellaneous					187,746	2,120	189,866
Total general revenues					15,350,208	33,698	15,383,906
Total change in net position					(1,366,782)	371,882	(994,900)
Net position - beginning, previously reported					41,659,281	10,446,090	52,105,371
Restatement					192,818	-	192,818
Net position, beginning, restated					41,852,099	10,446,090	52,298,189
Net position - ending					\$ 40,485,317	\$ 10,817,972	\$ 51,303,289

The accompanying notes are an integral part of the financial statements.

Town of Nags Head, North Carolina
Governmental Funds
Balance Sheet
June 30, 2016

Exhibit 3

	Major Funds		
	General	Beach Nourishment	Total
ASSETS			
Cash and cash equivalents	\$ 8,239,476	\$ 75,812	\$ 8,315,288
Restricted cash and cash equivalents	5,949,478	-	5,949,478
Taxes receivable (net)	499	-	499
Accounts receivable (net)	32,007	-	32,007
Accrued interest receivable	17,145	-	17,145
Due from other governments	1,536,497	-	1,536,497
Inventories	52,007	-	52,007
Prepaid items	26,168	-	26,168
Total assets	15,853,277	75,812	15,929,089
LIABILITIES			
Accounts payable	317,403	-	317,403
Salaries and benefits	455,939	-	455,939
Due to other governments	432	-	432
Liabilities payable from restricted assets:			
Bonds and deposits	14,260	-	14,260
Accounts payable	-	37,666	37,666
Total liabilities	788,034	37,666	825,700
DEFERRED INFLOWS OF RESOURCES			
Prepaid taxes	100	-	100
Property taxes receivable	499	-	499
Miscellaneous receivables	21,521	-	21,521
Total deferred inflows of resources	22,120	-	22,120
FUND BALANCES:			
Nonspendable:			
Inventories	52,007	-	52,007
Prepays	26,168	-	26,168
Restricted:			
Restricted for Stabilization by State statute	3,288,296	38,146	3,326,442
Restricted for Environmental Protection	245,425	-	245,425
Restricted for Public Safety	14,193	-	14,193
Restricted for Capital Reserve Fund	5,680,950	-	5,680,950
Committed:			
Health Insurance	80,000	-	80,000
LEO Special Separation Allowance	183,271	-	183,271
Assigned:			
Subsequent year's expenditures	74,169	-	74,169
Unassigned	5,398,644	-	5,398,644
Total fund balances	15,043,123	38,146	15,081,269
Total liabilities, deferred inflows of resources and fund balances	\$ 15,853,277	\$ 75,812	

The accompanying notes are an integral part of the financial statements.

Town of Nags Head, North Carolina
Governmental Funds
Reconciliation of the Balance Sheet of Governmental Funds
To The Statement of Net Position
For the Fiscal Year Ended June 30, 2016

Exhibit 3
(Continued)

Amounts reported for governmental activities in the statement of net position (Exhibit 1) are different because:

Total fund balances-governmental fund (previous page)	\$ 15,081,269
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	29,758,606
Net pension liability	(476,072)
Contributions to pension plan in the current fiscal year are deferred outflows of resources on Statement of Net Position	368,764
Liabilities for earned revenues considered deferred inflows of resources in fund statements:	
Deferred taxes receivable	499
Deferred miscellaneous receivable	21,521
Long-term liabilities used in governmental activities are not financial uses and therefore are not reported in the funds	(3,977,695)
Pension related deferrals	(279,909)
Other long-term liabilities (accrued interest) are not due and payable in the current period and therefore are not reported in the funds	(11,666)
Net position of governmental activities (Exhibit 1)	<u><u>\$ 40,485,317</u></u>

The accompanying notes are an integral part of the financial statements.

Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balance
For the Fiscal Year Ended June 30, 2016

	Major Funds		
	General Fund	Beach Nourishment	Total
REVENUES			
Ad valorem taxes	\$ 8,138,686	\$ -	\$ 8,138,686
Other taxes and licenses	5,866,657	-	5,866,657
Unrestricted intergovernmental	1,080,122	-	1,080,122
Restricted intergovernmental	2,428,829	-	2,428,829
Permits and fees	281,000	-	281,000
Sales and services	3,913	-	3,913
Investment earnings	111,871	1,509	113,380
Miscellaneous	331,576	-	331,576
Total revenues	18,242,654	1,509	18,244,163
EXPENDITURES			
Current:			
General Government	2,759,166	415,806	3,174,972
Public Safety	5,229,358	-	5,229,358
Environmental Protection	2,130,894	-	2,130,894
Public Works/Transportation	2,059,027	-	2,059,027
Debt service:			
Principal	4,581,963	-	4,581,963
Interest and other charges	131,632	-	131,632
Total expenditures	16,892,040	415,806	17,307,846
Deficiency of revenues over expenditures	1,350,614	(414,297)	936,317
OTHER FINANCING SOURCES			
Capital lease obligations issued	1,015,819	-	1,015,819
Transfer from other funds	-	139,373	139,373
Transfer (to) other funds	(139,373)	-	(139,373)
Total other financing sources	876,446	139,373	1,015,819
Net change in fund balance	2,227,060	(274,924)	1,952,136
Fund balances - beginning	12,623,245	313,070	12,936,315
Restatement	192,818	-	192,818
Fund balances - ending	\$ 15,043,123	\$ 38,146	\$ 15,081,269

The accompanying notes are an integral part of the financial statements.

Town of Nags Head, North Carolina
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Fiscal Year Ended June 30, 2016

Exhibit 4
(Continued)

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

Net changes in fund balances - total governmental funds		\$ 1,952,136
<p>Governmental funds report capital outlay as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.</p>		
Capital Outlay	1,601,067	
Donated Asset	7,000	
Depreciation	<u>(8,305,043)</u>	(6,696,976)
<p>Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities</p>		
		368,764
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues/expenditures in the funds.</p>		
<p> Change in unavailable revenue for tax and misc revenues</p>		
		(36,381)
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>		
Debt Issued	(1,015,819)	
Accrued interest payable	(11,666)	
Increase in compensated absences	(84,253)	
Increase in LEO net pension obligation	(5,036)	
Pension expense	(236,579)	
Increase in other post employment benefits	(182,935)	
Principal repayments	<u>4,581,963</u>	3,045,675
<hr/>		
Total change in net position of governmental activities		<u>\$ (1,366,782)</u>

The accompanying notes are an integral part of the financial statements.

General Fund

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
For the Fiscal Year Ended June 30, 2016

	Budgeted Amounts			Variance Positive (Negative)
	Original Budget	Revised Budget	Actual	
Revenues:				
Ad valorem taxes	\$ 8,039,041	\$ 8,039,041	\$ 8,138,686	\$ 99,645
Other taxes and licenses	5,695,838	5,695,838	5,866,657	170,819
Unrestricted intergovernmental	813,257	813,257	1,080,122	266,865
Restricted intergovernmental	2,681,961	3,243,718	2,428,829	(814,889)
Permits and fees	298,600	298,600	281,000	(17,600)
Sales and services	3,000	3,000	3,913	913
Investment earnings	75,000	75,000	78,038	3,038
Miscellaneous	268,069	268,069	281,436	13,367
Total revenues	17,874,766	18,436,523	18,158,681	(277,842)
Expenditure:				
Current:				
General Government	3,063,124	2,780,992	2,759,163	21,829
Public Safety	5,236,888	5,372,215	5,229,360	142,855
Environmental Protection	1,715,231	2,469,452	2,130,895	338,557
Public Works/Transportation	3,100,607	3,667,048	2,059,027	1,608,021
Debt service:				
Principal	4,297,490	4,585,944	4,581,963	3,981
Interest and other charges	132,924	132,924	131,632	1,292
Contingency	125,000	125,000	-	125,000
Total expenditures	17,671,264	19,133,575	16,892,040	2,241,535
Revenues over (under) expenditures	203,502	(697,052)	1,266,641	1,963,693
Other financing sources (uses):				
Transfers from Capital Reserve Fund	977,658	435,040	258,360	(176,680)
Transfers to Capital Reserve Fund	(1,518,660)	(1,518,660)	(1,598,510)	(79,850)
Installment purchase obligations issued	-	1,015,777	1,015,819	42
Sale of Capital Assets	20,000	20,000	50,140	30,140
Appropriated Fund Balance	317,500	744,895	-	(744,895)
Total other financing sources (uses)	(203,502)	697,052	(274,191)	(971,243)
Net change in fund balance	\$ -	\$ -	992,450	\$ 992,450
Fund balances, beginning of year			8,091,876	
Restatement			192,818	
Fund balances, end of year			\$ 9,277,144	
A legally budgeted Capital Reserve Fund is consolidated into the General Fund for reporting purposes:				
Interest Income			\$ 33,833	
Transfer to general fund			(258,360)	
Transfer from general fund			1,598,510	
Transfer to beach nourishment fund			(139,373)	
Fund balance, beginning of the year			4,531,369	
Fund balance, end of year			\$ 15,043,123	

The accompanying notes are an integral part of the financial statements.

Town of Nags Head, North Carolina
Proprietary Funds
Statement of Fund Net Position
June 30, 2016

Exhibit 6

	Business-type Activities			
	Major Funds		Non-Major	Total
	Water Fund	Storm Water Fund	Nags Head Leasing	Enterprise Funds June 30, 2016
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 3,429,533	\$ 55,981	\$ 100	\$ 3,485,614
Accounts receivable trade (net)	517,462	13,632	-	531,094
Accounts receivable other (net)	47,218	57	-	47,275
Inventories	56,841	-	-	56,841
Restricted cash and cash equivalents	418,503	-	-	418,503
Total current assets	4,469,557	69,670	100	4,539,327
Capital assets:				
Land, non-depreciable improvements and construction in progress	1,853,473	-	-	1,853,473
Other capital assets, net of depreciation	4,745,543	875,662	-	5,621,205
Total capital assets (net)	6,599,016	875,662	-	7,474,678
Total noncurrent assets	6,599,016	875,662	-	7,474,678
Total assets	11,068,573	945,332	100	12,014,005
DEFERRED OUTFLOWS OF RESOURCES				
Contribution to pension plan	27,714	-	-	27,714
Total deferred outflows of resources	27,714	-	-	27,714
LIABILITIES				
Current liabilities:				
Accounts payable	155,229	-	-	155,229
Salaries and benefits	28,978	-	-	28,978
Accrued interest payable	1,053	-	-	1,053
Compensated absences - current	20,000	-	-	20,000
Capital leases payable - current	117,982	-	-	117,982
Total current liabilities	323,242	-	-	323,242
Noncurrent liabilities:				
Liabilities payable from restricted assets:				
Customer bonds and deposits	418,503	-	-	418,503
Net pension liability	35,778	-	-	35,778
Other post employment benefits	63,967	-	-	63,967
Compensated absences - non current	26,365	-	-	26,365
Capital leases payable - non current	204,856	-	-	204,856
Total noncurrent liabilities	749,469	-	-	749,469
Total liabilities	1,072,711	-	-	1,072,711
DEFERRED INFLOWS OF RESOURCES				
Pension deferrals	21,036	-	-	21,036
Prepaid impact fees	130,000	-	-	130,000
Total deferred inflows of resources	151,036	-	-	151,036
NET POSITION				
Net investment in capital assets	6,276,178	875,662	-	7,151,840
Unrestricted	3,596,362	69,670	100	3,666,132
Net Position	\$ 9,872,540	\$ 945,332	\$ 100	\$ 10,817,972

The accompanying notes are an integral part of the financial statements.

Town of Nags Head, North Carolina
Proprietary Funds
Statement of Revenues, Expenses and Changes in Fund Net Position
For the Fiscal Year Ended June 30, 2016

Exhibit 7

	Enterprise Funds			Total
	Water Fund	Storm Water Fund	Nags Head Leasing	
OPERATING REVENUES				
Charges for services	\$ 2,675,279	\$ 233,540	\$ -	\$ 2,908,819
Tap and connection fees	10,583	-	-	10,583
Late payment penalties	28,859	-	-	28,859
Water tag fees	6,200	-	-	6,200
Miscellaneous	2,120	-	-	2,120
Total operating revenues	2,723,041	233,540	-	2,956,581
OPERATING EXPENSES				
Administration	138,587	-	-	138,587
Septic Health	135,641	-	-	135,641
Operations	1,539,007	-	-	1,539,007
Distribution	476,251	-	-	476,251
Storm Water	-	14,388	-	14,388
Depreciation and amortization	312,758	88,279	-	401,037
Total operating expenses	2,602,244	102,667	-	2,704,911
Total operating gain	120,797	130,873	-	251,670
NONOPERATING REVENUES (EXPENSES)				
Investment earnings	31,146	432	-	31,578
Interest expense	(13,866)	-	-	(13,866)
Total nonoperating revenue (expenses)	17,280	432	-	17,712
Gain Before Contributions	138,077	131,305	-	269,382
Capital contributions from impact fees	102,500	-	-	102,500
Change in net position	240,577	131,305	-	371,882
Total net position, beginning	9,631,963	814,027	100	10,446,090
Total net position- ending	\$ 9,872,540	\$ 945,332	\$ 100	\$ 10,817,972

The accompanying notes are an integral part of the financial statements.

Town of Nags Head, North Carolina
Proprietary Funds
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2016

Exhibit 8

	Business-Type Activities Enterprise Funds			Total
	Water Fund	Storm Water	Nags Head Leasing	
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 2,639,909	\$ 225,895	\$ -	\$ 2,865,804
Cash paid for goods and services	(1,600,466)	(14,841)	-	(1,615,307)
Cash paid to or on behalf of employees for services	(650,382)	-	-	(650,382)
Customer deposits received	41,080	-	-	41,080
Customer deposits returned	(21,582)	-	-	(21,582)
Other operating revenues	2,121	-	-	2,121
Net cash provided by operating activities	410,680	211,054	-	621,734
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Initial impact fees received	100,500	-	-	100,500
Lease proceeds	51,412	-	-	51,412
Interest paid on debt financing	(13,866)	-	-	(13,866)
Septic Loans issued	(25,540)	-	-	(25,540)
Repayment of septic loans	19,699	-	-	19,699
Special assessments collected	2,032	-	-	2,032
Principal paid on debt financing	(140,274)	-	-	(140,274)
Acquisition of capital assets	(352,035)	(218,158)	-	(570,193)
Net cash (used) by capital and related financing activities	(358,072)	(218,158)	-	(576,230)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest income	26,527	376	-	26,903
Net increase (decrease) in cash and cash equivalents	79,135	(6,728)	-	72,407
Cash balances - beginning of the year	3,768,901	62,709	100	3,831,710
Cash balances - end of the year	\$ 3,848,036	\$ 55,981	\$ 100	\$ 3,904,117
Reconciliation of operating gain to net cash provided by operating activities				
Operating income gain	\$ 120,797	\$ 130,873	\$ -	\$ 251,670
Adjustments to reconcile operating income gain to net cash provided by operating activities:				
Depreciation and amortization	312,758	88,279	-	401,037
Changes in assets, deferred outflows of resources, and liabilities:				
(Increase) in accounts receivable	(81,012)	(7,645)	-	(88,657)
(Increase) in inventories	(2,595)	-	-	(2,595)
Decrease in net pension asset	51,467	-	-	51,467
Increase in deferred outflows of resources-pensions	3,551	-	-	3,551
Increase in net pension liability	35,778	-	-	35,778
(Decrease) in deferred inflows of resources-pensions	(107,722)	-	-	(107,722)
Increase (decrease) in accounts payable	41,094	(453)	-	40,641
Increase in accrued liabilities	15,245	-	-	15,245
Increase in accrued interest payable	1,053	-	-	1,053
Increase in customer deposits	19,498	-	-	19,498
Increase in accrued OPEB liability	768	-	-	768
Total adjustments	289,883	80,181	-	370,064
Net cash provided (used) by operating activities	\$ 410,680	\$ 211,054	\$ -	\$ 621,734

The accompanying notes are an integral part of the financial statements.

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

I. Summary of Significant Accounting Policies

The accounting policies of the Town of Nags Head 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 Nags Head is a municipal corporation, which is governed by an elected mayor and four commissioners. As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. The blended component unit has a June 30 year end.

Blended Component Unit – Nags Head Leasing is a not for profit corporation formed and operated for the purpose of providing financial assistance to the Town of Nags Head and to enable the Town to acquire water system improvements or other capital items and is governed by a board comprised of the Town of Nags Head's governing board. Nags Head Leasing Corporation is reported as an Enterprise fund.

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

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

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

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, grants, and various other taxes and licenses. The primary expenditures are for general government services, public safety, public works/transportation, and environmental protection services. Additionally, the Town has legally adopted a **Capital Reserve Fund**, a fund that is designated for future capital projects, and is consolidated in the General Fund.

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

The Town reports the following major enterprise funds:

Water Fund. This fund is used to account for the Town's water operations.

Storm Water Fund. This fund is used to account for the Town's storm water management operations.

The Town reports the following non-major enterprise funds:

Nags Head Leasing. This is a Blended Component Unit.

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 and Proprietary Fund Financial Statements. The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary 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. Nonexchange transactions, in which the Town gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town's enterprise funds are charges to customers for sales and services. The Town also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

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

Sales taxes 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 Nags Head 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.

All taxes, including those dedicated for specific purposes are reported as general revenues rather than program revenues. Grant revenues which are unearned at year-end are recorded as unearned revenues. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, and then by general revenues.

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

D. Budgetary Data

1. Budget

As required by the North Carolina General Statutes, the governing board must adopt by July 1 an annual balanced budget ordinance for all funds except for those funds that operate under project ordinances. All annual appropriations lapse at fiscal year-end. The annual budget is prepared on the modified accrual basis of accounting to be compatible with the accounting system used in recording transactions. A project ordinance has been adopted for the Beach Nourishment Capital Project Fund which is a general governmental fund capital project. Capital Reserve ordinances have been adopted for the Capital Reserve Fund, and a revised budget is amended as reserve funds have been used.

Revenues may be amended during the year for unforeseen revenues such as grant monies. These amendments must meet board approval. Revenues from taxes levied may not be amended once the tax rate is set.

Expenditures may not legally exceed appropriations at the departmental level for all annually budgeted funds and at the object level for the multi-year funds. Budgetary control is exercised in all funds, and appropriations are made at the departmental (functional) level and amended as necessary by the governing board. The Town Manager by law is the budget officer in the council-manager form of government and is authorized to make interdepartmental transfers in the same fund up to 10% of the appropriated monies for the department whose allocation is reduced; however, any revisions that alter total expenditures of any fund must be approved by the governing board. During the year, several amendments to the original budget were necessary.

2. Encumbrances

As required by North Carolina State Statute 159-26 (d), the Town maintains encumbrance accounts that are considered to be "budgetary accounts". Encumbrances outstanding at year-end represent the estimated amounts of the expenditures ultimately to result if unperformed contracts in process at year-end are completed. Encumbrances outstanding at year-end do not constitute expenditures or liabilities.

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

1. Deposits and Investments

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

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

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

The Town's investments with a maturity of more than one year at acquisition and non-money market investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT Cash Portfolio, a SEC-registered (2a-7) external investment pool, are measured at amortized cost, which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued at fair value. Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost. Non-participating interest earning investment contracts are reported at cost.

In accordance with State law, the Town has invested in securities which are callable and which provide for periodic interest rate increases in specific increments until maturity. These investments are reported at fair value as determined by quoted market prices.

2. Cash and Cash Equivalents

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

3. Restricted Assets

The unexpended debt proceeds of the General Fund are classified as restricted assets because their use is completely restricted to the purpose for which the debt was originally issued. Money in the Capital Reserve Fund is also classified as restricted as its use is restricted to the Capital Reserve Fund per NC G. S. Chapter 159, Article 3, Part 2. North Carolina controlled substance excise taxes are classified as restricted assets since they may only be used for law enforcement purposes. Customer deposits held by the Town for the duration of the customer's water service until such time as water service is discontinued at which point they are returned to the customer in part or in full after satisfying any outstanding balance are reported as restricted assets.

Town of Nags Head Restricted Cash:

Governmental Activities:

General Fund	Controlled substance	\$ 14,193
	Capital reserve fund	5,675,600
	Bonds and deposits	14,260
	Unexpended debt proceeds	<u>245,425</u>
Total governmental activities		<u>\$ 5,949,478</u>

Business-type Activities:

Water Fund	Customer deposits	\$ 405,803
	Cash bonds	<u>12,700</u>
Total business-type activities		<u>418,503</u>
Total Restricted Cash		<u>\$ 6,367,981</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, 2015.

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

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. Inventory and Prepaid Items

The inventories of the Town are valued at cost (first-in, first-out), which approximates market. The Town's General Fund inventory consists of expendable supplies that are recorded as expenditures as used rather than when purchased.

The inventories of the Town's enterprise fund consist of materials and supplies held for subsequent use. The cost of these inventories is expensed when used or held for resale rather than when purchased.

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 a certain cost and an estimated useful life in excess of five years. Minimum capitalization cost is \$5,000. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets received prior to June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015, are recorded at acquisition value. 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.

In conjunction with implementing GASB 34, "The New Reporting Model", the Town began capitalizing public domain ("infrastructure") capital assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, water lines, and lighting systems as of July 1, 2003. Infrastructure assets exceeding the Town's capitalization threshold will be reported as capital assets in the Statement of Net Assets. Infrastructure assets acquired prior to July 1, 2003 were not retroactively reported; therefore, the infrastructure capital assets in the Statement of Net Assets only include assets purchased after July 1, 2003.

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

Asset Class	Estimated Useful Lives
Infrastructure	5 to 30
Buildings	40
Improvements	25
Vehicles	5 to 10
Furniture and equipment	5 to 20

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

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 one item that meets this criterion, contributions made to the pension plan in the 2016 fiscal year.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources* represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Town has several items that meet the criterion for this category – prepaid taxes, miscellaneous receivables including business licenses and special assessments, prepaid water impact fees, property taxes receivable and deferrals of pension expense that result from the implementation of GASB 68.

9. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position.

10. Compensated Absences

The vacation policy of the Town provides for the accumulation of up to thirty-six days earned vacation leave with such leave being fully vested when earned. For the Town's government-wide and proprietary 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 has no obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

In accordance with the Fair Labor Standards Act, the Town allows non-exempt employees to accrue compensatory time up to the specified limits of 240 hours for non-sworn public safety and 480 hours for sworn public safety employees. The Town uses a first-in, first-out method for the use of this compensatory time.

11. Net Position/Fund Balances

Net position in government-wide and proprietary fund 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.

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.

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

The governmental fund types classify fund balances as follows:

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

Inventories - portion of fund balance that is not an available resource because it represents the year-end balance of ending inventories, which are not spendable resources.

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

Restricted for Environmental Protection – portion of fund balance that is restricted for unexpended debt proceeds for a side loader dumpster truck

Restricted for Public Safety - portion of fund balance that is restricted by revenue source for use for certain public safety expenditures.

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

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

Committed for health insurance – portion of fund balance that is committed by action of the Governing Body for future health insurance expenditures.

Committed for LEO pension obligation – portion of fund balance that will be used for the Law Enforcement Officers' Special Separation Allowance obligations.

Assigned fund balance - portion of fund balance that the Town of Nags Head 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; however the budget ordinance authorizes the manager to modify the appropriation within funds up to 10% of the appropriated monies for the department whose allocation is reduced.

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

Unassigned fund balance - the portion of fund balance that has not been restricted, committed, or assigned to specific purposes or other funds.

The Town of Nags Head has a revenue spending policy that provides guidance for programs with multiple revenue sources. The Finance Officer will use resources in the following order: bond/debt proceeds, federal funds, state funds, local funds, Town funds. For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first, followed in order by committed fund balance, assigned fund balance, and lastly unassigned fund balance. The Finance Officer has the authority to deviate from this policy if it is in the best interest of the Town or when required by grant or other contractual agreements.

12. Pensions

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

F. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

G. Reconciliation of Government-wide and Fund Financial Statements

1. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position.

The governmental fund balance sheet includes reconciliation between fund balance - total governmental funds and net position - governmental activities as reported in the government-wide statement of net position. The net adjustment of \$25,404,048 consists of several elements as follows:

<u>Description</u>	<u>Amount</u>
Capital assets used in governmental activities are not financial resources and are therefore not reported in the funds (total capital assets on government-wide statement in governmental activities column)	\$ 70,008,584
Less accumulated depreciation	<u>(40,249,978)</u>
Net capital assets	\$ 29,758,606
Net pension liability	(476,072)

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

Contributions to the pension plan in the current fiscal year are deferred outflows of resources on the Statement of Net Position

Local Governmental Employees' Retirement System		\$ 368,764
Liabilities for earned but deferred revenues in fund statements		22,020
Liabilities that, because they are not due and payable in the current period, do not require current resources to pay and are therefore not reported in the fund statements:		
Leases and installment financings payable	\$ (2,295,663)	
Compensated absences	(578,894)	
Net pension obligation Law Enforcement Officer	(15,543)	
Net other post-employment benefits obligation	<u>(1,087,595)</u>	
		(3,977,695)
Pension related deferrals		(279,909)
Other long-term liabilities (accrued interest) are not available to pay for current period expenditures and, are deferred in the funds.		<u>(11,666)</u>
Net adjustment		<u>\$ 25,404,048</u>

2. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balance and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. There are several elements of that total adjustment of \$(3,318,918) as follows:

<u>Description</u>	<u>Amount</u>
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	
Capital outlay expenditures recorded in the fund statements capitalized as assets in the statement of activities	\$ 1,601,067
Depreciation expense, the allocation of those assets over their useful lives, that is recorded on the statement of activities but not in the fund statements.	<u>(8,305,043)</u>
	\$ (6,703,976)

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net assets. 7,000

Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities. 368,764

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 and misc revenues (36,381)

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Debt issued or incurred:

Capitalized lease financing	\$ (1,015,819)	
Accrued interest payable	<u>(11,666)</u>	
		\$ (1,027,485)

Principal payments	<u>4,581,963</u>	
		3,554,478

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

Compensated absences	(84,253)	
Pension expense	(236,579)	
Net pension obligation	(5,036)	
Other postemployment benefits	<u>(182,935)</u>	
		<u>(508,803)</u>

Net adjustment		<u>\$ (3,318,918)</u>
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Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

G. Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2016, the expenditures made in the Town's Administrative Services department in the General Fund exceeded the authorized appropriations made by the governing board by \$112,803. This over-expenditure occurred because a budget amendment was not done to record the revenues and expenditures of a grant awarded to the Town of Nags Head for improvements made to Peak Resources Nursing and Rehabilitation Facility. In fiscal year 2016, the Town of Nags Head governing body authorized, via resolution, the Town to enter into applying for the grant and subsequently executed a grant contract agreement. This expenditure excess creates a zero net effect on fund balance as excess revenues were not recorded. A budget amendment for remaining grant funds has been done in fiscal year 2017.

H. Comparative Data

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the Town's financial position and operations.

II. Detail Notes on All Funds

A. Assets

1. Deposits

All the deposits of the Town are either insured or collateralized by using the Pooling Method. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town, these deposits are considered to be held by the Town's agents in its name. 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. The Town has no policy regarding custodial risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Town complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2016, the Town's deposits had a carrying amount of \$5,090,010 and a bank balance of \$5,226,532. Of the bank balance, \$745,425 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. At June 30, 2016, the Town's petty cash fund totaled \$1,000.

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

2. Investments

At June 30, 2016, the Town's investments were as follows:

Investment Type	Valuation Measurement Method	Book Value at 6/30/16	< 9 months	9 months-3 Years	3-5 Years	5-10 Years	10-15 Years
Government Agency: FNMA	Fair Value Level 1	\$ 2,778,264	\$ -	\$ 300,070	\$1,977,579	\$ -	\$ 500,615
Government Agency :FHLMC	Fair Value Level 1	4,205,056	-	2,003,370	2,201,686	-	-
Government Agency: FHL Banks	Fair Value Level 1	400,038	-	400,038	-	-	-
Government Agency: GNMA Mortgage Backed Securities	Fair Value Level 1	223,542	-	17,127	-	206,415	-
Wake County GO Bonds	Fair Value Level 1	111,221	-	-	-	-	111,221
Commercial Paper-JP Morgan	Amortized Cost	994,067	994,067	-	-	-	-
Commercial Paper-Credit Agricole	Amortized cost	993,625	993,625	-	-	-	-
Commercial Paper-Credit-Suisse	Amortized Cost	496,250	496,250	-	-	-	-
Commercial Paper-ING Bank	Amortized Cost	997,683	997,683	-	-	-	-
NC Capital Management Trust-Term Portfolio*	Fair Value Level 1	1,808,954	1,808,954	-	-	-	-
NC Capital Management Trust-Cash Portfolio*	Amortized Cost	69,173	N/A	-	-	-	-
Total		\$13,077,873	\$5,290,579	\$2,720,605	\$4,179,265	\$206,415	\$611,836

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.

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

* Because the NC Capital Management Trust Term Portfolio had duration of 0.14 years, it was presented as an investment with a maturity of less than one year.

Interest Rate As a means of limiting its exposure to fair value losses arising from rising interest rates, the Town's Investment Policy limits at least 40% of the Town's investment portfolio to maturities of less than 9 months. Per Town policy, investment maturities are required to be limited to at least 40% less than 9 months, at least 50% less than 3 years, at least 70% less than 5 years, at least 90% less than 10 years, and 100% less than fifteen years. As of June 30, the NC Capital Management Trust portfolios (9.96%) and Commercial Paper (19.16%) matured in less than 9 months, 14.97% of U.S. Government Agencies matured in less than 3 years, 23.01% of U.S. Government Agencies matured in less than 5 years, 1.13% of U.S. Government Agencies in less than 10 years, and 3.37% of U.S. Government Agencies and general obligation bonds in less than 15 years based on the \$18,168,883 cash and investment total. Also, the Town's Internal Management Policy requires purchases of securities to be laddered with staggered maturity dates. Investment income of \$132,387 was realized during fiscal year 2016. During the year no investments were sold for a realized gain or loss; however, because of the fair market value on June 30, the unrealized gain on investments held on June 30 was \$12,570. When combined, total investment income for fiscal year 2016 was a net gain of \$144,957.

Credit Risk The Town limits investments to the provisions of G.S. 159-30 and restricts the purchase of securities to the highest possible ratings whenever particular types of securities are rated. State law and the Town's Investment Policy require that commercial paper bear the highest rating of at least one nationally recognized rating service. The Town's investments in JP Morgan, Credit Agricole, Credit-Suisse and ING Bank commercial paper are rated A-1 by Standard and Poor's and P-1 by Moody's Investors Service. The Town's investments in US agencies, Federal Home Loan Bank, Federal National Mortgage Association, Government National Mortgage Association, and Federal Home Loan Mortgage Corporation were rated AA+ by Standard and Poor's and Aaa by Moody's Investors Services. The Town's investment in Wake County general obligation bonds carried a credit rating of Aaa by Moody's Investors Service and AAA by Standard and Poor's and Fitch Ratings. The Town's investment in the NC Capital Management Trust Cash Portfolio carried a credit rating of AAAm by Standard and Poor's as of June 30, 2016. The Town's investment in the NC Capital Management Trust Term Portfolio is unrated. The Term Portfolio is authorized to invest in obligations of the US Government agencies, and in high grade money market instruments as permitted under G.S. 159-30.

Custodial Credit Risk For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Town's formal policy requires that the Town utilize a third party custodial agent for book entry transactions, all of which are to be a trust department authorized to do trust work in North Carolina and has an account with the Federal Reserve. Certified securities are to be in the custody of the Finance Officer.

Concentration of Credit Risk The Town's investment policy limits the amount that the Town may invest in any one issuer, except for U.S. Treasury securities and the North Carolina Capital Management Trust, to 30% of total investments. Investments which are restricted further are commercial paper, limited to no more than 25% of total investments and no more than \$3,000,000 in a single issuer. More than 5% of the Town's investments are in Federal National Mortgage Association (15.29%), Federal Home Loan Mortgage Corporation (23.14%), and JP Morgan commercial paper (5.47%), Credit Agricole commercial paper (5.47%), and ING commercial paper (5.49%).

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

3. Receivables

The receivables shown in Exhibit 1 at June 30, 2016 were:

	Accounts	Taxes	Due from other Governments	Interest Receivable	Total
Governmental Activities:					
General	\$ 32,007	\$ 10,499	\$ 1,536,497	\$ 17,145	\$ 1,596,148
Allowance for doubtful accounts	-	(10,000)	-	-	(10,000)
Total governmental activities	<u>\$ 32,007</u>	<u>\$ 499</u>	<u>\$ 1,536,497</u>	<u>\$ 17,145</u>	<u>\$ 1,586,148</u>
Business-type Activities:					
Water	\$ 579,342	\$ -	\$ -	\$ 4,619	\$ 583,961
Stormwater	13,632	-	-	57	13,689
Allowance for doubtful accounts	(19,281)	-	-	-	(19,281)
Total business type activities	<u>\$ 573,693</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,676</u>	<u>\$ 578,369</u>

Due from other governments consisted of the following:

Occupancy tax	\$ 628,153
NC Department of Commerce	133,266
Land transfer tax	174,410
Sales taxes	387,687
Sales tax reimbursement	80,755
DEHNR grant	30,000
Utilities sales tax	69,697
Cable sales tax	15,839
Telecommunications sales tax	5,464
Other	11,226
Total	<u>\$ 1,536,497</u>

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

4. Capital Assets

Capital asset activity for the Primary Government for the year ended June 30, 2016, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 10,262,546	\$ 52,949	\$ -	\$ 10,315,495
Construction in progress	49,596	640,619	539,433	150,782
Total capital assets not being depreciated	10,312,142	693,568	539,433	10,466,277
Capital assets being depreciated:				
Buildings	10,076,943	-	-	10,076,943
Other improvements	38,825,646	620,691	62,164	39,384,173
Equipment	2,494,898	97,389	23,242	2,569,045
Vehicles and motorized equipment	7,348,287	735,852	571,993	7,512,146
Total capital assets being depreciated	58,745,774	1,453,932	657,399	59,542,307
Less accumulated depreciation for:				
Buildings	3,574,641	245,684	-	3,820,325
Other improvements	22,161,227	7,307,164	62,164	29,406,227
Equipment	1,716,080	253,233	23,242	1,946,071
Vehicles and motorized equipment	5,150,386	498,962	571,993	5,077,355
Total accumulated depreciation	32,602,334	\$ 8,305,043	\$ 657,399	40,249,978
Total capital assets being depreciated, net	26,143,440			19,292,329
Governmental activity capital assets, net	\$ 36,455,582			\$ 29,758,606

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

General Government	\$ 7,078,416
Public Safety	441,947
Public Works/Transportation	527,208
Environmental Protection	257,472
Total Depreciation Expense	<u>\$ 8,305,043</u>

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

Capital asset activities for the Business-type activities for the year ended June 30, 2016 are as follows:

	Beginning Balances	Increases	Decreases (Transfers)	Ending Balances
Business-Type Activities:				
Water Fund				
Capital assets not being depreciated:				
Land	\$ 1,853,473	\$ -	\$ -	\$ 1,853,473
Construction in progress	10,320	-	10,320	-
Total capital assets not being depreciated	1,863,793	-	10,320	1,853,473
Capital assets being depreciated:				
Plant	5,932,996	277,667	5,500	6,205,163
Equipment	973,130	31,734	-	1,004,864
Vehicles	161,758	52,954	-	214,712
Intangibles	4,203,619	-	-	4,203,619
Total capital assets being depreciated	11,271,503	362,355	5,500	11,628,358
Less accumulated depreciation for:				
Plant	3,102,130	143,975	5,500	3,240,605
Equipment	719,105	43,937	-	763,042
Vehicles	102,360	19,756	-	122,116
Intangibles	2,651,962	105,090	-	2,757,052
Total accumulated depreciation	6,575,557	\$ 312,758	\$ 5,500	6,882,815
Total capital assets being depreciated, net	4,695,946			4,745,543
Water Fund capital assets, net	\$ 6,559,739			\$ 6,599,016
	Beginning Balances	Increases	Decreases	Ending Balances
Business-Type Activities:				
Storm Water Fund				
Capital assets not being depreciated:				
Construction in progress	\$ -	\$ -	\$ -	\$ -
Total capital assets not being depreciated	-	-	-	-
Capital assets being depreciated:				
Plant	650,661	218,158	1,085	867,734
Equipment	44,803	-	-	44,803
Intangibles	171,427	-	-	171,427
Total capital assets being depreciated	866,891	218,158	1,085	1,083,964
Less accumulated depreciation for:				
Plant	93,635	53,622	1,085	146,172
Equipment	27,473	8,665	-	36,138
Intangibles	-	25,992	-	25,992
Total accumulated depreciation	121,108	\$ 88,279	\$ 1,085	208,302
Total capital assets being depreciated, net	745,783			875,662
Storm Water Fund capital assets, net	\$ 745,783			\$ 875,662
Business-Type activities capital assets, net	\$ 7,305,522			\$ 7,474,678

As used in this section, the term depreciation includes amortization of intangible assets.

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

The government has active construction projects as of June 30, 2016. At year-end, the government's estimated commitments to projects ongoing are as follows:

Project	Spent-to-date	Remaining Commitment
Beach nourishment	\$ 35,150,315	\$ 38,146
Dowdy park	142,967	1,225,699
Town Hall Sally Port	<u>7,675</u>	<u>82,325</u>
Total	<u>\$35,300,957</u>	<u>\$1,346,170</u>

B. Liabilities

1. Pension Plan and Post-Employment Obligations

a. Local Governmental Employees' Retirement System

Plan Description

The Town of Nags Head is a participating employer in the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS membership is comprised of general employees and local law enforcement officers (LEOs) of participating local government entities. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454 or at www.osc.nc.gov.

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.

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

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

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. The Town of Nags Head's employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town of Nags Head's contractually required contribution rate for the year ended June 30, 2016, was 7.15% of compensation for law enforcement officers and 6.67% 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 Nags Head were \$396,478 for the year ended June 30, 2016.

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 days waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's right to employer contributions or any other benefit provided by LGERS.

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

At June 30, 2016, the Town reported a liability of \$511,850 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014. The total pension liability was then rolled forward to the measurement date of June 30, 2015 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2015, the Town's proportion was 0.11405%, which was an increase of 0.00684% from its proportion measured as of June 30, 2014.

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

For the year ended June 30, 2016, the Town recognized pension expense of \$247,366. At June 30, 2016, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 120,314
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	145,722
Changes in proportion and differences between Town contributions and proportionate share of contributions	-	34,909
Town contributions subsequent to the measurement date	396,478	-
Total	<u>\$ 396,478</u>	<u>\$ 300,945</u>

\$396,478 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, 2017. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2017	\$ (181,152)
2018	(181,152)
2019	(180,866)
2020	242,225
2021	-
Thereafter	-
	<u>\$ (300,945)</u>

Actuarial Assumptions. The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	4.25 to 8.55 percent, including inflation and productivity factor
Investment rate of return	7.25 percent, net of pension plan investment expense, including inflation

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

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

The actuarial assumptions used in the December 31, 2014 valuation were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

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, 2015 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%	2.2%
Global Equity	42.0%	5.8%
Real Estate	8.0%	5.2%
Alternatives	8.0%	9.8%
Credit	7.0%	6.8%
Inflation Protection	6.0%	3.4%
Total	<u>100%</u>	

The information above is based on 30 year expectations developed with the consulting actuary for the 2014 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 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

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

	1% Decrease (6.25%)	Discount Rate (7.25%)	1% Increase (8.25%)
Town's proportionate share of the net pension liability (asset)	\$ 3,569,201	\$ 511,850	\$ (2,063,901)

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

b. Law Enforcement Officers Special Separation Allowance

Plan Description

The Town of Nags Head 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. 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, 2015 the Separation Allowance's membership consisted of:

Retirees receiving benefits	2
Terminated plan members entitled to but not yet receiving benefits	0
Active plan members	25
Total	27

A separate report was not issued for the plan.

The Separation Allowance has no assets accumulated in a trust that meets the following criteria which are outlined in GASB 67 and 68:

- Contributions to the pension plan and earnings on those contributions are irrevocable
- Pension plan assets are dedicated to providing benefits to plan members
- Pension plan assets are legally protected from the creditor or employers, non-employer contributing entities, the plan administrator, and plan members.

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

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 the terms of the plan.

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 made in the General Fund operating budget. For the current year the Town contributed \$55,940. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. There were no contributions made by employees.

The annual required contribution for the current year was determined as part of the December 31, 2014 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 5.00% investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 4.25% to 7.85% per year. Item (b) included an inflation component of 3.00%. The assumptions did not include post-employment benefit increases. The actuarial value of assets was determined using the market value of investments. The unfunded actuarial accrued liabilities are being amortized as a level dollar amount on a closed basis. The remaining amortization period at December 31, 2014 was 16 years.

Annual Pension Cost and Net Pension Obligation. The Town's annual pension cost and net pension obligation to the Separation Allowance for the current year were as follows:

Annual required contribution	\$ 61,374
Interest on net pension obligation	525
Adjustment to annual required contribution	<u>(923)</u>
Annual pension cost	60,976
Contributions made	<u>(55,940)</u>
Increase (decrease) in net pension obligation	5,036
Net pension obligation beginning of year	<u>10,507</u>
Net pension obligation end of year	<u><u>\$ 15,543</u></u>

Assets reserved to pay benefits are reported as committed fund balance in the General Fund. Benefit payments reduce the net pension obligation.

3 Year Trend Information				
For Year Ended	Annual Pension Cost	Percentage of	Net Pension	
June 30	(APC)	APC Contributed	Obligation	
2014	\$ 45,749	65.58%	\$ 32,850	
2015	\$ 52,657	142.43%	\$ 10,507	
2016	\$ 60,976	91.74%	\$ 15,543	

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

As of December 31, 2015, the most recent actuarial valuation date, the plan was 26.62 percent funded. The actuarial accrued liability for benefits was \$769,077 and the actual value of assets was \$204,722, resulting in an unfunded actuarial accrued liability (UAAL) of \$564,355. The covered payroll (annual payroll of active employees covered by the plan) was \$1,386,134 and the ratio of the UAAL to the covered payroll was 40.71 percent.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

c. Supplemental Retirement Income Plan for Law Enforcement Officers

Plan Description

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

Funding Policy

Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2016 were \$86,979, which consisted of \$60,757 from the Town and \$26,222 from the law enforcement officers.

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

Plan Description

The Town adopted a Supplemental Retirement Income Plan, a defined contribution plan, for regular employees beginning January 31, 1991.

Funding Policy

The Town contributes a matching amount up to two percent of each employee's salary (excluding law enforcement officers), and all amounts contributed are vested immediately. Employees may also make voluntary contributions to the plan. Total contributions for the year ended June 30, 2016 were \$223,982 which consisted of \$76,400 from the Town and \$147,582 from employees.

**Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016**

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 7, 2010.

Funding Policy

The Town does not match contributions to the 457 deferred compensation plan. Total contributions for the year ended June 30, 2016 were \$52,904, which consisted of \$48,588 from regular employees and \$4,316 from law enforcement employees.

f. Other Post-employment Benefits

Healthcare Benefits:

Plan Description. According to a Town resolution, the Town administers a single-employer defined benefit health care plan. This plan provides health care benefits to retirees of the Town who participate in the North Carolina Local Governmental Employees' Retirement System (System). The Town pays the full cost of coverage for these benefits for retirees who began working for the Town on or before November 3, 1997. The Town pays 25% for retiree with 10 years or more of service, 50% for retirees with 15 years or more of service, 75% with 20 years or more of service, and 100% with 25 years. Coverage ends when retirees become eligible for Medicare. Also, retirees can purchase coverage for their dependents at the Town's group rates. The Board of Commissioners may amend the benefit provisions. A separate report was not issued for the plan. Membership of the health care plan consisted of the following at December 31, 2014, the date of the latest actuarial valuation:

Retired members	9
Active members:	
General Employees	63
Firefighters	25
Law Enforcement	<u>23</u>
Total	<u>120</u>

Funding Policy. The Town pays the full cost of coverage for these benefits for retirees who began working for the Town on or before November 3, 1997 and a percentage of the premium cost based on years of service for employees hired after that date, as noted above. Also, the Town's retirees can purchase coverage for their dependents at the Town's group rates. The Town's members pay \$60 to \$1,165 per month, for dependent coverage. The Town has chosen to fund the healthcare benefits on a pay-as-you-go basis.

The current ARC rate is 4.66% of annual covered payroll. For the current year, the Town contributed \$114,435 or 1.91% of annual covered payroll. The Town obtains healthcare coverage through private insurers. The Town has purchased specific stop-loss coverage for any claim that exceeds \$100,000. There were no contributions made by employees, except for dependent coverage of \$15,791 for the year ended June 30, 2016.

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

Summary of Significant Accounting Policies. Post-employment expenditures are made from the fund the employee was assigned to prior to retirement. These respective funds are maintained on the modified accrual basis of accounting. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

Annual OPEB Cost and Net OPEB Obligation. The Town's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Town's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Town's net OPEB obligation for the healthcare benefits:

Annual required contribution	\$	296,408
Interest on net OPEB obligation		38,714
Adjustment to annual required contribution		<u>(36,984)</u>
Annual OPEB cost (expense)		298,138
Contributions made		<u>(114,435)</u>
Increase (decrease) in net OPEB obligation		183,703
Net OPEB obligation, beginning of year		<u>967,859</u>
Net OPEB obligation, end of year	\$	<u><u>1,151,562</u></u>

3 Year Trend Information			
<u>For Year</u>	<u>OPEB</u>	<u>Annual OPEB</u>	<u>OPEB</u>
<u>Ended June 30</u>	<u>Cost</u>	<u>Cost Contributed</u>	<u>Obligation</u>
2014	\$ 260,474	29.46%	\$ 801,117
2015	274,173	39.18%	967,859
2016	298,138	38.38%	1,151,562

Funded Status and Funding Progress. As of December 31, 2014, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and, thus, the unfunded actuarial accrued liability (UAAL) was \$3,030,826. The covered payroll (annual payroll of active employees covered by the plan) was \$5,987,088, and the ratio of the UAAL to the covered payroll was 50.6%. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Town of Nags Head, North Carolina
Notes to the Financial Statements
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Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members at that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value assets, consistent with the long-term perspective of the calculations.

In the December 31, 2014 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.00 percent investment rate of return (net of administrative expenses), which is the expected long-term investment returns on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual medical cost trend increase of 7.50 to 5.00 percent annually. Both rates included a 3.00 percent inflation assumption. The actuarial value of assets, if any was determined using techniques that spread the effects of short-term volatility in the market value of investments over a 5 year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2014, was 30 years.

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. All death benefit payments are made from the Death Benefit Plan. The Town has no liability beyond the payment of monthly contributions. Contributions are determined as a percentage of monthly payroll, based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. Because the benefit payments are made by the Death Benefit Plan and not by the Town, the Town does not determine the number of eligible participants. For the fiscal year ended June 30, 2016 the Town made contributions to the State for death benefits of \$ 4,930. The Town's required contributions for employees not engaged in law enforcement and for law enforcement officers represented .070% and .140% of covered payroll, respectively. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount.

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

3. Payables

Payables at Exhibit 1 at June 30, 2016 were as follows:

	Vendors	Salaries and Benefits	Accrued Interest	Due to Other Governments	Bonds and Deposits	Total
Governmental Activities						
General	\$ 317,403	\$ 455,939	\$ 11,666	\$ 432	\$ 14,260	\$ 799,700
Beach Nourishment Fund	37,666	-	-	-	-	37,666
Total Governmental activities	<u>\$ 355,069</u>	<u>\$ 455,939</u>	<u>\$ 11,666</u>	<u>\$ 432</u>	<u>\$ 14,260</u>	<u>\$ 837,366</u>
Business-type Activities						
Water	\$ 155,229	\$ 28,978	\$ 1,053	\$ -	\$ 418,503	\$ 603,763
Total Business-type activities	<u>\$ 155,229</u>	<u>\$ 28,978</u>	<u>\$ 1,053</u>	<u>\$ -</u>	<u>\$ 418,503</u>	<u>\$ 603,763</u>

4. Deferred Outflows and Inflows of Resources

Deferred outflows of resources are comprised of the following:

<u>Source</u>	<u>Amount</u>
Contributions to pension plan in current fiscal year	\$ 396,478

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

Prepaid taxes (General Fund)	\$ 100
Taxes receivable (General Fund)	499
Business licenses and special assessments receivable (General Fund)	21,521
Prepaid impact fees (Water Fund)	130,000
Pension deferrals	300,945

5. 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 three 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 \$2 million per occurrence, property coverage up to the total insurance values of the property policy, and workers' compensation coverage up to statutory limits, and employee health coverage. 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. Stop loss insurance is purchased by the Board of Trustees to protect against large medical claims that exceed certain dollar cost levels. Specific information on the limits of the reinsurance, excess and stop loss policies purchased by the Board of Trustees can be obtained by contacting 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.

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

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

The Town carries flood insurance through the National Flood Insurance Plan (NFIP). Because the Town owns property in an area of the State that has been mapped and designated as an "VE, AE, A, and X" area (an area with a 1% annual chance of flooding and a 26% chance of flooding over 30 years) by the Federal Emergency Management Agency, the Town is eligible to purchase coverage of \$500,000 per structure through the NFIP. The Town is also eligible to purchase excess commercial flood insurance and has in the amount of \$2,500,000 for its Town Hall structure and \$955,000 for its newest fire station.

In accordance with G.S. 159-29, the Town's employees that have access to \$100 or more of the Town's funds at any given time of the Town's funds are performance bonded through a commercial surety bond. The finance officer and tax collector are each individually bonded for \$125,000 each. The remaining employees that have access to funds are bonded under a blanket bond for \$250,000.

6. Claims and Judgments

At June 30, 2016 the Town was a defendant to various lawsuits related to beach nourishment. In the opinion of the Town's management and the Town attorney, the ultimate effect of these legal matters will not have a material adverse effect on the Town's financial position. However, it is not practical to estimate any potential losses.

7. Long-Term Debt

a. Capital Leases and Installment Finance Contracts

The Town entered into a fifteen year installment financing contract in 2005 with RBC Centura for the construction of the fire facility in south Nags Head. The amount borrowed was \$1,600,000 at an interest rate of 3.82% and is secured by the property. Originally, payments were due in annual installments of \$106,667 plus accrued interest with final payment due on May 30, 2019. The Town prepaid \$125,068 during the fiscal year ending June 30, 2006 from unused escrow funds and the remaining principal was re-amortized with payments due in annual installments of \$97,046 plus accrued interest through May 17, 2019. On May 17, 2016, the Town negotiated a rate reduction with PNC to 2.25% with annual installments of \$96,667 plus accrued interest through May 17, 2019. The outstanding balance at June 30, 2016 is \$290,000.

The Town entered into a fifteen year installment financing contract in 2005 with RBC Centura for the construction of an above ground water storage tank and waterline extension located adjacent to the Public Works facility. The amount borrowed was \$1,200,000 at an interest rate of 3.85% and is secured by the property. Originally payments were due in annual installments of \$102,841 including accrued interest with final payment due on May 30, 2019. The Town prepaid \$85,871 during the fiscal year ending June 30, 2006 from unused escrow funds and the remaining principal was re-amortized with payments due in annual installments of \$93,875 including accrued interest through May 17, 2019. On May 17, 2016, the Town negotiated a rate reduction with PNC to 2.25% with annual installments of \$86,667 plus accrued interest through May 17, 2019. The outstanding balance at June 30, 2016 is \$260,000.

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Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

The town entered into a ten year installment financing contract in 2008 with BB&T for the acquisition of real property. The amount borrowed was \$500,000 at an interest rate of 3.77% and is secured by the property. Payments are due annually in the amount of \$50,000 in principal plus accrued interest through November 15, 2017. The outstanding balance at June 30, 2016 is \$100,000.

The town entered into a five year installment financing contract in 2014 with Southern Bank for the acquisition of real property. The amount borrowed was \$500,000 at an interest rate of 1.18% and is secured by the property. Payments are due annually in the amount of \$100,000 in principal plus accrued interest through May 1, 2018. The outstanding balance at June 30, 2016 is \$200,000.

In May 2013, the Town entered into a 5 year lease agreement with SunTrust borrowing \$288,214. The interest rate is 1.23% per annum fixed. The money was placed in an interest-bearing account until related assets were acquired. The lease requires annual payments of \$59,079. The outstanding balance at June 30, 2016 is \$58,361.

Leased Item	Function	Fixed Asset Value
Sanitation Roll-off	Environmental Protection	\$ 142,756
Dump truck	Public Works	147,548

In May 2013, the Town entered into a 10 year lease agreement with SunTrust borrowing \$722,158. The interest rate is 1.60% per annum fixed. The money was placed in an interest-bearing account until related assets were acquired. The lease requires annual payments of \$77,482. The outstanding balance at June 30, 2016 is \$439,932.

Leased Item	Function	Fixed Asset Value
Quint Apparatus Fire Truck	Public Safety	\$ 723,158

In March 2014, the Town entered into a 5 year lease agreement with Southern Bank borrowing \$311,241. The interest rate is 1.18% per annum fixed. The money was placed in an interest-bearing account until related assets were acquired. The lease requires annual payments of \$64,451. The outstanding balance at June 30, 2016 is \$124,496.

Leased Item	Function	Fixed Asset Value
Semi-tractor	Environmental Protection	\$ 101,313
Loader	Public Works	140,700
Backhoe	Water	71,939

In February 2015, the Town entered into a 3 year lease agreement with BB&T borrowing \$272,527. The interest rate is 1.08% per annum fixed. The money was placed in an interest-bearing account until related assets were acquired. The lease requires annual payments of \$91,820. The outstanding balance at June 30, 2016 is \$90,839.

Leased Item	Function	Fixed Asset Value
Chevy Silverado	Public Safety	\$ 44,425
5 Police Vehicles	Public Safety	198,185
Bob Cat Tool Cat	Public Works	55,840

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

In February 2015, the Town entered into a 5 year lease agreement with BB&T borrowing \$480,605. The interest rate is 1.41% per annum fixed. The money was placed in an interest-bearing account until related assets were acquired. The lease requires annual payments of \$98,831. The outstanding balance at June 30, 2016 is \$288,325.

Leased Item	Function	Fixed Asset Value
Dumpster Truck	Environmental Protection	\$ 185,855
Residential Truck	Environmental Protection	287,512

In November 2015, the Town entered into a 3 year lease agreement with Southern Bank borrowing \$516,580. The interest rate is 1.24% per annum fixed. The money was placed in an interest-bearing account until related assets were acquired. The lease requires annual payments of \$174,330. The outstanding balance at June 30, 2016 is \$342,251.

Leased Item	Function	Fixed Asset Value
Sanitation Carts- not capitalized	Environmental Protection	\$ 207,600
Chevy Silverado	General Government	24,726
3 Police Vehicles	Public Safety	122,214
Chevy Silverado	Public Safety	35,438
Chevy Silverado	Public Safety	35,777
Ford F150	Public Works	24,611
Dingo	Public Works	21,330
Chevy Silverado	Water	27,854
Ford F150	Water	\$ 25,100

In November 2015, the Town entered into a 5 year lease agreement with Southern Bank borrowing \$305,231. The interest rate is 1.59% per annum fixed. The money was placed in an interest-bearing account until related assets were acquired. The lease requires annual payments of \$62,992. The outstanding balance at June 30, 2016 is \$242,240.

Leased Item	Function	Fixed Asset Value
Sanitation Heil	Environmental Protection	\$ 307,231

In May 2016, the Town entered into a 4 year lease agreement with PNC borrowing \$245,420. The interest rate is 2.25% per annum fixed. The money was placed in an interest-bearing account until related assets were acquired. The lease requires annual payments of \$63,363. The outstanding balance at June 30, 2016 is \$182,057.

Leased Item	Function	Fixed Asset Value
Side Loading Dumpster Truck	Environmental Protection	\$ 245,420

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

The gross value of all assets recorded under capital leases and installment finance contracts is \$8,463,573. The following is an analysis of the assets recorded under capital leases and installment finance contracts in the Town's governmental and water funds at June 30, 2016:

Classes of Property	Cost	Accumulated Depreciation	Net Book Value
Governmental Fund:			
Land	\$ 2,833,804		\$ 2,833,804
Buildings	1,699,316	424,829	1,274,487
Vehicles	2,279,436	350,812	1,928,624
Equipment	319,183	56,119	263,064
Water Fund:			
Building	1,206,941	215,018	991,923
Vehicles	52,954	2,785	50,169
Equipment	71,939	14,388	57,551
Total	\$ 8,463,573	\$ 1,063,951	\$ 7,399,622

A summary of changes in the Governmental long-term debt follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion of Balance
Finance contract	\$838,184	\$ -	\$ 248,184	\$ 590,000	\$ 246,667
Capital leases	1,423,623	1,015,819	733,779	1,705,663	633,944
Bonded debt	3,600,000	-	3,600,000	-	-
Post-employment benefits	904,660	182,935	-	1,087,595	-
Net pension obligation (LEO)	10,507	60,976	55,940	15,543	-
Net pension liability (LGERS)	-	476,072	-	476,072	-
Compensated absences	494,641	378,119	293,866	578,894	310,000
Governmental activities long-term liabilities	<u>\$ 7,271,615</u>	<u>\$ 2,113,921</u>	<u>\$ 4,931,769</u>	<u>\$ 4,453,767</u>	<u>\$ 1,190,611</u>

A summary of changes in the Business type long-term debt follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion of Balance
Finance contract	\$ 341,002	\$ -	\$ 81,002	\$ 260,000	\$ 86,667
Capital leases	70,698	51,412	59,272	62,838	31,315
Post-employment benefits	63,199	768	-	63,967	-
Net pension liability (LGERS)	-	35,778	-	35,778	-
Compensated absences	34,147	33,504	21,286	46,365	20,000
Business-type activities long-term liabilities	<u>\$ 509,046</u>	<u>\$ 121,462</u>	<u>\$ 161,560</u>	<u>\$ 468,948</u>	<u>\$ 137,982</u>

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

A summary of General government debt service obligations is as follows:

Year Ending June 30	Principal	Interest
2017	\$ 880,611	\$ 38,248
2018	737,987	24,141
2019	389,881	11,630
2020	135,861	4,589
2021	75,061	2,421
2022	76,262	1,220
Total	\$ 2,295,663	\$ 82,249

A summary of Business-type debt service obligations is as follows:

Year Ending June 30	Principal	Interest
2017	\$ 117,982	\$ 6,612
2018	118,189	4,282
2019	86,667	1,950
2020	-	-
2021	-	-
Total	\$ 322,838	\$ 12,844

At June 30, 2016, the Town had a legal debt margin of \$185,533,312.

8. Operating Leases

The Town entered into a lease on June 6, 2013 for one copier for a period of 60 months in the amount of \$242 per month plus monthly copy charges based on actual usage.

Total minimum lease payments for the remaining term of the contract at June 30, 2016, are as follows:

2017	\$2,904
2018	<u>\$2,662</u>
Total	<u>\$5,566</u>

During the year ended June 30, 2016, the total amount expended by the Town under the above operating lease was \$4,190, including both minimum monthly rentals and overage per copy charges.

The Town leased clinic space to Outer Banks Community Care Clinic. The amount earned as of June 30, 2016 was \$6,300.

The Town leases space on the cell tower at Town Hall. Under a construction services and structure license agreement with AT&T dated February 6, 2008, AT&T agreed to construct a cell tower at their cost to be transferred to the Town of Nags Head upon completion in exchange for reduced monthly rentals for leased space on the tower for the length of time needed to abate the full cost of construction. The costs to construct the tower, to which the Town took ownership in the year ended June 30, 2009, were \$279,577. The amount earned for the year ended June 30, 2016 was \$7,534, with rent abatement in the amount of \$23,274. The total amount of rental abatement to date is \$177,884 and the current lease goes through February 2018. Additional space was rented on this cell tower to Verizon in the amount of \$ 40,234 and Sprint in the amount of \$ 8,796.

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

The Town also leased space on the water tower in South Nags Head to AT&T in the amount of \$31,393 for the year ended June 30, 2016.

During the year ending June 30, 2012 the Town entered into a lease agreement with Tar River LTC Group for Colony Ridge nursing home (formerly Britthaven) effective October 1, 2011, for a period of ten years which may be extended for two additional periods of fifteen years each subject to legislative authority to do so. Under the terms of the lease, the lessee agrees to pay rent in the amount of \$10 per month in exchange for operating the facility and to make \$1.5 million dollars of capital improvements to the property. On July 30, 2015, Peak Resources assumed the lease from Tar River. On October 7, 2015, the Nags Head Board approved Peak's plans for capital improvements which met the terms of the lease. The terms remain the same with an expiration date of Sept. 30, 2021 and the ability to extend for two additional periods of fifteen years each, subject to the legislative authority to do so.

9. Water Impact Fees

The Town entered into a letter of understanding with the Ammons-Dare Corporation (its successors and assigns) for the provision of water to the Village of Nags Head Development. The Town guarantees 1,000 water consumption units (WCU) will be available for the development. Ammons-Dare Corporation has agreed to pay an impact fee of \$2,000 per WCU in advance in the form of an irrevocable letter of credit in the amount of \$2,000,000. As of June 30, 2016, draws in the amount of \$2,000,000 have been made by the Town on this letter of credit, and Ammons-Dare Corporation has utilized 718 WCU's which are guaranteed by the Town and are valued at \$1,436,000.

The Town has reimbursed Ammons-Dare Corporation for the following unused WCU's :

Fiscal Year	Number of WCU's	Amount
June 30, 1992	100	\$ 200,000
June 30, 1993	50	100,000
June 30, 1995	15	30,000
June 30, 1996	31	62,000
June 30, 2014	21	42,000

The remaining 65 WCU's in the amount of \$130,000 represent the balance due under the letter of understanding and are included in the Water Fund balance sheet as unearned revenue. Should any of the remaining WCU's be unused, the Town agrees to reimburse Ammons-Dare Corporation, its successors and assigns, at any time after September 4, 1991.

C. Interfund Balances and Activity

The Capital Reserve Fund is consolidated into the General Fund for financial statement purposes and does not reflect a liability in the General Fund of \$85,029 and a corresponding receivable in the Capital Reserve Fund. The original advance amount of \$438,481 represents reimbursement of funds collected in the Capital Reserve Fund originally intended to offset the cost of the municipal complex. Instead, these funds were used to pay off the higher interest rate Fire Station debt. This amount is to be paid back from the General Fund to the Capital Reserve Fund with fire facility fee revenues. The amounts and timing of the repayments will be determined by availability of collected fees and decided by the Board of Commissioners. During the current year, no repayment was made.

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

Transfers to/from other funds for the year ended June 30, 2016 consisted of the following:

Transfers from general fund to capital reserve fund for the following purposes:

Excess beach nourishment taxes designated for future beach nourishment	\$ 771,075
Restricted sales tax designated for future beach nourishment	564,794
Facility fees (including interest)	31,078
Penny of tax rate designated for parks and paths	231,563
	\$ 1,598,510

Transfers from capital reserve fund to beach nourishment fund	\$ 139,373
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Transfers from capital reserve fund to general fund for the following purposes:

Parks and paths	\$ 200,229
Recreation facility fees	50,456
Police facility fees	7,675
	\$ 258,360

D. Net Investment in Capital Assets

	Governmental	Business-type
Capital assets	\$ 29,758,606	\$ 7,474,678
Less: long term debt	(2,295,663)	(322,838)
Add: unexpended debt proceeds	245,425	-
	\$ 27,708,368	\$ 7,151,840

E. 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	\$ 15,043,123
Less:	
Nonspendable	(78,175)
Stabilization by State Statute	(3,288,296)
Restricted for Environmental Protection	(245,425)
Restricted for Public Safety	(14,193)
Restricted for capital reserve fund	(5,680,950)
Committed for health insurance	(80,000)
Committed for LEO separation	(183,271)
Assigned for 2016-2017 budget	(74,169)
Fund Balance Policy	(\$ 5,398,644)
Fund Balance Remaining	\$ -

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

The Town of Nags Head has adopted a minimum fund balance policy for the general fund which instructs management to strive to maintain an unassigned general fund balance of 50% of expenditures less bond debt, but not less than \$ 5 million as per audited financial statements at the end of each fiscal year. The \$ 5,398,644 reported above is less than the 50% of expenditures calculation of \$ 8,446,020, but more than the \$ 5,000,000 minimum required.

At June 30, 2016, the following amounts represent open purchase orders and contracts outstanding at June 30, 2016. These encumbrances outstanding will be re-appropriated in the subsequent year's budget.

General Fund	\$ 1,724,168
Capital Project Fund (beach nourishment)	38,146
Water Fund	158,599
Total	\$ 1,920,913

F. Facility Fees

The Town enacted a Facility Fee ordinance on July 3, 1989. Facility fees are imposed on new development or construction requiring a building permit. These fees will be used to fund capital expenditures associated with increased Police, Fire, Administration, and Solid Waste Collection Services necessitated by new development. A fee for Recreation Facilities was added effective January 1, 2000. Interest earned on facility fee monies shall be used solely for those purposes.

Facility fees are to be spent for capital expenditures within ten years of collection of the fees. In the event that the funds are unexpended, the Town is obligated to refund the fees to the eligible property owner after the ten-year period expires.

At June 30, 2016, the facility fees were transferred to the Capital Reserve Fund where they will remain until funds are needed for appropriate capital expenditures.

The following schedule summarizes facility fees collected and used during the current year:

	Admin.	Fire	Police	Sanitation	Recreation	Total
Beginning of year balance	\$ 45,685	\$ 17,841	\$ 93,136	\$ 9,478	\$ 58,108	\$ 224,248
Current year additions (including interest)	12,854	3,848	3,943	2,085	8,348	31,078
Current year expenses	-	-	(7,675)	-	(50,456)	(58,131)
End of year balance	\$ 58,539	\$ 21,689	\$ 89,404	\$ 11,563	\$ 16,000	\$ 197,195

G. Beach Nourishment

The Town originally adopted a capital project ordinance on November 2, 2005, which has been amended several times resulting in a current total estimated project cost of \$ 35 million. The total project cost was financed with \$ 18 million in special obligation bonds secured by the Town's occupancy tax and \$ 18 million from Dare County pursuant to an inter-local agreement. During the year ended June 30, 2014, \$ 1 million in project savings was transferred to the General Fund to be used for debt principal repayment during that fiscal year.

**Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016**

During the year ended June 30, 2011, the Town obtained all permits required for the project. The project was bid in early 2011 with construction starting in May 2011. The project was completed during late 2011 except for additional monitoring which is still continuing.

The terms of the special obligation bond debt requires annual repayment of principal in the amount of \$3,600,000 and semi-annual payment of interest for five years with the final payment made in fiscal year June 30, 2016. Repayment of the bond proceeds and interest is provided by both a town wide tax and additional taxes on the properties located in the municipal service districts. The Town also received funding through an inter-local agreement with Dare County providing an additional \$2,000,000 annually for five years to be used towards the repayment of debt.

Funds received from the town wide tax and municipal service district tax in excess of the amount needed for debt costs in the amount of \$ 771,075 were transferred from the General Fund to the Capital Reserve Fund and are restricted for future beach nourishment. Additionally, sales tax revenues derived from the municipal service district levy during the year totaling \$ 564,794 were transferred to the Capital Reserve Fund to be used in the future for beach nourishment. The amount in the capital reserve fund restricted for future beach nourishment at June 30, 2016 total \$ 5,257,816 as shown below:

	Beach nourishment taxes (MSD and town-wide) received in excess of debt repayment	Restricted sales taxes from municipal service district tax	Total
Beginning of year balance	\$ 2,435,748	\$ 1,625,572	\$ 4,061,320
Current year additions	771,075	564,794	1,335,869
Current year uses	(139,373)	-	(139,373)
End of year balance	<u>\$ 3,067,450</u>	<u>\$ 2,190,366</u>	<u>\$ 5,257,816</u>

Excess funds will be used towards beach re-nourishment with engineering to begin in fiscal year 2017.

H. Tax Funds Designated for Parks and Paths

Beginning in the June 30, 2014 fiscal year the Town designated one penny of its tax rate for parks and paths. Any amounts not spent during the fiscal year are transferred to the capital reserve fund for use in a subsequent year. During the current fiscal year ending June 30, 2016, \$ 231,563 was the amount designated for parks and paths and the balance at June 30, 2016 included in the capital reserve fund for this purpose is:

	Parks and Paths
Beginning of year balance	\$ 65,810
Current year additions	231,563
Current year uses	(200,228)
End of year balance	<u>\$ 97,145</u>

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

I. Volunteer Incentive Pay Agreement

The Board of Commissioners maintains an agreement for volunteer firefighter pay that calls for incentive pay based on an individual members qualifications, training, and call response. The method of calculation of incentive pay was amended administratively by the Board of Commissioners during the fiscal year ending June 30, 2006 as was the twelve month period for calculation to coincide with the Town's fiscal year from July through June. Beginning in FY 08-09 incentive pay was changed from annual payments to monthly. The amount expended under this agreement for the full year ending June 30, 2016 was \$3,640 plus an additional \$278 in related FICA.

III. Joint Ventures

The Town and the members of the Town's fire department each appoint two members to the five-member local board of trustees for the Firefighter's Relief Fund. The State Insurance Commissioner appoints one additional member to the local board of trustees. The Firefighter's Relief Fund is funded by a portion of the fire and lightning insurance premiums that insurers remit to the State. The State passes these moneys to the local board of the Firefighter's Relief Fund. The funds are used to assist fire fighters in various ways. The participating governments do not have any equity interest in the joint venture, so no equity has been reflected in the financial statements at June 30, 2016. The Firefighter's Relief Fund does not issue separate audited financial statements. Instead, the local board of trustees files an annual financial report with the State Firefighter's Association. This report can be obtained from the Association at 323 West Jones Street, Suite 401, Raleigh, North Carolina, 27603.

On April 20, 2007, the Town acquired a 34.783% interest in property jointly owned with the Outer Banks Visitors Bureau acquiring the remaining 65.217% interest. The total cost for the Town's share was \$1,623,174. The Town's share of the amount donated by the seller was an additional \$626,094. The funding for this purchase came from the Town's Water Fund. Transfer and payment for the purchase by the General Fund began in the year ending June 30, 2013, in the amount of \$300,000, and will continue each year as determined by the Board of Commissioners until the Water Fund has been fully reimbursed and the property fully transferred to the Towns General Fund. The General Fund purchased an additional \$300,000 in the June 30, 2014 fiscal year for a total transferred of \$600,000 as of June 30, 2016. On November 14, 2008, the Town acquired a 17.949% interest in property owned jointly with the Outer Banks Visitors Bureau acquiring the remaining 82.051% interest. The total cost for the Town's share was \$712,933. The Town's share of the amount donated by the seller was an additional \$251,286.

On April 1, 2015, the parties entered into a memorandum of understanding which designated the site as the Outer Banks Event Site for a period of approximately ten years which began in late 2012. The parties agree that the Dare County Tourism Board shall make all decisions relating to the Site's management and will be responsible for collecting rental proceeds from users of the property and for paying expenses related to the property. The parties agreed that any transfers of their interests in the property can only be made to the other party based on a value determined in accordance with the memorandum of agreement.

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

IV. Summary Disclosure of Significant Contingencies

A. 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 moneys.

B. Municipal Waste Management Agreement

On December 23, 1993, the Town entered into a Municipal Waste Management Agreement with Dare County, a member of the Albemarle Regional Solid Waste Authority, for disposal of solid waste. The contract extends for twenty years.

On December 3, 2008, the Town approved a Municipal Waste Management Agreement with Dare County, a member of the Albemarle Regional Solid Waste Authority, for disposal of solid waste as contracted through Republic Services. The contract extends for 26 years and became effective when signed by all parties to the agreement as of May 1, 2009. Charges are based on the Town's actual tonnage of solid waste; the rate in effect in the 2015-16 year was \$73.15 per ton.

C. Intangible Water Rights

The Town entered into an agreement with Dare County and the Town of Kill Devil Hills to construct a reverse osmosis (R.O.) water desalination plant. Under this agreement, the Town agrees to fund the capital cost of the R.O. project on a pro rata basis as related to the water capacities allocated to each of the three parties. The Town's total original cost was \$3,614,000. Subsequent costs of \$589,619 were incurred for the Town's share of additional projects including well field expansions. The Town has the right to water produced from the R.O. plant. Presently, the Town's share is 1,000,000 gallons per day.

The intangible water rights are being amortized over 40 years. This time period corresponds to the estimated useful life of the R.O. water desalination plant. At June 30, 2016, accumulated amortization totaled \$2,757,052.

On August 21, 1996, the Town approved a revised agreement with Dare County and the Town of Kill Devil Hills which allocates three million five hundred thousand gallons per day of water from the system capacity, inclusive of expansions. Nags Head will bear all costs and expenses associated with expansions requested or required by the Town. This agreement was signed on October 4, 1996.

On February 4, 2009, the Town approved a revised agreement with Dare County and the Town of Kill Devil Hills which deleted the Fresh Pond Plant as one of the mandatory production facilities under the contract agreement. The revised agreement relieves Dare County and the Town of Kill Devil Hills from any funding responsibility for the costs to continue to operate the Fresh Pond Plant and there is no longer any requirement that the regional system purchase water produced by the Fresh Pond Plant. Allocation of water to the Towns of Nags Head and Kill Devil Hills was not affected by the revised agreement.

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

V. Subsequent Events

A North Carolina Supreme Court ruling requires local governmental units to refund certain impact fees collected by units. The Town is continuing its collections of ongoing system development fees subsequent to the fiscal year end audited. The Town has consulted with its legal counsel in which they have indicated that the affects to the Town is unknown at the time of report issuance. Pending interpretation of the current court ruling could indicate a liability to the Town to refund impact fees collected during the last three fiscal years plus interest and other fees incurred. Furthermore, pending subsequent court rulings, a refund period extending up to the prior ten years collected may also occur.

Under North Carolina General Statute 160A-269, the Town of Nags Head's Board of Commissioners approved selling the Town's long term nursing care building to the facility's current operators with conditions that ensure a long term nursing care facility will stay in Dare County. Nags Head's elected officials accepted a bid from Peak Realty Nags Head LLC to purchase the building they currently lease from the Town. The purchase agreement includes a payment to the Town, a requirement that Peak must complete over \$2,600,000 in capital improvements that are required as part of their current building lease, and several conditions that would require Peak to transfer the title back to the Town should Peak change the building's intended use as a long-term skilled nursing facility. The North Carolina Department of Commerce must still authorize and/or approve the Town's transfer of the facility. The date for the transfer of title to take effect has not yet been set. The property currently has a land value of \$15,312 and building book value of \$2,577,371.

Damage in certain areas of the State of North Carolina resulting from Hurricane Matthew beginning on October 4, 2016, and continuing, was of sufficient severity and magnitude to warrant a major disaster declaration by the President. Hurricane Matthew struck North Carolina and caused serious flooding in several towns and counties including areas of the Town of Nags Head. While there has been damage to buildings and other assets, as of the date of this report, it is unknown as to the extent of that damage.

VI. Change in Accounting Principles/Restatement

In accordance with Governmental Accounting Standards Board (GASB) Statement 73, the Town reclassified the Law Enforcement Officers' Special Separation Allowance trust fund to the General Fund. As a result, net position for the governmental activities increased by \$ 192,818.

REQUIRED SUPPLEMENTAL FINANCIAL DATA

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

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Town of Nags Head, North Carolina
Law Enforcement Officers' Special Separation Allowance
Required Supplementary Information
Schedule of Funding Progress

A-1

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Projected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll [(b-a)/c]
12/31/2006	\$ 256,998	\$ 301,636	\$ 44,638	85.20%	\$ 1,058,590	4.22%
12/31/2007	241,424	357,343	115,919	67.56%	1,091,569	10.62%
12/31/2008	245,508	367,986	122,478	66.72%	1,167,081	10.49%
12/31/2009	224,884	370,148	145,264	60.76%	956,725	15.18%
12/31/2010	186,034	463,119	277,085	40.17%	1,037,526	26.71%
12/31/2011	147,106	491,134	344,028	29.95%	1,100,552	31.26%
12/31/2012	208,694	507,378	298,684	41.13%	1,125,261	26.54%
12/31/2013	199,688	509,170	309,482	39.22%	1,124,779	27.51%
12/31/2014	221,065	596,447	375,382	37.06%	1,268,715	29.59%
12/31/2015	204,722	769,077	564,355	26.62%	1,386,134	40.71%

Town of Nags Head, North Carolina
Law Enforcement Officers' Special Separation Allowance
Required Supplementary Information
Schedule of Employer Contributions

Notes to the Required Schedules:

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

Valuation date	December 31, 2015
Actuarial cost method	Projected unit credit
Amortization method	Level dollar closed
Remaining amortization period	15 years
Asset valuation method	Market value

Actuarial assumptions:

Investment rate of return	5.00%
Projected salary increases *	4.25 - 7.85%
* Includes inflation at	3.00%
Cost-of-living adjustments	N/A

Town of Nags Head, North Carolina
Other Postemployment Benefits
Required Supplementary Information
Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Projected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll [(b-a)/c]
12/31/2008	\$ -	\$ 1,737,866	\$ 1,737,866	0.00%	\$ 5,725,487	30.40%
12/31/2011	-	2,362,760	2,362,760	0.00%	5,262,661	44.90%
12/31/2014	-	3,030,826	3,030,826	0.00%	5,987,088	50.60%

**Town of Nags Head, North Carolina
 Other Postemployment Benefits
 Required Supplementary Information
 Schedule of Employer Contributions**

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2014	\$ 257,085	29.85%
2015	272,741	39.39%
2016	296,408	38.61%

Notes to the Required Schedules:

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

Valuation date	December 31, 2014
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay, open
Remaining amortization period	30
Asset valuation method	Market value of assets
Actuarial assumptions:	
Investment rate of return *	4.00%
Medical cost trend rate	7.50 - 5.00%
Year of Ultimate trend rate	2020
* Includes inflation at	3.00%

Town of Nags Head, North Carolina
Town of Nags Head's Proportionate Share of Net Pension Liability (Asset)
Required Supplementary Information
Last Three Fiscal Years *
Local Government Employees' Retirement System

A-5

	2016	2015	2014
Town of Nags Head's proportion of the net pension liability (asset) (%)	0.11405%	0.10721%	0.10930%
Town of Nags Head's proportion of the net pension liability (asset) (\$)	\$ 511,850	\$ (632,268)	\$ 1,317,485
Town of Nags Head's covered-employee payroll	\$ 5,376,833	\$ 5,585,383	\$ 5,159,503
Town of Nags Head's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	9.52%	-11.32%	25.54%
Plan fiduciary net position as a percentage of the total pension liability**	98.09%	102.64%	94.35%

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

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

Town of Nags Head, North Carolina
Town of Nags Head's Contributions
Required Supplementary Information
Last Three Fiscal Years
Local Government Employees' Retirement System

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 396,478	\$ 384,097	\$ 397,372
Contributions in relation to the contractually required contribution	<u>396,478</u>	<u>384,097</u>	<u>397,372</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town of Nags Head's covered-employee payroll	\$ 5,807,371	\$ 5,376,833	\$ 5,585,383
Contributions as a percentage of covered-employee payroll	6.83%	7.14%	7.11%

MAJOR GOVERNMENTAL FUNDS

The **General Fund** is used to account for resources traditionally associated with governments that are not required legally or by sound financial management to be accounted for in another fund.

The **Capital Reserve Fund** is a legally adopted Capital Reserve Fund, which has been consolidated with the General Fund in the basic financial statements, and accounts for the accumulation of funds for recreation, street, and shoreline project uses.

The **Beach Nourishment Capital Project Fund** is used to account for the Town's activities for a beach nourishment project.

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GENERAL FUND

Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual

For the Year Ended June 30, 2016

With Comparative Actual Amounts for the Year Ended June 30, 2015

	2016		Variance Over (Under)	2015
	Budget	Actual		Actual
REVENUES				
Ad Valorem Taxes:				
Current year		\$ 6,182,422		\$ 6,139,249
Municipal service district		1,826,761		1,826,094
Prior year		11,681		3,461
DMV current year		103,067		90,331
DMV prior year		243		1,576
Penalties and interest		14,513		12,821
Total	\$ 8,039,041	8,138,686	\$ 99,645	8,073,532
Other Taxes and Licenses:				
Occupancy tax		2,637,733		2,637,450
Land Transfer tax		658,595		664,756
Local governmental sales tax		1,393,610		1,318,344
1/2% sales tax revenue		1,092,799		1,025,649
Special assessments		22,864		8,457
Special assessment interest		3,552		1,241
Privilege licenses and Business Registrations		18,794		25,544
Mixed beverage tax		37,961		41,059
Privilege license penalties		748		1,227
Total	5,695,838	5,866,657	170,819	5,723,727
Intergovernmental Revenues:				
Unrestricted:				
Utility sales tax		796,156		575,446
Telecommunications tax		46,965		49,337
Natural Gas sales tax		5,869		3,705
Solid Waste Disposal fees		2,320		1,834
Video programming tax		138,628		126,800
Cable Franchise - PEG fund fees		56,142		58,452
Beer and wine		12,827		13,836
ABC revenue		21,214		12,239
Total	813,257	1,080,122	266,865	841,649
Restricted:				
Federal:				
Drug Enforcement Overtime Grant		1,701		5,460
Controlled substance excise tax		5,195		5,510
Correction of over accrual in prior year		-		(7,500)
FEMA reimbursement		450		-
State:				
State Street Aid allocation-Powell Bill		120,333		120,712
NC Department of Commerce		133,266		-
State DPI Grant		41,718		41,718
Governor's Crime Commission		-		5,319

GENERAL FUND

Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual

For the Year Ended June 30, 2016

With Comparative Actual Amounts for the Year Ended June 30, 2015

	2016		Variance Over (Under)	2015
	Budget	Actual		Actual
DOT Grant		-		4,340
DCM Grant		-		14,145
CAMA Reimbursement		4,915		3,325
Controlled substance excise tax		4,508		6,241
DEHNR Grant		30,000		-
Miscellaneous		3,000		2,495
Local:				
Contributions from Dare County		2,024,000		2,024,000
Government Access Channel Grant		9,000		8,792
Outer Banks Visitor Bureau grant		10,000		128,732
Outer Banks Community Foundation		5,000		-
Trillium Grant		10,743		-
Contributions for PEAK		25,000		-
Miscellaneous		-		3,300
Total	3,243,718	2,428,829	(814,889)	2,366,589
Total Intergovernmental Revenues	4,056,975	3,508,950	(548,025)	3,208,238
Permits and Fees:				
Building permits		201,576		221,100
Facility fees		31,078		47,270
Inspection and review fees		13,615		12,538
Beach driving permits		25,279		20,706
CAMA permits		8,600		5,300
Automobile town tags		852		630
Total	298,600	281,000	(17,600)	307,544
Sales and Services:				
Court costs and fees		3,913		3,278
Total	3,000	3,913	913	3,278
Investment Earnings	75,000	78,038	3,038	54,379
Other Revenues:				
Other rents		94,377		129,578
Cable franchise fees		45,532		37,036
Sale of materials		41,628		52,810
Miscellaneous		39,402		50,330
Damage recovery		11,042		37,093
Civil Penalties		1,365		3,000
Cart rollback		31,034		30,670
Contributions to Police, Fire & Rescue Benevolent Fund		17,056		17,085
Total	268,069	281,436	13,367	357,602
Total Revenues	18,436,523	18,158,679	(277,844)	17,728,300

GENERAL FUND

Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual

For the Year Ended June 30, 2016

With Comparative Actual Amounts for the Year Ended June 30, 2015

	2016		Variance Over (Under)	2015
	Budget	Actual		Actual
EXPENDITURES				
General Government:				
Governing Body:				
Fees paid to elected officials		34,114		34,114
FICA expense		2,610		2,610
Contracted services		45,475		42,650
Department supplies and materials		4,559		5,910
Special events		856		1,190
Dues and subscriptions		7,906		6,959
Printing		3,032		2,500
Travel and Training		7,282		8,799
Equipment rental		17		184
Employee incentive		250		250
GAC Grant		-		2,026
Contribution to Nags Head Woods		10,000		10,000
Contribution to Government Access Channel		57,142		59,452
Contributions, miscellaneous		4,550		4,300
Capital Outlay, equipment		-		9,533
Reimbursement from Water Fund		(13,175)		(13,607)
Total	176,862	164,616	(12,246)	176,870
Special Obligation Bonds:				
Debt service, bond principal		3,600,000		3,600,000
Debt service, interest		88,040		176,948
Total	3,689,280	3,688,040	(1,240)	3,776,948
Administration:				
Salaries and wages		501,862		423,550
FICA expense		35,867		30,986
Group insurance		86,917		78,689
Group insurance - retiree		19,938		12,149
Retirement		33,379		29,484
401(k) account		8,916		6,641
Contracted services		41,399		6,993
Travel and Training		24,608		21,166
Advertising		2,894		3,775
Departmental supplies		4,020		10,038
Dues and subscriptions		4,628		2,373
Equipment rental		4,884		4,847
Telephone		5,562		4,348
Postage		1,081		1,067
Automotive Supplies		200		398
Reimbursement from Water Fund		(82,961)		(70,821)
Total	694,691	693,196	(1,495)	565,683

GENERAL FUND

Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual

For the Year Ended June 30, 2016

With Comparative Actual Amounts for the Year Ended June 30, 2015

	2016		Variance Over (Under)	2015
	Budget	Actual		Actual
Administrative Services:				
Salaries and wages		292,679		312,435
FICA expense		20,944		22,747
Group insurance expense		49,338		54,494
Retirement		18,775		21,104
401(k) account		4,549		4,960
Unemployment expense		8,599		18,702
Insurance		339,601		303,944
Contracted services		19,206		4,737
Professional services		33,080		32,953
Fines and forfeitures		4,370		4,426
Departmental supplies and materials		9,359		7,357
Postage		6,954		5,752
Telephone		3,078		2,881
Travel and Training		6,985		8,271
Equipment rental		6,663		4,835
Repairs and maintenance, equipment		125		120
Wellness program		8,216		6,077
Personnel Committee		230		528
Special contracted services		3,761		3,572
Dues and subscriptions		709		900
Purchases for resale		2,600		1,546
Bad Debt Expense		1,875		-
Advertising		396		714
Repairs and maintenance, vehicles		794		1,581
Automotive supplies		585		1,035
Contributions to PEAK		158,266		-
Reimbursement from Water Fund		(66,486)		(70,331)
Debt service, capital lease		7,331		7,331
Debt service, interest		76		152
Total	829,854	942,657	112,803	762,823
Information Technology:				
Salaries and wages		121,586		120,149
FICA expense		9,293		9,194
Group insurance		15,328		13,932
Retirement		8,189		8,477
401(k) account		1,572		1,690
Contracted services		3,300		4,351
Contracted services, GIS		1,356		1,462
Contracted services, website		1,370		1,440
Contracted services, annual contracts		15,749		20,893
Travel and Training		1,268		5,027
Professional services		-		72
Departmental supplies		606		3,351
Telephone		6,349		6,306
Postage		95		132

GENERAL FUND

Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual

For the Year Ended June 30, 2016

With Comparative Actual Amounts for the Year Ended June 30, 2015

	2016		Variance Over (Under)	2015
	Budget	Actual		Actual
Advertising		-		94
Repairs and maintenance, equipment		10,275		8,851
Other supplies		30,886		20,462
Internet costs		7,620		9,052
Equipment rental		10,429		11,131
Dues and subscriptions		150		150
Capital outlay, other		-		22,750
Capital outlay, equipment		-		20,602
Reimbursement from Water Fund		(32,207)		(31,116)
Debt service, capital lease		-		18,867
Debt service, interest		-		382
Total	234,029	213,213	(20,816)	277,701
Planning and Development:				
Salaries and wages		496,071		422,580
FICA expense		36,341		31,266
Group insurance		90,069		68,410
Group insurance - retiree		942		-
Retirement		33,035		29,625
401(k) account		9,000		6,762
Planning board, board of adjustment		7,940		8,290
Uniforms		-		501
Professional services		2,266		4,563
Departmental supplies		5,977		18,002
Travel		5,718		2,780
Advertising		749		1,013
Telephone		5,165		5,426
Postage		1,883		446
Repairs and maintenance, vehicles		2,106		1,481
Printing		3,207		668
Contracted services		30,102		17,701
Other supplies		1,191		1,518
Automotive supplies		2,134		2,692
Equipment rental		3,668		1,619
Dues and subscriptions		2,606		1,191
Capital outlay, other		26,751		69,848
Debt service		8,101		-
Reimbursement from Water Fund		(79,871)		(96,979)
Total	786,956	695,152	(91,804)	599,403
Legal Services:				
Professional services		91,591		194,027
Legal settlement		-		1,702,182
Reimbursement from Water Fund		(25,755)		(24,888)
Total	74,245	65,836	(8,410)	1,871,321
Total General Government	6,485,917	6,462,710	(23,208)	8,030,749

GENERAL FUND

Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual

For the Year Ended June 30, 2016

With Comparative Actual Amounts for the Year Ended June 30, 2015

	2016		Variance Over (Under)	2015
	Budget	Actual		Actual
Public Safety:				
Police Department:				
Salaries and wages		1,346,857		1,322,771
FICA expense		97,971		96,045
Group insurance		289,204		293,668
Group insurance - retiree		32,256		24,297
Retirement		95,750		97,322
401(k) account		64,089		62,936
Separation Allowance		55,940		75,000
Automotive supplies		44,709		64,395
Departmental supplies		37,913		47,870
Repairs and maintenance, vehicles		16,285		15,578
Repairs and maintenance, equipment		25,651		27,315
Telephone		19,586		17,052
Other supplies		5,963		4,272
Uniforms		22,234		14,661
Equipment rental		8,708		7,467
Travel and Training		18,973		11,674
Professional services		13,263		11,439
Postage		969		964
Dues and subscriptions		1,309		1,404
Advertising		-		145
Printing		479		164
Contracted services		962		514
Special investigations		-		2,000
Capital outlay, equipment		122,214		198,185
Capital outlay, equipment Governors grant		-		7,092
Debt service, capital lease		149,224		149,201
Debt service, interest		1,772		1,832
Total	2,540,739	2,472,280	(68,459)	2,555,263
Drug Forfeiture:				
Training		1,200		-
Department supplies		11,887		6,311
Telephone		-		452
Capital Outlay		10,888		-
Total	26,997	23,975	(3,022)	6,763
Fire Department:				
Salaries and wages		1,432,618		1,416,651
FICA expense		100,903		101,760
Group insurance		356,046		321,402
Group insurance, retiree		12,260		7,133
Retirement expense		99,253		102,266
401(k) account		25,663		25,705
Incentive pay		3,640		3,435
Departmental supplies		65,496		69,325

GENERAL FUND

Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual

For the Year Ended June 30, 2016

With Comparative Actual Amounts for the Year Ended June 30, 2015

	2016		Variance Over (Under)	2015
	Budget	Actual		Actual
Repairs and maintenance, vehicles		21,820		20,862
Uniforms		17,361		20,212
Repairs and maintenance, equipment		8,830		5,888
Automotive supplies		13,482		20,317
Telephone		8,857		7,673
OSHA Compliance		1,812		3,710
Travel and Training		18,028		14,580
Safety training		4,779		4,946
Other supplies		4,411		3,678
Equipment rental		2,903		2,320
Dues and subscriptions		2,323		2,627
Professional services		15,141		15,234
Advertising		-		36
Postage		408		426
Contracted Services		12,081		11,674
Printing		824		597
Capital outlay, equipment		58,104		61,820
Debt service, capital lease		193,515		186,567
Debt service, interest		23,216		27,787
Total	2,536,530	2,503,771	(32,759)	2,458,631
Ocean Rescue:				
Salaries and wages		437,377		441,314
FICA expense		29,584		28,383
Group insurance		8,745		11,296
Retirement expense		2,747		3,637
401(k) account		815		1,038
Departmental supplies		15,162		33,707
Uniforms		13,213		12,936
Automotive supplies		9,806		10,799
Repairs and maintenance, equipment		4,106		3,463
Travel and Training		6,688		6,655
Repairs and maintenance, vehicles		2,464		1,735
Professional fees		4,444		4,912
Contracted Services		18		-
Telephone		714		973
Printing		224		1,074
Dues and subscriptions		1,270		1,630
Postage		26		54
Capital outlay, equipment		59,657		-
Debt service, capital lease		11,632		27,930
Debt service, interest		-		485
Total	650,620	608,691	(41,929)	592,021
Total Public Safety	5,754,886	5,608,718	(146,168)	5,612,678

GENERAL FUND

Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual

For the Year Ended June 30, 2016

With Comparative Actual Amounts for the Year Ended June 30, 2015

	2016		Variance Over (Under)	2015
	Budget	Actual		Actual
Environmental Protection:				
Sanitation:				
Salaries and wages		363,693		353,052
FICA expense		25,882		24,993
Group insurance		92,942		91,366
Group insurance - retiree		8,916		12,149
Retirement		22,849		23,149
401(k) account		2,249		1,789
Repairs and maintenance, vehicles		100,951		130,837
Automotive supplies		63,192		99,982
Department supplies		19,510		14,721
Uniforms		3,928		5,347
Contracted services		15,090		14,840
Recycling		74,625		39,419
Recycling Carts		194,310		-
Purchases for resale		13,932		-
Repairs and maintenance, equipment		694		1,242
Telephone		2,695		2,817
Advertising		1,121		107
Capital outlay, equipment		493,086		287,512
Debt service, capital lease		363,798		231,670
Debt service, interest		7,107		3,945
Total	2,185,671	1,870,571	(315,100)	1,338,937
Solid Waste:				
Tipping fees		631,228		647,367
Total	655,000	631,228	(23,772)	647,367
Total Environmental Protection	2,840,671	2,501,799	(338,872)	1,986,304
Public Works:				
Administration:				
Salaries and wages		290,536		286,884
FICA expense		20,926		20,797
Group insurance		52,843		59,329
Group insurance - retiree		1,115		12,143
Retirement		19,525		20,294
401(k) account		5,288		5,218
Contracted services		5,031		5,432
Purchase for resale		38,228		51,222
Telephone		3,291		2,921
Departmental supplies		5,228		11,742
Advertising		393		358
Equipment rental		1,282		202
Automotive supplies		2,690		3,801
Travel and Training		1,836		250

GENERAL FUND

Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual

For the Year Ended June 30, 2016

With Comparative Actual Amounts for the Year Ended June 30, 2015

	2016		Variance Over (Under)	2015
	Budget	Actual		Actual
Dues and subscriptions		1,709		948
Postage		287		156
Repairs and maintenance, vehicles		925		584
Repairs and maintenance, equipment		76		-
Uniforms		215		887
Professional fees		764		803
Reimbursement from Water Fund		(55,280)		(55,141)
Total	446,441	396,907	(49,534)	428,830
Public Facilities Maintenance:				
Salaries and wages		414,294		379,877
FICA expense		30,601		28,081
Group insurance		102,747		88,976
Group insurance, retiree		12,260		3,115
Retirement		27,341		26,123
401(k) account		7,255		6,553
Repairs and maintenance, facilities		63,371		78,301
Utilities		183,668		168,773
Contracted services		102,689		100,299
Department supplies		23,136		21,426
Repairs and maintenance, equipment		36,174		28,508
Signs		6,618		12,581
Automotive supplies		16,002		21,470
Repairs and maintenance, other		38,550		7,287
Other supplies		15,476		18,974
Professional services		10,387		270
Uniforms		3,986		3,521
Repairs and maintenance, vehicles		8,533		8,797
Travel and Training		683		1,171
Telephone		2,753		1,915
Special Projects, sandfencing		24,000		24,080
Street supplies, Powell Bill		12,603		15,836
Dues and subscriptions		50		50
Reimbursement from Water Fund		(152,731)		(114,233)
Capital outlay, multi use path grant		3,115		265,080
Capital outlay, Dowdy Park grant		97,801		-
Capital outlay, whalebone park		-		19,500
Capital outlay, other		43,100		11,089
Capital outlay, equipment		57,565		69,509
Capital outlay, other Powell Bill		152,356		183,829
Capital outlay, land		52,949		13,358
Capital outlay, building		7,675		-
Debt service, capital lease		248,363		233,149
Debt service, interest		11,421		14,817
Total	3,204,887	1,664,790	(1,540,097)	1,742,082

GENERAL FUND

Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual

For the Year Ended June 30, 2016

With Comparative Actual Amounts for the Year Ended June 30, 2015

	2016		Variance Over (Under)	2015
	Budget	Actual		Actual
Maintenance Garage:				
Salaries and wages		183,861		171,695
FICA account		13,252		12,405
Group insurance		47,663		42,305
Group insurance, retiree		2,229		12,149
Retirement		12,378		12,111
401(k) account		2,633		1,983
Other supplies		10,122		9,728
Departmental supplies		13,658		14,137
Uniforms		1,503		1,373
Contracted services		1,741		1,396
Professional services		120		50
Automotive supplies		653		939
Repairs and maintenance, vehicles		291		775
Travel and Training		339		215
Repairs and maintenance, equipment		822		1,612
Capital outlay, equipment		-		7,918
Reimbursement from Water Fund		(34,152)		(37,884)
Total	275,773	257,114	(18,659)	252,907
Total Public Works	3,927,101	2,318,811	(1,608,290)	2,423,819
Contingency	125,000	-	(125,000)	-
Total Expenditures	19,133,575	16,892,038	(2,241,537)	18,053,550
Revenues Over (Under) Expenditures	(697,052)	1,266,641	1,963,693	(325,250)
Other Financing Sources (Uses):				
Capital lease issued	1,015,777	1,015,819	42	753,132
Transfers from Capital Reserve Fund	435,040	258,360	(176,680)	297,286
Transfers to Capital Reserve Fund	(1,518,660)	(1,598,510)	(79,850)	(1,494,450)
Sale of capital assets	20,000	50,140	30,140	10,849
Appropriated Fund Balance	744,895	-	(744,895)	-
Other financing sources (uses), net	697,052	(274,191)	(971,243)	(433,183)
Net change in fund balance	\$ -	992,450	\$ 992,450	(758,433)
FUND BALANCE, beginning		8,091,876		8,850,309
RESTATEMENT		192,818		-
FUND BALANCE, ending		\$ 9,277,144		\$ 8,091,876

Town of Nags Head, North Carolina
 Capital Reserve Fund

Schedule 2

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
 For the Fiscal Year Ended June 30, 2016
 With Comparative Actual Amounts for the Year Ended June 30, 2015

	2016			2015
	Budget	Actual	Variance Over (Under)	Actual
Revenues:				
Investment earnings	\$ -	\$ 33,833	33,833	\$ 18,207
Total revenues	-	33,833	33,833	18,207
Other financing sources (uses):				
Transfer from General Fund	1,518,660	1,598,510	79,850	1,494,450
Transfers to :				
Beach Nourishment Capital Project Fund	(500,000)	(139,373)	360,627	-
General Fund	(435,040)	(258,360)	176,680	(297,286)
Appropriated Fund Balance	(583,620)	-	583,620	-
Total other financing sources	-	1,200,777	1,200,777	1,197,164
Net change in fund balance	\$ -	1,234,610	\$ 1,234,610	1,215,371
Fund balances, beginning of year		4,531,369		3,315,998
Fund balances, end of year		\$ 5,765,979		\$ 4,531,369

Town of Nags Head, North Carolina
Beach Nourishment Capital Project Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
From Inception and for the Fiscal Year Ended June 30, 2016

Schedule 3

	Project Authorization	Prior Years	Actual Current Year	Total to Date	Variance Over (Under)
Revenues					
Investment Earnings	\$ -	\$ 44,650	\$ 1,509	\$ 46,159	\$ 46,159
Restricted intergovernmental Donations	18,000,000	18,000,000	-	18,000,000	-
	-	2,929	-	2,929	2,929
Total revenues	18,000,000	18,047,579	1,509	18,049,088	49,088
Expenditures					
Professional Fees	805,713	480,450	328,029	808,479	2,766
Capital Construction Oversight	1,762,125	1,762,122	-	1,762,122	(3)
Pumping Costs	25,528,000	25,530,000	-	25,530,000	2,000
Mobilization	4,656,000	4,654,000	-	4,654,000	(2,000)
Contingency	312,290	-	-	-	(312,290)
Monitoring	839,710	718,533	85,000	803,533	(36,177)
Other Costs	1,596,162	1,589,404	2,777	1,592,181	(3,981)
					-
Total Expenditures	35,500,000	34,734,509	415,806	35,150,315	(349,685)
Revenues over (under) expenditures	(17,500,000)	(16,686,930)	(414,297)	(17,101,227)	398,773
Other financing sources (uses):					
Bonds issued	18,000,000	18,000,000	-	18,000,000	-
Transfers to other funds	(2,027,251)	(2,027,251)	-	(2,027,251)	-
Transfers from other funds	1,527,251	1,027,251	139,373	1,166,624	(360,627)
Total other financing sources (uses)	17,500,000	17,000,000	139,373	17,139,373	(360,627)
Net change in fund balance	\$ -	\$ 313,070	(274,924)	\$ 38,146	\$ 38,146
Fund balance, beginning of year			313,070		
Fund balance, end of year			\$ 38,146		

ENTERPRISE FUNDS

Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises – where the intent of the government's council is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the government's council has decided that periodic determination of net income is appropriate for accountability purposes.

Water Fund. This fund is used to account for activities of the Water Department.

Storm Water Fund. This fund is used to account for the activities of the Storm Water Department.

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Water Fund

Schedule of Revenues and Expenditures-Budget and Actual (Non GAAP)

For the Fiscal Year Ended June 30, 2016

With Comparative Actual Amounts for the Year Ended June 30, 2015

	2016		Variance Over (Under)	2015
	Budget	Actual		Actual
REVENUES				
Operating Revenues:				
Water sales	\$ -	\$ 2,675,279	\$ -	\$ 2,608,587
Tap and connection fees		10,583		15,255
Late payment penalties and interest		28,859		31,650
Water cutoff tag fees		6,200		7,100
Miscellaneous		2,122		4,388
Total	2,778,768	2,723,043	(55,725)	2,666,980
Non-Operating Revenues:				
Interest earned on investments		31,145		21,325
Special Assessment		-		14,823
Total	23,500	31,145	7,645	36,148
Total Revenues	2,802,268	2,754,188	(48,080)	2,703,128
EXPENDITURES				
Administration:				
Salaries and wages		60,725		60,223
FICA expense		4,228		4,018
Group insurance		19,281		16,950
Retirement expense		4,094		3,977
401(k) account		341		140
Reimburse General Fund administrative expenses		26,130		29,280
Contracted services		4,619		4,618
Postage		10,399		10,047
Travel and Training		416		335
Supplies and materials		5,265		4,849
Repairs and maintenance, equipment		797		797
Bad debt		-		-
Total Administration	147,797	136,295	(11,502)	135,234
Septic Health:				
Salaries and wages		28,727		55,450
FICA expense		1,984		3,781
Group insurance		9,580		16,527
Retirement		1,931		3,811
401(k) account		573		1,078
Reimburse General Fund administrative expenses		30,338		36,380
Inspection rebates		7,500		8,213
Pumping credits		1,710		1,320
Postage		1,057		1,899

Water Fund

Schedule of Revenues and Expenditures-Budget and Actual (Non GAAP)

For the Fiscal Year Ended June 30, 2016

With Comparative Actual Amounts for the Year Ended June 30, 2015

	2016		Variance Over (Under)	2015
	Budget	Actual		Actual
Travel and Training		30		592
Water quality testing		46,939		50,734
Telephone		405		597
Printing		999		1,500
Automotive supplies		764		899
Repairs and maintenance, vehicles		403		41
Departmental supplies		820		1,016
Total Septic Health	141,488	133,759	(7,729)	183,838
Operations:				
Salaries and wages		196,628		184,125
FICA expense		13,958		13,817
Group insurance		48,677		48,871
Retirement		13,239		13,568
401(k) account		1,890		2,035
Purchases for resale		753,552		858,977
Reimburse General Fund administrative expenses		343,336		337,097
Insurance		49,010		49,762
Utilities		46,309		45,462
Contracted services		6,597		7,205
Departmental supplies		29,668		27,096
Professional fees		3,214		3,209
Other supplies		3,107		11,578
Repairs and maintenance, equipment		21,809		38,274
Repairs and maintenance, buildings		300		1,372
Postage		1,459		1,525
Telephone		3,652		3,970
Uniforms		1,563		1,913
Dues and subscriptions		2,460		2,092
Equipment rental		826		669
Printing		2,687		2,708
Automotive supplies		4,313		5,805
Travel and Training		2,410		1,729
Advertising				66
Repairs and maintenance, vehicles		1,134		435
Total Operations	1,897,159	1,551,798	(345,361)	1,663,360
Operations Distribution:				
Salaries and wages		155,895		150,633
FICA expense		11,106		10,652
Group insurance		42,439		40,256
Group insurance, retiree		24,520		24,297
Retirement		10,487		10,392

Water Fund

Schedule of Revenues and Expenditures-Budget and Actual (Non GAAP)

For the Fiscal Year Ended June 30, 2016

With Comparative Actual Amounts for the Year Ended June 30, 2015

	2016		Variance Over (Under)	2015
	Budget	Actual		Actual
401(k) account		3,109		2,892
Reimburse General Fund administrative expenses		142,814		112,243
Contracted services		5,355		4,766
Other supplies		14,142		17,893
Repairs and maintenance, other		15,913		33,274
Insurance		7,261		6,111
Automobile supplies		5,551		7,865
Departmental supplies		15,308		13,997
Postage		15		7
Professional fees		-		245
Uniforms		1,991		2,954
Repairs and maintenance, vehicles		2,093		1,732
Telephone		2,752		1,910
Dues and subscriptions		1,167		1,489
Advertising		1,688		-
Repairs and maintenance, equipment		3,882		5,144
Travel and Training		3,035		3,231
Total Operations Distribution	522,675	470,522	(52,153)	451,983
Contingency	50,000	-	(50,000)	-
Capital Outlay:				
Machinery and equipment	68,092	84,689		59,695
Buildings	-	94,695		-
Other	310,000	172,652		258,776
Total Capital Outlay	378,092	352,036	(26,056)	318,471
TOTAL EXPENDITURES	3,137,211	2,644,410	(492,801)	2,752,886
REVENUES OVER (UNDER) EXPENDITURES	(334,943)	109,778	444,721	(49,758)
Other Sources and (Uses):				
Appropriated Retained Earnings	447,315	-		-
Capital lease issued	51,412	51,412		-
Debt interest	(13,961)	(13,866)		(17,282)
Debt principal	(140,823)	(140,274)		(119,767)
Septic Health Loans provided to customers	(26,600)	(25,540)		(24,190)
Principal repayments Septic Health Loans	17,600	19,699		14,324
Total Other Sources and (Uses)	334,943	(108,570)	(443,513)	(146,915)

Water Fund

Schedule of Revenues and Expenditures-Budget and Actual (Non GAAP)

For the Fiscal Year Ended June 30, 2016

With Comparative Actual Amounts for the Year Ended June 30, 2015

	2016		Variance Over (Under)	2015
	Budget	Actual		Actual
Revenues and Other Sources Over (under)				
Expenditures and Other Uses	\$ -	\$ 1,209	\$ 1,209	\$ (196,673)

RECONCILIATION OF MODIFIED ACCRUAL TO FULL ACCRUAL BASIS

Revenues over (under) expenditures	\$ 1,209	\$ (196,673)
Reconciling items:		
Septic Health Loans	25,540	24,191
Principal repayments Septic Health Loans	(19,699)	(14,324)
Payment of debt principal	140,274	119,767
(Increase) in accrued interest payable	(1,053)	-
(Increase) in accrued vacation payable	(12,218)	(8,366)
(Increase) in accrued OPEB liability	(768)	(2,816)
(Decrease) in net pension asset	(51,467)	-
(Decrease) in deferred outflows of resources-pensions	(3,551)	-
(Increase) in net pension liability	(35,778)	-
Decrease in deferred inflows of resources-pensions	107,722	-
Deferred outflows of resources for contributions made to pension plan in current fiscal year	-	31,265
Pension expense	-	(2,394)
Capital lease issued	(51,412)	-
Capital contributions	102,500	162,500
Capital outlay	352,036	318,471
Depreciation and amortization	(312,758)	(287,647)
Change in net position	\$ 240,577	\$ 143,974

Town of Nags Head, North Carolina
Storm Water Fund
Schedule of Revenues and Expenditures-Budget and Actual (Non-GAAP)
For the Fiscal Year Ended June 30, 2016
With Comparative Actual Amounts for the Year Ended June 30, 2015

Schedule 5

	2016		Variance Over (Under)	2015
	Budget	Actual		Actual
REVENUES				
Operating Revenues:				
Storm Water Fees	\$ 232,000	\$ 233,540	\$ 1,540	\$ 116,184
Total	232,000	233,540	1,540	116,184
Nonoperating Revenues:				
Interest earned on investments	1,000	432	(568)	484
Total	1,000	432	(568)	484
Total Revenues	233,000	233,972	972	116,668
EXPENDITURES				
Utilities		1,086		1,355
Automotive Supplies		743		2,698
Water quality testing		360		960
Department Supplies		431		760
Repairs and maintenance, equipment		9,068		2,606
Professional Fees		2,700		
Capital outlay other/Contracted Services		218,159		153,377
Total Expenditures	268,960	232,547	(36,413)	161,756
Revenues Over (Under) Expenditures	(35,960)	1,426	37,386	(45,088)
Other Financing Sources (Uses)				
Appropriated retained earnings	35,960	-	(35,960)	-
Total Other Financing Sources (Uses)	35,960	-	(35,960)	-
Revenues and other financing sources over (under) expenditures and other uses	\$ -	1,426	\$ 1,426	(45,088)
RECONCILIATION OF MODIFIED ACCRUAL BASIS TO FULL ACCRUAL BASIS				
		Actual		Actual
Revenues over (under) expenditures		\$ 1,426		\$ (45,088)
Reconciling items:				
Capital Outlay		218,159		153,377
Depreciation		(88,279)		(61,748)
Change in net position		\$ 131,305		\$ 46,541

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SUPPLEMENTARY SCHEDULES

Schedule of Ad Valorem Taxes Receivable

Analysis of Current Tax Levy

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TOWN OF NAGS HEAD, NORTH CAROLINA
Schedule of Ad Valorem Taxes Receivable
June 30, 2016

Schedule 6

Fiscal Year	Uncollected Balance June 30, 2015	Additions	Collections And Credits	Adjustments	Uncollected Balance June 30, 2016
2015-2016	\$ -	\$ 6,129,062	\$ 6,281,082	\$ 152,900	\$ 880
2015-2016 MSD	-	1,824,967	1,831,167	6,203	2
2014-2015	5,705	-	4,965	-	741
2014-2015 MSD	594	-	594	-	-
2013-2014	2,646	-	1,438	-	1,208
2013-2014 MSD	643	-	606	-	37
2012-2013	3,339	-	1,425	-	1,914
2012-2013 MSD	457	-	456	-	2
2011-2012	2,506	-	1,396	-	1,110
2011-2012 MSD	475	-	456	-	19
2010-2011	1,610	-	455	-	1,155
2009-2010	1,048	-	126	-	922
2008-2009	713	-	7	5	711
2007-2008	964	-	-	-	964
2006-2007	834	-	-	-	834
2005-2006	1,739	-	1,739	-	-
Total	\$ 23,274	\$ 7,954,029	\$ 8,125,912	\$ 159,108	10,499

Less allowance for uncollectible
ad valorem taxes receivable

10,000

Ad Valorem Taxes Receivable, net

\$ 499

Reconciliation with revenues:

Taxes, ad valorem , General Fund	\$ 8,138,686
Amounts written off for tax year 2004-05	215
DMV written off	1,524
Amounts written off <\$1	-
Less penalties and interest	(14,513)
	<u>\$ 8,125,912</u>

Town of Nags Head, North Carolina
 Analysis of Current Tax Levy
 For the Fiscal Year Ended June 30, 2016

Schedule 7

	Town - Wide		Total Levy		
			Property Excluding Registered Motor Vehicles	Registered Motor Vehicles	Registered Motor Vehicles
	Property Valuation	Rate	Total Levy		
Original levy:					
Property taxed at current year's rate	\$ 2,331,490,918	\$ 0.2670	\$ 6,224,673	\$ 6,126,019	\$ 98,654
Registered Motor Vehicles taxed at prior year rates	2,350	0.2570	6	-	6
Penalties	-		2,943	2,943	-
Total	<u>2,331,493,268</u>		<u>6,227,622</u>	<u>6,128,962</u>	<u>98,660</u>
Discoveries:					
Current year discovery	21,168,004	0.2670	56,519	56,519	-
Penalties	-		55	55	-
Total	<u>21,168,004</u>		<u>56,574</u>	<u>56,574</u>	<u>-</u>
Releases:					
Current year releases	(763,610)	0.2670	(2,039)	(2,039)	-
Penalty Releases	-		-	(195)	-
Total property valuation	<u>\$ 2,351,897,661</u>		<u>(2,039)</u>	<u>(2,234)</u>	<u>-</u>
Net levy			6,281,962	6,183,302	98,660
Uncollected taxes at June 30, 2016			(880)	(880)	-
Current year taxes collected			<u>\$ 6,281,082</u>	<u>\$ 6,182,422</u>	<u>\$ 98,660</u>
Current levy collection percentage			<u>99.99%</u>	<u>99.99%</u>	<u>100.00%</u>

STATISTICAL SECTION

This part of the Town of Nags Head's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Town's overall financial health.

Contents	Page
Financial Trends	90
These tables contain trend information to help the reader understand how the Town's financial performance and well-being have changed over time.	
Revenue Capacity	95
These tables contain information to help the reader assess the Town's most significant local revenue source: property tax.	
Debt Capacity	99
These schedules present information to help the reader assess the affordability of the Town's current levels of outstanding debt and the government's ability to issue additional debt in the future.	
Demographic and Economic Information	102
These tables offer demographic and economic indicators to help the reader understand the environment within which the Town's financial activities take place.	
Operating Information	104
These tables contain service and infrastructure data to help the reader understand how the information in the Town's financial report relates to the services the Town provides and the activities it performs.	

Sources: Unless otherwise noted, the information in these tables is derived from the comprehensive annual financial reports for the relevant year.

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TOWN OF NAGS HEAD, NORTH CAROLINA

NET POSITION BY COMPONENT
LAST TEN FISCAL YEARS

(accrual basis of accounting)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Governmental activities										
Net investment in capital assets	\$ 11,989,318	\$ 12,497,096	\$ 15,440,091	\$ 15,867,188	\$ 16,675,551	\$ 39,461,419	\$ 36,870,772	\$ 33,903,387	\$ 31,135,962	\$ 27,708,368
Restricted	977,795	111,075	149,282	107,450	43,920,188	2,841,491	4,215,704	5,228,502	6,624,621	9,021,585
Unrestricted	8,975,867	10,034,343	9,265,539	8,860,527	(17,756,013)	7,010,760	6,290,213	5,800,045	3,898,698	3,755,364
Total governmental activities net position	<u>\$ 21,942,980</u>	<u>\$ 22,642,514</u>	<u>\$ 24,854,912</u>	<u>\$ 24,835,165</u>	<u>\$ 42,839,726</u>	<u>\$ 49,313,670</u>	<u>\$ 47,376,689</u>	<u>\$ 44,931,934</u>	<u>\$ 41,659,281</u>	<u>\$ 40,485,317</u>
Business-type activities										
Net investment in capital assets	\$ 7,705,341	\$ 7,675,457	\$ 7,238,027	\$ 7,198,997	\$ 6,998,911	\$ 7,290,657	\$ 6,956,945	\$ 6,615,501	\$ 6,893,822	\$ 7,151,840
Unrestricted	4,053,261	4,197,894	3,969,233	3,595,538	3,612,184	3,435,118	3,503,486	3,714,971	3,552,268	3,666,132
Total business-type activities net position	<u>\$ 11,758,602</u>	<u>\$ 11,873,351</u>	<u>\$ 11,207,260</u>	<u>\$ 10,794,535</u>	<u>\$ 10,611,095</u>	<u>\$ 10,725,775</u>	<u>\$ 10,460,431</u>	<u>\$ 10,330,472</u>	<u>\$ 10,446,090</u>	<u>\$ 10,817,972</u>
Primary government										
Net investment in capital assets	\$ 19,694,659	\$ 20,172,553	\$ 22,678,118	\$ 23,066,185	\$ 23,674,462	\$ 46,752,076	\$ 43,827,717	\$ 40,518,888	\$ 38,029,784	\$ 34,860,208
Restricted	977,795	111,075	149,282	107,450	43,920,188	2,841,491	4,215,704	5,228,502	6,624,621	9,021,585
Unrestricted	13,029,128	14,232,237	13,234,772	12,456,065	(14,143,829)	10,445,878	9,793,699	9,515,016	7,450,966	7,421,496
Total primary government activities net position	<u>\$ 33,701,582</u>	<u>\$ 34,515,865</u>	<u>\$ 36,062,172</u>	<u>\$ 35,629,700</u>	<u>\$ 53,450,821</u>	<u>\$ 60,039,445</u>	<u>\$ 57,837,120</u>	<u>\$ 55,262,406</u>	<u>\$ 52,105,371</u>	<u>\$ 51,303,289</u>

TOWN OF NAGS HEAD, NORTH CAROLINA
CHANGES IN NET POSITION,
LAST TEN FISCAL YEARS
 (accrual basis of accounting)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Expenses										
Governmental activities:										
General government	\$ 2,216,074	\$ 2,215,258	\$ 2,367,328	\$ 2,180,840	\$ 2,312,288	\$ 2,522,896	\$ 9,253,686	\$ 9,408,905	\$ 10,812,062	\$ 9,974,716
Public safety	4,310,009	4,445,113	4,502,963	4,275,197	4,414,594	4,779,911	4,894,679	5,251,148	5,274,035	5,402,779
Public Works/Transportation	1,621,662	1,720,014	1,648,013	1,618,287	1,692,863	2,041,283	1,972,369	2,158,516	2,137,237	2,174,552
Environmental protection	1,529,948	1,687,064	1,638,552	1,662,597	1,595,804	1,725,879	1,721,611	1,744,024	1,726,901	1,886,219
Interest on long-term debt	217,671	191,655	135,207	108,592	79,966	520,237	409,005	319,462	226,348	143,298
Total Governmental activities expenses	<u>9,895,364</u>	<u>10,259,104</u>	<u>10,292,063</u>	<u>9,845,513</u>	<u>10,095,515</u>	<u>11,590,206</u>	<u>18,251,350</u>	<u>18,882,055</u>	<u>20,176,583</u>	<u>19,581,564</u>
Business-type activities:										
Water Fund	2,848,477	3,021,944	2,869,842	2,735,581	2,708,563	2,470,495	2,771,846	2,634,525	2,721,655	2,616,111
Storm Water Fund	107,342	31,159	127,786	38,099	48,191	45,573	29,519	41,395	70,127	102,667
Total Business-type activities expenses	<u>2,955,819</u>	<u>3,053,103</u>	<u>2,997,628</u>	<u>2,773,680</u>	<u>2,756,754</u>	<u>2,516,068</u>	<u>2,801,365</u>	<u>2,675,920</u>	<u>2,791,782</u>	<u>2,718,778</u>
Total primary government activities expenses	<u>\$ 12,851,183</u>	<u>\$ 13,312,207</u>	<u>\$ 13,289,691</u>	<u>\$ 12,619,193</u>	<u>\$ 12,852,269</u>	<u>\$ 14,106,274</u>	<u>\$ 21,052,715</u>	<u>\$ 21,557,975</u>	<u>\$ 22,968,365</u>	<u>\$ 22,300,342</u>
Program revenues										
Governmental activities:										
Charges for services										
General government	\$ 575,591	\$ 401,438	\$ 382,541	\$ 269,415	\$ 229,014	\$ 261,452	\$ 380,445	\$ 426,391	\$ 470,792	\$ 407,776
Public safety	64,091	68,065	27,124	4,494	5,123	3,713	3,099	2,018	3,278	3,913
Operating grants and contributions										
General government	19,752	6,760	9,350	12,955	8,020	8,275	6,915	27,570	32,057	185,181
Public safety	18,839	11,582	16,613	37,367	23,660	36,007	34,277	111,572	73,833	70,628
Public Works/Transportation	499	282,817	3,929	154,109	23,176	404,290	43,934	24,000	24,000	24,000
Environmental protection	-	-	-	-	-	-	-	-	-	30,000
Capital grants and contributions										
General Government	-	-	-	-	18,002,904	2,016,879	2,020,000	1,525,325	2,000,000	2,000,000
Public safety	-	8,399	-	-	126,402	-	-	83,843	-	7,000
Public Works/Transportation	218,213	319,747	1,331,002	211,293	117,984	225,246	309,639	209,432	253,784	136,076
Total Governmental activities program revenues	<u>896,985</u>	<u>1,098,808</u>	<u>1,770,559</u>	<u>689,633</u>	<u>18,536,283</u>	<u>2,955,862</u>	<u>2,798,309</u>	<u>2,410,151</u>	<u>2,857,744</u>	<u>2,864,574</u>
Business-type activities										
Charges for services:										
Water Fund	2,630,198	2,622,985	2,392,413	2,076,534	2,366,874	2,406,526	2,319,482	2,308,365	2,662,592	2,720,922
Storm Water Fund	111,720	112,378	112,368	112,612	113,252	113,988	114,572	115,364	116,184	233,540
Operating grants and contributions										
Water Fund	-	-	-	-	-	14,696	-	-	-	-
Storm Water Fund	29,900	-	-	-	-	-	-	-	-	-
Capital grants and contributions:										
Water Fund	210,000	215,000	151,000	90,000	85,000	79,500	91,500	95,500	162,500	102,500
Storm Water Fund	-	-	-	63,509	-	-	-	-	-	-
Total Business-type activities program revenues	<u>2,981,818</u>	<u>2,950,363</u>	<u>2,655,781</u>	<u>2,342,655</u>	<u>2,565,126</u>	<u>2,614,710</u>	<u>2,525,554</u>	<u>2,519,229</u>	<u>2,941,276</u>	<u>3,056,962</u>
Total primary government activities program revenues	<u>\$ 3,878,803</u>	<u>\$ 4,049,171</u>	<u>\$ 4,426,340</u>	<u>\$ 3,032,288</u>	<u>\$ 21,101,409</u>	<u>\$ 5,570,572</u>	<u>\$ 5,323,863</u>	<u>\$ 4,929,380</u>	<u>\$ 5,799,020</u>	<u>\$ 5,921,536</u>

TOWN OF NAGS HEAD, NORTH CAROLINA
CHANGES IN NET POSITION,
LAST TEN FISCAL YEARS
(accrual basis of accounting)

TABLE 2

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Net (Expense)/Revenue										
Governmental activities	\$ (8,998,379)	\$ (9,160,296)	\$ (8,521,504)	\$ (9,155,880)	\$ 8,440,768	\$ (8,634,344)	\$ (15,453,041)	\$ (16,471,904)	\$ (17,318,839)	\$ (16,716,990)
Business-type activities	25,999	(102,740)	(341,847)	(431,025)	(191,628)	98,642	(275,811)	(156,691)	149,494	338,184
Total primary government net expense	\$ <u>(8,972,380)</u>	\$ <u>(9,263,036)</u>	\$ <u>(8,863,351)</u>	\$ <u>(9,586,905)</u>	\$ <u>8,249,140</u>	\$ <u>(8,535,702)</u>	\$ <u>(15,728,852)</u>	\$ <u>(16,628,595)</u>	\$ <u>(17,169,345)</u>	\$ <u>(16,378,806)</u>
General Revenues and Other Changes in Net Position										
Governmental activities:										
Taxes										
Property taxes levied for general purpose	\$ 4,482,309	\$ 4,513,175	\$ 4,535,007	\$ 4,550,332	\$ 4,859,827	\$ 5,493,052	\$ 5,532,574	\$ 6,007,054	\$ 6,245,990	\$ 6,302,099
Municipal service district taxes	-	-	-	-	-	1,784,860	1,800,722	1,793,280	1,826,183	1,823,812
Occupancy tax	1,770,246	1,863,955	1,814,235	1,748,369	1,852,917	1,947,935	2,549,080	2,492,045	2,637,450	2,637,733
Land transfer taxes	652,435	516,826	359,153	382,123	384,657	409,087	525,314	532,837	664,756	658,595
Sales taxes	1,628,612	1,585,496	1,465,108	1,384,626	1,412,178	1,530,336	2,197,553	2,233,617	2,343,993	2,486,409
Other taxes and licenses	40,817	39,043	37,775	37,848	38,163	38,324	59,393	45,939	68,143	60,313
Intergovernmental revenues not restricted	358,843	600,044	620,354	619,175	638,200	642,976	658,137	699,313	841,649	1,080,122
Net unrestricted investment earnings (loss)	599,034	489,672	350,256	193,513	152,000	116,372	35,785	80,246	75,122	113,379
Miscellaneous	233,043	230,619	228,986	220,147	225,851	231,266	157,502	137,618	188,115	187,746
Capital Contributions	210,351	21,000	1,043,451	-	-	2,914,080	-	5,200	-	-
Transfers	(41,766)	-	-	-	-	-	-	-	-	-
Acquisition of cell tower in exchange for reduced rent revenue	-	-	279,577	-	-	-	-	-	-	-
Total Governmental activities	<u>9,933,924</u>	<u>9,859,830</u>	<u>10,733,902</u>	<u>9,136,133</u>	<u>9,563,793</u>	<u>15,108,288</u>	<u>13,516,060</u>	<u>14,027,149</u>	<u>14,891,401</u>	<u>15,350,208</u>
Business-type activities										
Unrestricted investment earnings	236,896	186,930	58,187	11,913	5,298	2,805	7,378	24,968	21,810	31,578
Miscellaneous	5,813	5,209	5,896	6,387	2,890	13,233	3,089	1,764	19,211	2,120
Capital Contributions	666,404	25,350	-	-	-	-	-	-	-	-
Transfers	41,766	-	-	-	-	-	-	-	-	-
Extraordinary items:										
Loss on asset impairment for Fresh Pond	-	-	(388,327)	-	-	-	-	-	-	-
Total Business-type activities	<u>950,879</u>	<u>217,489</u>	<u>(324,244)</u>	<u>18,300</u>	<u>8,188</u>	<u>16,038</u>	<u>10,467</u>	<u>26,732</u>	<u>41,021</u>	<u>33,698</u>
Total primary government	\$ <u>10,884,803</u>	\$ <u>10,077,319</u>	\$ <u>10,409,658</u>	\$ <u>9,154,433</u>	\$ <u>9,571,981</u>	\$ <u>15,124,326</u>	\$ <u>13,526,527</u>	\$ <u>14,053,881</u>	\$ <u>14,932,422</u>	\$ <u>15,383,906</u>
Change in Net Position										
Governmental activities	\$ 935,545	699,534	2,212,398	(19,747)	18,004,561	6,473,944	(1,936,981)	(2,444,755)	(2,427,438)	(1,366,782)
Restatement - Governmental activities	-	-	-	-	-	-	-	-	(845,215)	192,818
Business-type activities	976,878	114,749	(666,091)	(412,725)	(183,440)	114,680	(265,344)	(129,959)	190,515	371,882
Restatement - Business-type activities	-	-	-	-	-	-	-	-	(74,897)	-
Total primary government change in net position	\$ <u>1,912,423</u>	\$ <u>814,283</u>	\$ <u>1,546,307</u>	\$ <u>(432,472)</u>	\$ <u>17,821,121</u>	\$ <u>6,588,624</u>	\$ <u>(2,202,325)</u>	\$ <u>(2,574,714)</u>	\$ <u>(3,157,035)</u>	\$ <u>(802,082)</u>

TOWN OF NAGS HEAD, NORTH CAROLINA
FUND BALANCES - GOVERNMENTAL FUNDS,
LAST TEN FISCAL YEARS
(modified accrual basis of accounting)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
General Fund										
Non-Spendable	\$ -	\$ -	\$ -	\$ -	\$ 100,296	\$ 63,066	\$ 80,712	\$ 73,383	\$ 71,433	\$ 78,175
Restricted	-	-	-	-	2,527,128	2,106,112	3,860,363	5,040,137	6,496,072	9,228,864
Committed	-	-	-	-	-	-	-	-	-	263,271
Assigned	-	-	-	-	725,000	370,939	477,850	399,000	317,500	74,169
Unassigned	-	-	-	-	6,059,788	8,043,077	7,906,928	6,653,787	5,738,240	5,398,644
Reserved	3,086,100	1,239,475	1,392,711	1,316,965	-	-	-	-	-	-
Unreserved	6,859,833	8,266,136	7,606,961	7,687,463	-	-	-	-	-	-
Total General Fund	\$ 9,945,933	\$ 9,505,611	\$ 8,999,672	\$ 9,004,428	\$ 9,412,212	\$ 10,583,194	\$ 12,325,853	\$ 12,166,307	\$ 12,623,245	\$ 15,043,123
All Other Governmental Funds										
Restricted	\$ -	\$ -	\$ -	\$ -	\$ 41,393,060	\$ 735,379	\$ 355,341	\$ 188,365	\$ 301,156	\$ 38,146
Committed	-	-	-	-	280,669	1,272,338	1,376,076	343,663	11,914	-
Assigned	-	-	-	-	-	-	-	-	-	-
Reserved	1,342,583	1,267,127	1,105,778	805,098	-	-	-	-	-	-
Unassigned	-	-	-	-	(13,190,150)	-	-	-	-	-
Unreserved, reported in:										
Capital Reserve Fund	656,350	648,977	572,451	392,668	-	-	-	-	-	-
Capital Projects Funds	(968,445)	(896,272)	(883,421)	(738,213)	-	-	-	-	-	-
Total all other governmental funds	\$ 1,030,488	\$ 1,019,832	\$ 794,808	\$ 459,553	\$ 28,483,579	\$ 2,007,717	\$ 1,731,417	\$ 532,028	\$ 313,070	\$ 38,146

TOWN OF NAGS HEAD, NORTH CAROLINA
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS,
LAST TEN FISCAL YEARS
(modified accrual basis of accounting)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Revenues										
Ad valorem taxes	\$ 4,482,387	\$ 4,512,391	\$ 4,515,775	\$ 4,549,222	\$ 4,857,519	\$ 7,259,885	\$ 7,327,126	\$ 7,804,535	\$ 8,073,532	\$ 8,138,686
Other taxes and licenses	4,129,003	4,043,397	3,711,933	3,582,728	3,722,052	3,964,479	5,365,819	5,360,806	5,723,727	5,866,657
Unrestricted intergovernmental revenues	321,950	561,967	584,692	589,413	604,063	604,179	623,658	642,945	841,649	1,080,122
Restricted intergovernmental revenues	302,429	682,257	1,373,983	408,404	18,291,709	2,682,367	2,406,193	1,971,466	2,366,589	2,428,829
Permits and fees	531,441	360,033	308,871	220,715	184,354	210,166	226,348	258,038	307,544	281,000
Sales and services	6,331	4,519	5,856	4,494	5,123	3,713	3,099	2,018	3,278	3,913
Net investment earnings	599,034	489,672	350,256	193,513	152,000	116,372	35,760	80,246	75,122	113,380
Other revenues	617,827	563,618	558,835	461,167	471,948	1,104,882	320,196	316,247	368,451	281,436
Total revenues	<u>10,990,402</u>	<u>11,217,854</u>	<u>11,410,201</u>	<u>10,009,656</u>	<u>28,288,768</u>	<u>15,946,043</u>	<u>16,308,199</u>	<u>16,436,301</u>	<u>17,759,892</u>	<u>18,194,023</u>
Expenditures										
General government	2,129,079	2,170,217	2,340,661	2,089,958	2,233,993	2,420,367	2,403,961	2,479,757	3,835,487	3,174,972
Public safety	4,041,289	4,050,636	4,167,170	3,910,242	4,019,379	4,252,516	4,462,517	4,749,036	4,951,779	5,229,358
Environmental protection	1,431,457	1,477,002	1,419,724	1,389,622	1,370,704	1,452,230	1,425,084	1,465,995	1,463,177	2,130,894
Public works	1,287,557	1,369,802	1,309,722	1,289,728	1,309,988	1,643,559	1,533,263	1,637,644	1,605,570	2,059,027
Debt service										
Principal	1,247,975	1,149,420	1,073,181	936,526	909,871	5,010,660	4,267,602	4,320,700	4,454,715	4,581,963
Interest	217,671	191,655	135,207	108,592	79,966	520,237	409,005	319,462	226,348	131,632
Capital Outlay	716,445	1,572,526	2,366,980	721,387	8,829,262	26,220,836	1,396,226	3,761,181	1,737,968	-
Total expenditures	<u>11,071,473</u>	<u>11,981,258</u>	<u>12,812,645</u>	<u>10,446,055</u>	<u>18,753,163</u>	<u>41,520,405</u>	<u>15,897,658</u>	<u>18,733,775</u>	<u>18,275,044</u>	<u>17,307,846</u>
Excess (deficiency) of revenues over expenditures	(81,071)	(763,404)	(1,402,444)	(436,399)	9,535,605	(25,574,362)	410,541	(2,297,474)	(515,152)	886,177
Other financing sources										
Capital lease obligations issued	880,529	312,426	671,481	105,900	896,205	269,482	1,055,818	938,539	753,132	1,015,819
Transfers from other funds	273,840	240,165	230,724	402,508	348,607	1,027,251	-	1,000,000	-	139,373
Transfers to other funds	(315,606)	(240,165)	(230,724)	(402,508)	(348,607)	(1,027,251)	-	(1,000,000)	-	(139,373)
Bond Obligations issued	-	-	-	-	18,000,000	-	-	-	-	-
Sale of Capital Assets	-	-	-	-	-	-	-	-	-	50,140
Total other financing sources	<u>838,763</u>	<u>312,426</u>	<u>671,481</u>	<u>105,900</u>	<u>18,896,205</u>	<u>269,482</u>	<u>1,055,818</u>	<u>938,539</u>	<u>753,132</u>	<u>1,065,959</u>
Net change in fund balances	\$ <u>757,692</u>	\$ <u>(450,978)</u>	\$ <u>(730,963)</u>	\$ <u>(330,499)</u>	\$ <u>28,431,810</u>	\$ <u>(25,304,880)</u>	\$ <u>1,466,359</u>	\$ <u>(1,358,935)</u>	\$ <u>237,980</u>	\$ <u>1,952,136</u>
Debt service as a percentage of non-capital expenditures	14.15%	12.88%	11.57%	10.75%	9.97%	36.15%	32.25%	30.99%	28.31%	30.01%

TOWN OF NAGS HEAD , NORTH CAROLINA
PROPERTY TAX LEVIES AND COLLECTIONS
Last Ten Fiscal Years

Fiscal Year Ended June 30,		Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
			Amount	Percentage of Levy		Amount	Percentage of Levy
2007	Town Tax	\$ 4,415,579	\$ 4,414,669	99.98%	\$ 76	\$ 4,414,745	99.98%
2008	Town Tax	4,447,136	4,446,445	99.98%	626	4,447,071	100.00%
2009	Town Tax	4,492,374	4,479,314	99.71%	12,349	4,491,663	99.98%
2010	Town Tax	4,516,532	4,504,468	99.73%	11,142	4,515,610	99.98%
2011	Town Tax	4,824,029	4,813,955	99.79%	8,919	4,822,874	99.98%
2012	Town Tax	5,468,533	5,447,622	99.62%	19,801	5,467,423	99.98%
	MSD	1,784,860	1,783,914	99.95%	927	1,784,841	100.00%
2013	Town Tax	5,486,041	5,478,436	99.86%	5,691	5,484,127	99.97%
	MSD	1,801,064	1,796,955	99.77%	4,107	1,801,062	100.00%
2014 [1]	Town Tax	5,871,417	5,867,233	99.93%	2,976	5,870,209	99.98%
	MSD	1,796,970	1,795,913	99.94%	1,020	1,796,933	100.00%
2015	Town Tax	6,144,915	6,139,249	99.91%	4,925	6,144,174	99.99%
	MSD	1,826,688	1,826,094	99.97%	594	1,826,688	100.00%
2016	Town Tax	6,183,302	6,182,422	99.99%	[2]	6,182,422	99.99%
	MSD	1,826,763	1,826,761	100.00%		1,826,761	100.00%

[1] Revaluation of taxable property occurred on January 1, 2005 and January 1, 2014.

Each year's tax levy is revised every year to reflect pick-ups and releases applicable to that year.

Subsequent year's tax collections include subsequent collections of the original levy and collections of pick-ups and releases applicable to each particular year.

[2] Not applicable.

TOWN OF NAGS HEAD, NORTH CAROLINA
ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
Last Ten Fiscal Years

Fiscal Year Ended June 30,	Real Property Values [1]	Personal Property Values		Public Service Companies [2]	Total Taxable Assessed Value	Total Direct Tax Rate [3]	Sales to Assessment Ratio [4]	Estimated Actual Taxable Value
		Personal Property	Motor Vehicles					
2007	\$ 2,921,778,925	\$ 53,625,443	\$ 40,231,186	\$ 15,406,428	\$ 3,031,041,982	0.1475	83.08%	\$ 3,648,341,336
2008	2,943,666,950	54,674,837	37,217,627	15,589,020	3,051,148,434	0.1475	92.46%	3,299,965,860
2009	2,968,939,520	58,945,234	35,092,881	16,719,015	3,079,696,650	0.1475	98.42%	3,129,137,015
2010	2,983,214,713	60,908,880	32,168,135	17,517,019	3,093,808,747	0.1475	112.83%	2,742,008,993
2011	2,983,561,150	61,126,796	30,427,302	18,285,774	3,093,401,022	0.1575	118.73%	2,605,408,087
2012	3,002,692,746	61,354,997	30,396,620	18,182,834	3,112,627,197	0.1775	123.12%	2,528,124,754
2013	3,012,871,394	58,506,560	43,091,357	18,740,452	3,133,209,763	0.1775	94.15%	3,327,891,411
2014	2,210,678,642	54,462,235	44,412,419	18,965,401	2,328,518,697	0.2570	93.80%	2,482,429,314
2015	2,228,360,489	52,343,680	33,300,237	18,701,795	2,332,706,201	0.2670	95.17%	2,451,094,043
2016	2,239,840,450	54,088,189	37,067,856	20,901,166	2,351,897,661	0.2670	92.42%	2,544,792,968

Notes: The levy of property taxes each year is based on the assessed value of taxable property as of January 1, before the beginning of the fiscal year on July 1. Revaluation of real property in Dare County was completed on January 1, 2005 as well as January 1, 2014. The assessed values reported are those adjusted amounts reported as of June 30 for each particular year. Subsequent year changes to the levy are not reflected in this table.

- [1] Residential and commercial real property breakdowns are not available.
- [2] Public service companies valuations are provided to the Town by the NC Department of Revenue.
- [3] Tax rates are expressed in dollars of tax per \$100 of assessed value.
- [4] The estimated market value is calculated by dividing the assessed value by a sales-to-assessment ratio determined annually by the NC Department of Revenue. The ratio is based on samples of actual property sales which took place during the fiscal year.

TABLE 7

TOWN OF NAGS HEAD, NORTH CAROLINA
PROPERTY TAX RATES OF DIRECT AND OVERLAPPING
GOVERNMENTAL JURISDICTIONS [1]
Last Ten Fiscal Years

Year Ended June 30,	Town of Nags Head [2]	County of Dare [3]
2007	0.1475	0.25
2008	0.1475	0.26
2009	0.1475	0.26
2010	0.1475	0.26
2011	0.1575	0.28
2012	0.1775	0.28
2013	0.1775	0.28
2014	0.2570	0.28
2015	0.2670	0.43
2016	0.2670	0.43

[1] All tax rates are expressed in dollars of tax per \$100 of assessed valuation.

[2] Town of Nags Head Tax and Finance Department.

[3] Dare County Tax Assessment Office.

TOWN OF NAGS HEAD, NORTH CAROLINA
PRINCIPAL PROPERTY TAXPAYERS
Current Year and Nine Years Ago

Taxpayer	June 30, 2016			June 30, 2007		
	Taxable Assessed Value	Rank	Percent of Total Assessed Valuation	Taxable Assessed Value	Rank	Percent of Total Assessed Valuation
Dominion NC Power	\$ 17,217,057	1	0.74%	\$ 15,401,356	2	0.52%
Stanford M. White	10,649,455	2	0.46%	15,118,644	3	0.51%
Nags Head Company, LLC	10,540,286	3	0.46%	13,995,254	5	0.46%
Billy Roughton	10,431,190	4	0.45%	15,493,559	1	0.52%
Tanger Properties LTD	9,501,163	5	0.41%	12,418,305	7	0.42%
Clubcorp Golf of North Carolina	8,492,451	6	0.37%	12,821,695	6	0.43%
Brian K. Newman	8,065,884	7	0.35%	14,054,237	4	0.47%
The Lacour Group, LLC	7,647,840	8	0.33%	11,979,661	8	0.40%
Kenneth Simpler	7,528,310	9	0.33%			
Outer Banks Hospital, Inc.	7,055,700	10	0.30%			
Sarah E. Forbes				11,627,797	9	0.39%
Lanmormer LLC				9,728,813	10	0.33%
	<u>\$ 97,129,336</u>		<u>4.20%</u>	<u>\$ 132,639,321</u>		<u>4.43%</u>

Assessed values provided by Dare County Tax Department

TOWN OF NAGS HEAD, NORTH CAROLINA
RATIOS OF OUTSTANDING DEBT BY TYPE
Last Ten Fiscal Years

Fiscal Year	Outstanding Debt						Percent of Estimated Actual Taxable Property		Per Capita [2]	Percent of Personal Income [2]
	Governmental Activities			Business-type Activities			Governmental Activities	Total		
	Finance Contract	Capital Leases	Special Obligation Bond	Finance Contract	Capital Leases	Total Primary Government				
2007	\$ 3,604,684	\$ 1,376,813	\$ -	\$ 888,738	\$ 166,354	\$ 6,036,589	0.14%	0.17%	\$ 1,985	5.09%
2008	3,032,666	1,111,838	-	829,080	97,785	5,071,369	0.13%	0.15%	1,629	4.09%
2009	2,934,226	808,578	-	767,125	50,329	4,560,258	0.12%	0.15%	1,475	3.70%
2010	2,388,906	523,273	-	702,363	38,422	3,652,964	0.11%	0.13%	1,167	2.90%
2011	1,940,368	958,145	18,000,000	635,458	39,710	21,573,681	0.80%	0.83%	7,825	18.76%
2012	979,322	778,013	14,400,000	565,967	21,607	16,744,909	0.64%	0.66%	6,023	13.77%
2013	832,276	1,313,275	10,800,000	493,795	4,264	13,443,610	0.39%	0.40%	4,817	11.18%
2014	1,085,230	1,278,160	7,200,000	418,847	112,620	10,094,857	0.39%	0.41%	3,480	7.85%
2015	838,184	1,423,623	3,600,000	341,002	70,698	6,273,507	0.24%	0.26%	2,151	*
2016	590,000	1,705,663	-	260,000	62,838	2,618,501	0.09%	0.10%	886	*

Notes: Details regarding the Town's outstanding debt can be found in the notes to the financial statements.

[1] See Table 6 - Assessed value and estimated actual value of taxable property for estimated actual taxable property value.

[2] See Table 12 - Demographic and Economic Statistics for personal income and population data.

* Information Unavailable

TOWN OF NAGS HEAD, NORTH CAROLINA
LEGAL DEBT MARGIN INFORMATION
Last Ten Fiscal Years

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Assessed Value of Property	\$ 3,031,041,982	\$ 3,051,148,434	\$ 3,079,696,650	\$ 3,093,808,747	\$ 3,093,401,022	\$ 3,112,627,197	\$ 3,133,209,763	\$ 2,328,518,697	\$ 2,332,706,201	\$ 2,351,897,661
Debt Limit, 8% of Assessed Value (Statutory Limitation)	\$ 242,483,359	\$ 244,091,875	\$ 246,375,732	\$ 247,504,700	\$ 247,472,082	\$ 249,010,176	\$ 250,656,781	\$ 186,281,496	\$ 186,616,496	\$ 188,151,813
Amount of debt applicable to limit										
Gross debt	\$ 6,036,589	\$ 5,071,369	\$ 4,560,258	\$ 3,652,964	\$ 21,573,681	\$ 16,744,909	\$ 13,443,610	\$ 10,094,857	\$ 6,273,507	\$ 2,618,501
Total net debt applicable to limit	\$ 6,036,589	\$ 5,071,369	\$ 4,560,258	\$ 3,652,964	\$ 21,573,681	\$ 16,744,909	\$ 13,443,610	\$ 10,094,857	\$ 6,273,507	\$ 2,618,501
Legal Debt Margin	\$ 236,446,770	\$ 239,020,506	\$ 241,815,474	\$ 243,851,736	\$ 225,898,401	\$ 232,265,267	\$ 237,213,171	\$ 176,186,639	\$ 180,342,989	\$ 185,533,312
Total net debt applicable to the limit as a percentage of debt limit	2.49%	2.08%	1.85%	1.48%	8.72%	6.72%	5.36%	5.42%	3.36%	1.39%
Total net debt applicable to the limit as a percentage of assessed value	0.20%	0.17%	0.15%	0.12%	0.70%	0.54%	0.43%	0.43%	0.27%	0.11%

Note: NC General Statute 159-55 limits the Town's outstanding debt to 8% of the appraised value of property subject to taxation. The following deductions are made from gross debt to arrive at net debt applicable to limit:

Money held for payment of principal; debt incurred for water, sewer, gas, or electric power purposes; uncollected special assessments, funding and refunding bonds not yet issued; and revenue bonds.

The legal debt margin is the difference between the debt limit and the Town's net debt outstanding applicable to the limit, and represents the Town's legal borrowing authority. NC General Statute 159-55 requires the use of par values of debt, therefore related amounts of original issue discounts and premiums and deferred amounts on refunding are excluded from this schedule.

TOWN OF NAGS HEAD, NORTH CAROLINA
Direct and Overlapping Governmental Activities Debt
As of June 30, 2016

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable [1]</u>	<u>Estimated Share of Overlapping Debt</u>
Dare County	\$ 125,340,222	18.00%	\$ 22,563,136
Town of Nags Head direct debt			<u>2,618,501</u>
Total direct and overlapping debt			<u><u>\$ 25,181,637</u></u>

Sources: Assessed value data used to estimate applicable percentages and debt out standing data provided by Dare County.

Note: Overlapping governments are those that coincide, at least in part, with geographic boundaries of the Town. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the property taxpayers of the Town of Nags Head. This process recognizes that, when considering the government's ability to issue and repay long-term debt, the entire debt burden borne by the property taxpayers should be taken in to account. However, this does not imply that every taxpayer is a resident, and therefore responsible for, repaying the debt of each overlapping government.

[1] The percentage of overlapping debt applicable is estimated using taxable assessed property values. Applicable percentages were estimated by determining the portion of the Town's taxable assessed value that is within the government's boundaries and dividing it by the County's total taxable assessed value.

TABLE 12

TOWN OF NAGS HEAD, NORTH CAROLINA
DEMOGRAPHIC AND ECONOMIC STATISTICS
Last Ten Fiscal Years

Fiscal Year	TOWN OF NAGS HEAD		DARE COUNTY		
	Population [1]	Personal Income [5]	Per Capita Personal Income [4]	School Enrolment [3]	Unemployment Percentage Rate [2]
2007	3,041	\$ 118,711,517	\$ 39,037	4,843	4.9%
2008	3,113	123,931,643	39,811	4,749	5.5%
2009	3,092	123,197,648	39,844	4,766	9.4%
2010	3,131	126,010,226	40,246	4,766	11.6%
2011	2,757	115,008,255	41,715	4,823	12.7%
2012	2,780	121,647,240	43,758	4,829	13.2%
2013	2,791	120,278,145	43,095	4,883	12.5%
2014	2,901	128,595,528	44,328	4,960	9.6%
2015	2,916	*	*	4,921	8.1%
2016	2,954	*	*	4,944	7.3%

[1] North Carolina Demographer's Office.

[2] Employment Security Commission. Unadjusted

[3] Dare County Board of Education, as of the end of the school term.

[4] Bureau of Economic Analysis. Updated 11/19/15

[5] Regional Economic Information System, Bureau of Economic Analysis, U.S. Department of Commerce.

* - Information unavailable

TABLE 13

TOWN OF NAGS HEAD, NORTH CAROLINA
PRINCIPAL EMPLOYERS,
Current Year and Nine Years Ago

Employers	June 30, 2016			June 30, 2007		
	Employees [1]	Rank	Percent of Total Town Employment	Employees [1]	Rank [2]	Percent of Total Town Employment
Dare County Schools	500 - 999	1	*	500 - 999	1	*
County of Dare	500 - 999	2	*	500 - 999	2	*
Food Lion	250-499	3	*	250-499	3	*
Vidant Medical	250-499	4	*	-	-	-
Village Realty & Management Svc	250-499	5	*	-	-	-
Harris Teeter Inc	100 - 249	6	*	-	-	-
National Park Service	100-249	7	*	-	-	-
Town of Nags Head	100-249	8	*	100-249	6	*
Sun Realty	50-99	9	*	100-249	4	*
YMCA of South Hampton Roads	50-99	10	*	-	-	-

[1] Employment data is only available in ranges from the North Carolina Employment Security Commission.

[2] Employment data is only available in rank 1-6 from the North Carolina Employment Security Commission.

* Information unavailable for the Town of Nags Head

This information was obtained by AccessNC@NCCommerce.com. The list reflects county-wide information for businesses in Dare County, that have locations in Nags Head, NC.

TABLE 14

TOWN OF NAGS HEAD, NORTH CAROLINA
FULL-TIME-EQUIVALENT TOWN GOVERNMENT
EMPLOYEES BY FUNCTION/PROGRAM,
Last Ten Fiscal Years

<u>Function/Program</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
General government										
Administration	5	5	5	6	6	6	6	6	6	6
Administrative Services	7	7	7	6	6	6	6	6	6	6
Information Technology	1 1/2	2	2	2	2	2	2	2	2	2
Planning and Development	10	10	10	10	9	9	8	8	8	8 1/2
Public Safety										
Police	24	23	21	24	24	24	24	24	24	25
Fire	27	27	27	27	27	27	27	27	27	27
Ocean Rescue	23	23	21	21	21	22	23	24	24	24
Year-round	1	1	1	1	1	1	1	1	1	1
Seasonal Lifeguards	22	22	20	20	20	21	22	23	23	23
Environmental Protection										
Solid Waste	12	12	12	12	12	12	10	10	10	10
Public Works										
Administration	4	4	4	4	4	4	4	4	4	4
Facilities Maintenance	9 1/2	9 1/2	9 1/2	9 1/2	9 1/2	9 1/2	10	9 1/2	9 1/2	10 1/2
Garage	4	4	4	4	4	4	4	4	4	4
Water										
Water Administration	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2
Septic Health	0	1	1	1	1	1	1	1	1	1/2
Water Operations	5	5	5	4	4	4	4	4	4	4
Water Distribution	6	6	6	5	5	5	5	5	5	5

TOWN OF NAGS HEAD, NORTH CAROLINA
OPERATING INDICATORS BY FUNCTION/PROGRAM,
Last Ten Fiscal Years

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Population	3,041	3,113	3,092	3,131	2,757	2,780	2,791	2,901	2,916	2,954
Police:										
Crime Activity: Reported										
Rape (includes attempts):	6	6	2	9	4	7	7	9	11	3
Robbery (includes attempts):	1	2	2	2	1	2	2	3	-	1
Assaults (felonious & misdemeanor):	67	44	65	93	76	80	65	90	65	85
Burglary(breaking/entering-structures):	66	96	82	166	115	92	76	65	150	98
Larceny:	226	293	276	414	356	466	258	231	191	201
Auto Larceny:	8	7	13	5	4	7	6	2	7	6
Arson/unlawful burnings:	8	1	2	2	5	-	-	-	2	4
All other crimes (unspecified above):	530	589	595	419	397	424	383	404	493	395
Total Crime:	912	1,038	1,037	1,110	958	1,078	797	804	919	793
Traffic Activity:										
Traffic Accidents	243	244	245	271	230	275	230	248	269	251
Driving while impaired arrests	99	100	128	85	71	118	62	57	56	53
General traffic violations-citation	1,446	1,277	1,562	1,241	1,279	1,093	663	1,010	1,150	1,406
General traffic violations-warning	1,440	1,551	1,093	1,478	1,462	1,711	872	1,307	1,291	1,938
Parking violations-citation issued	5	3	4	1	1	1	2	-	1	1
All other traffic-related, non-violation	206	166	251	195	151	162	95	61	43	46
Total Traffic	3,439	3,341	3,283	3,271	3,194	3,360	1,924	2,683	2,810	3,695
General Calls for Service:										
Police calls-emergency status, non-emergency, traffic control	10,791	10,932	10,542	10,568	11,179	10,197	11,775	9,863	10,584	11,760
Animal control calls	1,180	585	624	574	408	848	422	-	304	355
Total General Calls for Service	11,971	11,517	11,166	11,142	11,587	11,045	12,197	9,863	10,888	12,115
Total all Police/Animal Control Activity	16,322	15,896	15,486	15,523	15,739	15,483	14,918	13,350	14,617	16,603

TOWN OF NAGS HEAD, NORTH CAROLINA
OPERATING INDICATORS BY FUNCTION/PROGRAM,
Last Ten Fiscal Years

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Fire:										
Number of volunteer firemen	16	13	10	10	13	14	15	13	16	12
Number of calls answered	829	759	852	810	850	943	902	877	918	882
Total dollar loss	\$ 2,732,050	\$ 4,830	\$ 12,900	\$ 200,100	\$ 243,950	\$ 49,240	\$ 1,188,900	\$ 14,300	\$ 716,650	\$ 457,150
Planning:										
Building permits:										
One and Two Family Dwellings	41	30	16	18	23	28	32	24	48	33
Residential multi-family	-	1	-	-	-	-	-	-	-	1
Commercial/Government/Other	5	4	3	1	1	1	-	2	1	-
Miscellaneous:	424	335	368	438	312	314	275	333	351	416
Accessory Structure	*	*	40	50	59	38	46	56	59	42
Addition	*	*	25	22	24	22	16	12	22	14
Demolition	*	*	7	16	10	7	6	6	16	6
Move	*	*	7	5	3	-	-	1	6	6
Remodel	*	*	125	132	110	78	62	62	58	47
Repair	*	*	164	213	106	169	145	196	190	301
Trade Permits:										
Electrical	359	294	361	471	452	477	483	497	447	533
Gas	48	41	24	22	11	23	28	17	27	31
Mechanical	328	291	347	396	378	369	385	407	446	454
Plumbing	141	109	100	141	114	121	102	100	123	112
Sprinkler	5	7	10	9	5	5	3	9	7	7
Number of CAMA permits issued	134	144	131	232	68	37	43	42	45	71
Number of land disturbance permits issued	*	*	*	*	*	*	*	13	23	34
Number of certificates of occupancy issued	3	5	17	21	25	22	34	27	42	30
Site plan reviews:										
Commercial	15	9	8	6	4	8	2	4	4	5
Residential	41	30	16	19	*	*	*	*	*	*
Number of zoning amendments	29	23	24	21	22	21	16	12	12	11
Number of variance applications	9	3	2	5	5	3	4	2	2	2
Number of exempt plats issued	-	-	3	1	2	2	-	-	-	1
Number of code compliance inspections	632	525	675	465	425	379	306	231	198	193

* Information Unavailable

TOWN OF NAGS HEAD, NORTH CAROLINA
OPERATING INDICATORS BY FUNCTION/PROGRAM,
Last Ten Fiscal Years

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Planning continued:										
Total building permit fees	\$ 231,999	\$ 201,371	\$ 162,949	\$ 151,172	\$ 130,980	\$ 134,166	\$ 156,813	\$ 177,594	\$ 221,100	\$ 201,576
Total site plan review fees	\$ 59,070	\$ 35,019	\$ 53,935	\$ 10,725	\$ 9,205	\$ 16,212	\$ 19,761	\$ 21,970	\$ 12,538	\$ 10,290
Total CAMA permit fees	\$ 21,200	\$ 14,600	\$ 15,600	\$ 23,200	\$ 6,800	\$ 3,800	\$ 4,500	\$ 5,100	\$ 5,300	\$ 8,600
Total construction valuation	\$ 28,817,935	\$ 28,381,075	\$ 18,767,638	\$ 15,774,263	\$ 14,352,769	\$ 15,343,320	\$ 20,838,802	\$ 22,017,479	\$ 36,682,703	\$ 29,925,081
Septic Health:										
Tank Inspections	243	398	257	175	309	241	212	301	324	298
Tanks Pumped	63	79	59	34	73	30	43	56	43	54
Water Quality Sites Tested	647	707	632	479	267	196	163	273	253	322
Refuse collection:										
Refuse collection (tons)	9650.76	9112.27	8567.79	8743.16	8534.92	8580.07	8325.82	8239.19	8225.68	8253.29
Bulk (tons)	790.21	497.86	815.72	792.72	855.22	457.78	529.93	512.64	703.52	423.83
Water:										
Number of new services	45	40	18	35	33	29	41	34	60	31
Number of new customers	*	*	*	*	*	155	172	171	248	236
Daily consumption (million gallons)	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.3	1.2	1.1
Maximum daily capacity of plant(million gallons)	7.9	7.9	7.9	7.9	7.9	7.9	7.9	7.9	7.9	7.9
Maximum contracted per day(million gallons)	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5

* Information Unavailable

Source: Budget documents and individual Town departments.

TABLE 16

TOWN OF NAGS HEAD, NORTH CAROLINA
CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM
Last Ten Fiscal Years

<u>Function/Program</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Police stations	1	1	1	1	1	1	1	1	1	1
Fire stations	2	2	2	2	2	2	2	2	2	2
Ocean rescue facilities	1	1	1	1	1	1	1	1	1	1
Refuse collection										
Collection trucks	12	13	13	13	13	13	14	15	15	16
Other public works										
Paved streets (miles)	33.8	33.8	33.8	34.06	34.62	34.62	34.7	34.82	34.82	34.82
Unpaved streets (miles)	2.81	2.81	2.81	2.81	2.81	2.25	2.25	2.36	2.36	2.36
Street lights	427	427	427	427	427	427	427	427	427	427
Parks and recreation										
Number of parks	1	1	1	1	1	2	2	2	2	2
Number of soccer fields	1	1	1	1	1	1	1	1	1	1
Number of bath houses	4	4	4	4	4	4	4	4	4	4
Number of piers										
Ocean (private)	2	2	2	2	2	2	2	2	2	2
Ocean (State)	1	1	1	1	1	1	1	1	1	1
Number of ocean beach accesses										
Local (public)	44	44	44	44	44	44	44	44	44	44
Number of sound accesses (public)	5	5	5	5	5	5	5	5	5	5
Bike path mileage	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0
Water										
Plants	1	1	1	1	1	1	1	1	1	1
Water mains (miles)	100.12	100.69	100.88	101.07	101.07	101.14	101.14	101.30	101.64	102.02
Fire hydrants	550	550	550	550	550	550	550	550	550	550
Water storage capacity:										
Ground (million gallons)	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Elevated (million gallons)	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0

Source: Budget documents and individual Town departments.

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MARTIN ♦ STARNES & ASSOCIATES, CPAs, P.A.

"A Professional Association of Certified Public Accountants and Management Consultants"

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

Independent Auditor's Report

To the Honorable Mayor and
Board of Commissioners
Town of Nags Head, 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 accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Nags Head, North Carolina, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated November 23, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Nags Head'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 Nags Head's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Nags Head's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies; and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 Town's financial statements will not be prevented, or detected and corrected, on a timely basis. As described in the accompanying Schedule of Findings and Responses, we consider item 2016-002 to be a material weakness.

A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. As described in the accompanying Schedule of Findings and Responses, we consider item 2016-001 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Nags Head's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance 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 an instance of non-compliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2016-002.

Town of Nags Head's Responses to Findings

The Town of Nags Head's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Town of Nags Head's responses were not subjected to the auditing procedures applied in the audit of the financial statements; and accordingly, we express no opinion on them.

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 result 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.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, NC
November 23, 2016

TOWN OF NAGS HEAD, NORTH CAROLINA

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2016

1. Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP

Unmodified

Internal control over financial reporting:

• Material weakness (es) identified?

Yes

• Significant deficiency (ies) identified?

Yes

Non-compliance material to financial statements noted?

Yes

TOWN OF NAGS HEAD, NORTH CAROLINA

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2016

2. Financial Statement Findings

Significant Deficiency

Finding 2016-001 – Segregation of Duties

Criteria: Management should have a system in place to reduce the likelihood of errors in financial reporting. Duties should be clearly segregated to provide reasonable assurance that transactions are handled by separate Town personnel.

Condition: With the current accounting system, there is a lack of automatic system control so internal controls are performed manually by Town personnel.

Context: While testing internal controls over journal entries, we noted the condition described above. We could not determine that journal entries made during the year were properly segregated between Town personnel, with respect to posting and approving journal entries.

Effect: Adjustments could be made without oversight so errors in financial reporting could occur and not be detected.

Cause: The accounting system provides limited automatic controls and does not allow limited access to personnel for only their specific responsibilities.

Identification of a Repeat Finding: This is a repeat finding from the immediate previous audit, 2015-001, but modified.

Recommendation: Manual controls are susceptible to being overridden; therefore additional controls should be put in place to mitigate the risk. To the extent possible, alternative controls should be used to compensate for any lack of segregation of duties. Town management and Board of Commissioners should evaluate fraud risk, communicate with employees concerning potential areas where control weaknesses could occur, and review interim financial reports and targets with an increased level of skepticism. Financial statements should be provided to management and board for review on a monthly basis.

Views of Responsible Officials and Planned Corrective Actions: The Town agrees with this finding and will adhere to the corrective action plan following this schedule.

TOWN OF NAGS HEAD, NORTH CAROLINA

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2016

Material Weakness

Finding 2016-002 – Excess of Expenditures over Appropriations

Criteria: Management should have a control system in place to reduce the likelihood that violations of North Carolina General Statutes occur and go undetected. N.C. General Statute 159-8(a) requires that all money received and expended by a local government should be included in the budget ordinance.

Condition: In the current year, there was a violation of the N.C. General Statute 159-8(a). Expenditures exceeded appropriations and, therefore, a failure in the pre-audit requirement.

Context: While reviewing financial statements and budget reports, we noted the condition described above.

Effect: The Town was in violation of North Carolina General Statutes.

Cause: A budget amendment was not made in the General Fund to record the revenues and expenditures of a grant awarded to the Town of Nags Head for improvements made to Peak Nursing and Rehabilitation Facility.

Recommendation: Implement stringent budgetary monitoring controls to prevent expenditures exceeding appropriations.

Views of Responsible Officials and Planned Corrective Actions: The Town agrees with this finding and will adhere to the corrective action plan following this schedule.

TOWN OF NAGS HEAD, NORTH CAROLINA

CORRECTIVE ACTION PLAN FOR THE YEAR ENDED JUNE 30, 2016

Significant Deficiency

Finding 2016-001 – Segregation of Duties

Name of Contact Person: Amy Miller, Finance Officer

Corrective Action: In fiscal year 2017 budget, new financial software has been approved for Finance/GL, Payroll, Tax, Utility Billing, and HR. A contract has been signed and implementation will begin in November 2016. The new software has name stamping on every sheet of paper that is print to clearly decipher who is responsible for the work done, as well as an electronic audit trail of all activity. While the new system was approved as a solution to increase automation and reduce manual error, in an effort to strengthen internal controls, going forward, all entries are clearly marked by the person who has posted and reviewed them. Financial statements will be provided to management and Board for monthly approval and review. Potential weaknesses in areas of risk that could potentially compromise internal controls due to audit findings have been communicated with staff and management in an effort to increase assurance in financial reporting.

Proposed Completion Date: Immediately.

Material Weakness

Finding 2016-002 – Excess of Expenditures over Appropriations

Name of Contact Person: Amy Miller, Finance Officer

Corrective Action: The first payment request for grant reimbursement was not requested by Peak until August 2016. Upon further review of invoices being requested for reimbursement in August, Town of Nags Head staff was not notified the invoices were fiscal year 2016 expenditures paid by Peak. This created a receivable/payable situation that staff was unable to account for as a budget amendment since request was not received until after the fiscal year was over.

A budget amendment for the remaining grant funds has already been done for fiscal year 2017.

Proposed Completion Date: Immediately.

TOWN OF NAGS HEAD, NORTH CAROLINA

**SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016**

Finding 2015-001

Status: Finding was modified and repeated for fiscal year 2016 as finding 2016-001.

Corrective Action: The Town will take steps in fiscal year 2017 to strengthen controls over journal entries and financial reporting. Please refer to Corrective Action Plan on the previous page.

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