

TOWN OF NAGS HEAD, NORTH CAROLINA
ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Bob Oakes, Mayor
Doug Remaley, Mayor Pro-Tem
Renée Cahoon, Commissioner
Anna Sadler, Commissioner
Susie Walters, Commissioner

Cliff Ogburn, Town Manager
Kim Kenny, Finance Officer
John Leidy, Town Attorney

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Dowdy & Osborne LLP

CERTIFIED PUBLIC ACCOUNTANTS

Jeff Dowdy, CPA • Teresa Osborne, CPA

INDEPENDENT AUDITOR'S REPORT

To the Mayor and Members of the Board of Commissioners
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, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, 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, 2013, and the respective changes in financial position and cash flows, where appropriate, 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.

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Law Enforcement Officers' Special Separation Allowance and the Other Postemployment Benefits' Schedules of Funding Progress and Employer 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, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Town of Nags Head, North Carolina. The individual fund statements, budgetary schedules and other schedules are presented for the purposes of additional analysis and are not a required part of the basic financial statements.

The individual fund statements, budgetary schedules and other schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us. In our opinion, based on our audit, the procedures performed as described above, the individual fund statements, budgetary schedules, and other schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2013 on our consideration of the Town of Nags Head's internal control over financial reporting and on our tests of its compliance with certain laws, regulations, contracts, and grant agreements, and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Nags Head's internal control over financial reporting and compliance.

Dowdy & Osborne, LLP

Dowdy & Osborne, LLP
Certified Public Accountants

October 22, 2013

**Town of Nags Head
Management Discussion and Analysis
June 30, 2013**

As management of the Town of Nags Head, we offer readers of our financial statements this narrative overview and analysis of the financial activities of the Town of Nags Head for the fiscal year ended June 30, 2013. The Management Discussion and Analysis (MD&A) section is designed to assist the reader in focusing on significant financial issues, provide an overview of the Town's financial activity, identify changes in the Town's financial condition, identify material deviations from the financial budget, and identify individual fund issues or concerns.

FINANCIAL HIGHLIGHTS

The assets of the Town of Nags Head exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$57,837,120 (net position).

The Town's net position decreased by \$2,202,325 over the prior year. The governmental net position decreased by \$1,936,981 (-3.93%). The business-type net position decreased by \$265,344 (-2.47%).

At the end of the current fiscal year, the Town of Nags Head's governmental funds reported combined ending fund balances of \$14,057,270 with a net increase of \$1,466,359 in fund balances. Fund balances for the General Fund increased by \$1,742,659 primarily due to an increase in funds restricted for the Capital Reserve Fund of \$897,722, as well as, capital purchases not completed as of the end of the fiscal year for which financing proceeds had been received in the amount of \$736,302. Fund balances in the Beach Nourishment Fund decreased by \$276,300.

At the end of the current fiscal year, unassigned fund balance for the General Fund was \$7,906,928, or 50.63 percent of total general fund expenditures for the year. This represents a decrease in unassigned fund balance from the prior year of \$136,149 but an increase in percentage due to a decrease in general fund expenditures. The adopted operating budget for FY 2012-2013 included the use of \$614,036 compared with actual used of zero, primarily due to capital purchases funded by loan proceeds during the fiscal year that were not delivered and paid for as of the end of the fiscal year.

The Town of Nags Head's total debt decreased by \$3,168,943 (-17.83%) during the current fiscal year, primarily as a result of the second year's payment of special bond obligation debt of \$3,600,000 with three annual payments remaining.

The General Fund budget for the fiscal year ended June 30, 2013 was adopted with a tax rate of \$.1775 per \$100 assessed valuation reflecting no increase from the prior year, with .02 designated by the Board for beach nourishment debt obligation repayment. Total assessed valuation increased from \$3,112,627,197 as of June 30, 2012 to \$3,133,209,763 as of June 30, 2013 an increase of \$20,582,566 (+.66%). The budget also included the first year of municipal service taxes with a levy of \$1,803,018, collections of \$1,798,805 (99.77%), and a remaining receivable balance of \$4,213. (.23%)

General Fund budget amendments during fiscal year 2012-13 increased the adopted budget by \$1,003,281 with individual increases (decreases) by functional area noted below:

- General Government decreased by \$404,474 primarily for the allocation of cost of living adjustment to all general fund departments and the allocation of salaries and benefits for new employee positions. Adding to these decreases was reimbursements from the Water Fund for administrative oversight through the allocation of indirect costs.

**Town of Nags Head
Management Discussion and Analysis
June 30, 2013**

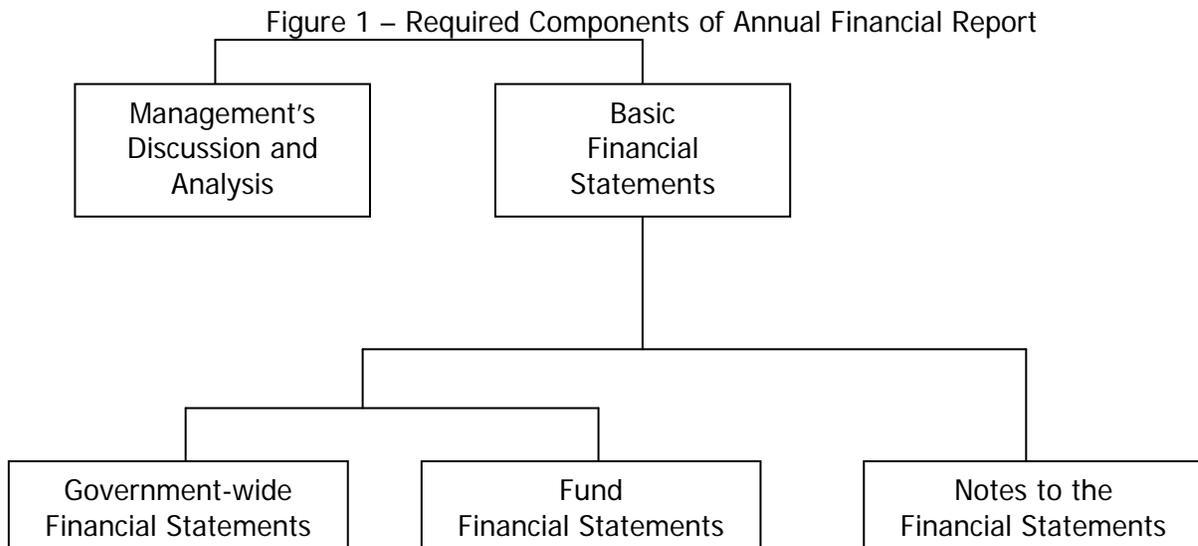
- Public Safety increased by \$1,013,859 to fund capital purchases budgeted at the first year debt payment and a contribution for police separation allowance which had not been funded for several years.
- Environmental Protection increased by \$147,602 for increased funding for capital purchases budgeted at the first year debt payment amount.
- Public Works increased by \$358,994 to fund capital purchases budgeted at the first year debt, construction for the recreational phase of Whalebone Park which was partially funded by grants, and contracts for sand fencing and sand removal subsequent to a storm event.
- The amount budgeted for Interfund transfers decreased by \$111,200 to reduce the amount transferred to the Capital Reserve fund for the excess of taxes collected for bond debt service over the amount needed for debt service to be used instead for additional sand-fencing and sand relocation after a storm event.
- The amount budgeted for Contingency decreased by \$1,500 for unreimbursed storm costs.

Key Ratios

% Debt to General Governmental Expenses	76.75%
% Property Tax Collection	99.70%
% Increase in Assessed Property Valuation	+.66%

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Town of Nags Head's basic financial statements. The financial statements include two kinds of statements that present different views of the Town: 1) Government-Wide Financial Statements and 2) Fund Financial Statements. Both perspectives, however, are essential and complementary components that allow the user to address relevant questions, broaden a basis for comparison, and enhance the Town's accountability. Another element of the basic financial statements is the notes to the 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. (See Figure 1)



**Town of Nags Head
Management Discussion and Analysis
June 30, 2013**

A. Government-Wide Financial Statements

The government-wide statement reports both short-term and long-term information about the financial condition of the Town as a whole, focusing on the government's operational accountability. The accounting methods of these statements reflect that of private sector companies in that all governmental and business-type activities are consolidated into columns that add to a total for the primary government. The statement of net position reports the Town's net position and includes all, both current and non-current, assets and liabilities of the government. The difference between the two is reported as net position. Over time, increases or decreases in the Town's net position are one indication of whether its financial health is improving or deteriorating. Also consider other non-financial factors, such as changes in the Town's property tax base, local economy and service levels, to assess the overall health of the Town. On the other hand, the statement of activities reports how net position has changed and includes all of the current year's revenues and expenses regardless of when cash is received or paid.

The government-wide financial statements of the Town are divided into two categories:

Governmental Activities – Most of the Town's basic services are included here, such as police, fire, environmental services, public works and general administration. Taxes and grants finance most of these activities.

Business-Type Activities – The Town charges fees to customers to cover the costs of certain services it provides. The Town's water system is included. Also included here is the Town's one blended component unit – Nags Head Leasing. Although legally separate, "component units" are important because of certain financial transactions that exist between the entities and the Town.

B. Fund Financial Statements

The fund financial statements provide more detailed information about the Town's major funds while focusing on the fiscal accountability. Funds are accounting devices that the Town uses to keep track of specific sources of funding, such as those required by state law, and spending for particular purposes. The Board of Commissioners establishes several funds to assure control as well as good management and to exhibit proper usage of certain taxes and grants. The Town of Nags Head, 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.

The Town has three types of funds:

Governmental Funds – Most of the Town's basic services are included in governmental funds, which focus on 1) how cash and other financial assets can readily be converted to cash flow in and out (that is, their liquidity) and 2) the balances left at year-end that are available for spending. This is the manner in which the financial budget is typically developed. Because this information provides a short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs, as opposed to the government-wide statements which provides both a short and a long term focus, a reconciliation is provided on the page following the fund statements that explains the relationship or differences between the two views.

**Town of Nags Head
Management Discussion and Analysis
June 30, 2013**

Proprietary Funds – Services for which the Town charges customers a fee are generally reported in proprietary funds. Accounted for like the government-wide statements, proprietary funds provide both long and short-term financial information and, in addition, include the statement of cash flows. A reconciliation statement is once more provided following these funds to explain the difference between them.

Fiduciary Funds – The Town is the trustee, or fiduciary, for its Police Special Separation Allowance Pension Trust. The Town is responsible for ensuring that the assets reported in these funds are used only for their intended purposes. The Town's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the government-wide financial statements because the town cannot use these assets to finance its operations.

C. 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.

D. Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Town of Nags Head's progress in funding its obligation to provide pension benefits to certain of its employees.

E. Other Supplementary Information

Other supplementary information includes combining statements for selected funds showing additional detail for revenues and expenditures.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the Town of Nags Head, assets exceeded liabilities by \$57,837,120 at the close of the fiscal year ended June 30, 2013. A large portion of the Town of Nags Head's net assets, \$43,827,717, represents its investment in capital assets (e.g. land, building, machinery and equipment), less any related debt used to acquire those assets that is still outstanding plus any loan proceeds not yet expended at the end of the fiscal year. The resources to repay the debt must be provided from sources other than capital assets, since it cannot be used to liquidate the liabilities.

An additional portion of the Town of Nags Head's net position, \$4,215,704, represents resources that are subject to restrictions on how they may be used primarily from unexpended debt and bond proceeds that can only be spent on the items being funded. The remainder of \$9,793,699 in unrestricted net position is the residual amount of assets that can be used without constraints established by debt covenants, enabling legislation, or other legal requirements. However, it should be noted that only a portion of this amount is available and unobligated to finance additional day-to-day governmental activities or unforeseen circumstances in the future.

**Town of Nags Head
Management Discussion and Analysis
June 30, 2013**

	Town of Nags Head's Net Position					
	Governmental Activities		Business - Type Activities		Total	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Current and Other Assets	\$ 14,822,111	\$ 13,714,803	\$ 4,312,984	\$ 4,458,567	\$ 19,135,095	\$ 18,173,370
Capital Assets, Net	47,254,735	53,759,524	7,455,004	7,878,231	54,709,739	61,637,755
Deferred Outflows of Resources	-	-	-	-	-	-
Total Assets and Deferred Outflows of Resources	62,076,846	67,474,327	11,767,988	12,336,798	73,844,834	79,811,125
Long-Term Debt Outstanding	14,008,662	17,103,941	600,479	936,881	14,609,141	18,040,822
Other Liabilities	631,337	1,056,716	521,078	674,142	1,152,415	1,730,858
Deferred Inflows of Resources	60,158	-	186,000	-	246,158	-
Total Liabilities and Deferred Inflows of Resources	14,700,157	18,160,657	1,307,557	1,611,023	16,007,714	19,771,680
Net position:						
Net investment in capital assets	36,870,772	39,461,419	6,956,945	7,290,657	43,827,717	46,752,076
Restricted	4,215,704	2,841,491	-	-	4,215,704	2,841,491
Unrestricted	6,290,213	7,010,760	3,503,486	3,435,118	9,793,699	10,445,878
Total Net Position	\$ 47,376,689	\$ 49,313,670	\$ 10,460,431	\$ 10,725,775	\$ 57,837,120	\$ 60,039,445

**Town of Nags Head
Management Discussion and Analysis
June 30, 2013**

	Town of Nags Head's Changes in Net Position					
	Governmental Activities		Business - Type Activities		Total	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Revenues:						
Program Revenues:						
Charges for Services	\$ 383,544	\$ 265,165	\$ 2,434,054	\$ 2,520,514	\$ 2,817,598	\$ 2,785,679
Operating Grants	85,126	448,572	-	14,696	85,126	463,268
Capital Grants	2,329,639	2,242,125	91,500	79,500	2,421,139	2,321,625
General Revenues:						
Property Taxes	7,333,296	7,277,912	-	-	7,333,296	7,277,912
Other Taxes	5,331,340	3,925,682	-	-	5,331,340	3,925,682
Investment Income	35,785	116,372	7,378	2,805	43,163	119,177
Other	815,639	3,788,322	3,089	13,233	818,728	3,801,555
Total Revenues	16,314,369	18,064,150	2,536,021	2,630,748	18,850,390	20,694,898
Expenses:						
General Government	9,253,686	2,522,896	-	-	9,253,686	2,522,896
Public Safety	4,894,679	4,779,911	-	-	4,894,679	4,779,911
Public Works/Transportation	1,972,369	2,041,283	-	-	1,972,369	2,041,283
Environmental Protection	1,721,611	1,725,879	-	-	1,721,611	1,725,879
Interest on Long Term Debt	409,005	520,237	-	-	409,005	520,237
Water Utility	-	-	2,801,365	2,516,068	2,801,365	2,516,068
Total Expenses	18,251,350	11,590,206	2,801,365	2,516,068	21,052,715	14,106,274
Net Increase (Decrease) in Net Position	(1,936,981)	6,473,944	(265,344)	114,680	(2,202,325)	6,588,624
Net Position - July 1	49,313,670	42,839,726	10,725,775	10,611,095	60,039,445	53,450,821
Net Position - June 30	<u>\$ 47,376,689</u>	<u>\$ 49,313,670</u>	<u>\$ 10,460,431</u>	<u>\$ 10,725,775</u>	<u>\$ 57,837,120</u>	<u>\$ 60,039,445</u>

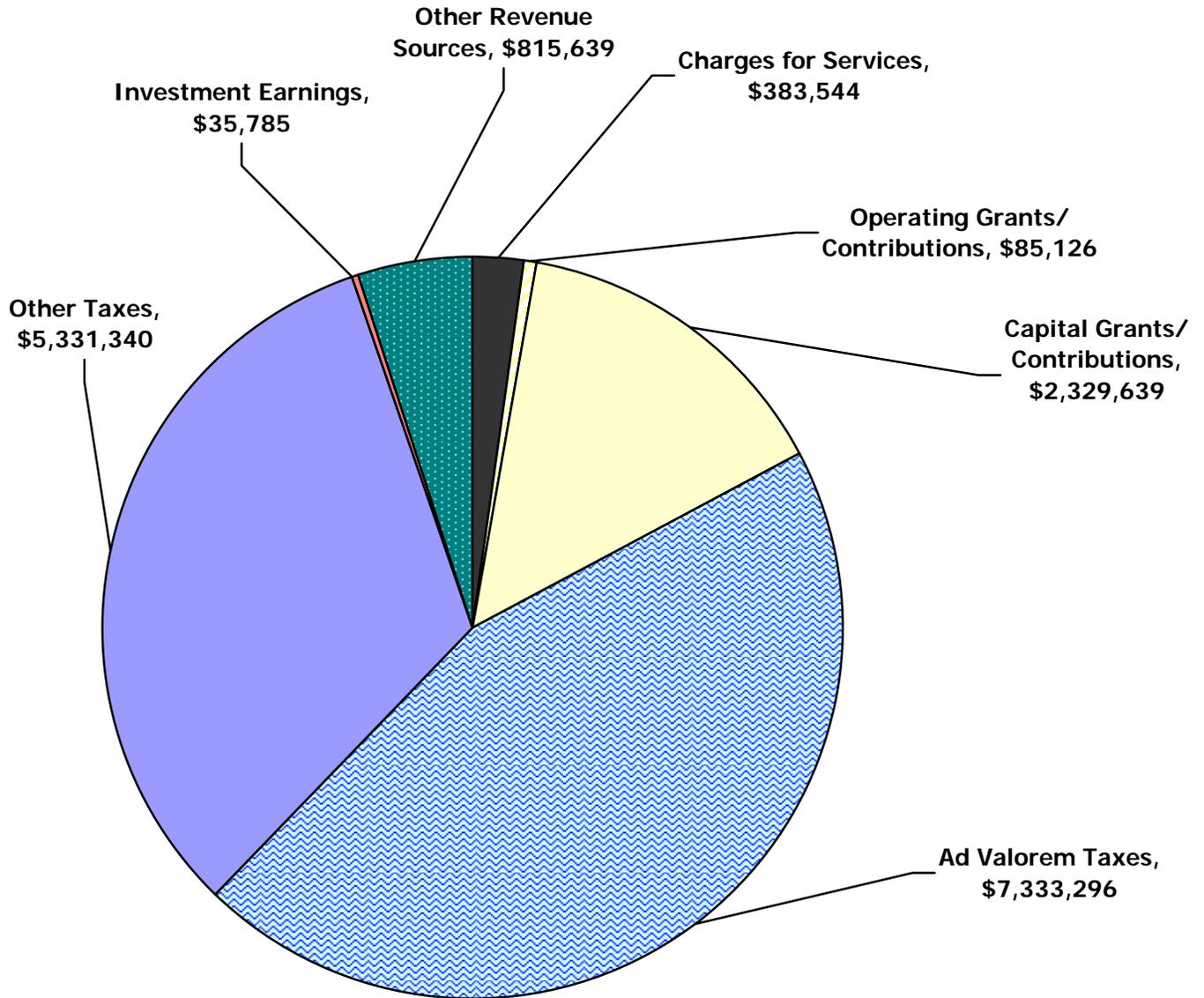
See Exhibit 2

A. Governmental Activities

Governmental activities decreased the Town of Nags Head's net position by \$1,936,981. The governmental activities revenues decreased by \$1,749,781, which included a decrease in other revenues of \$2,972,683 due to the reversion of the former Britthaven property to the Town in the prior year valued at \$2,914,080. Ad valorem tax revenue was up by \$55,384 as were revenues from capital grants by \$87,514 and charges for services by \$118,379. Other taxes also increased by \$1,405,658 due to the Town's increased share based on relative ad-valorem levies due to the addition of municipal service taxes during the prior fiscal year. Operating grants decreased by \$363,446 due to FEMA reimbursement in the prior fiscal year of \$350,893. Investment earnings decreased by \$80,587 due to declining rate of return and market fluctuations at year end.

**Town of Nags Head
Management Discussion and Analysis
June 30, 2013**

During the year, the Town's governmental expenses were \$18,251,350 an increase of \$6,661,144 (+57.47%) over the prior fiscal year. The largest increase in the general government function is a result of the first year of depreciation on beach nourishment in the amount of \$ 6,762,000.

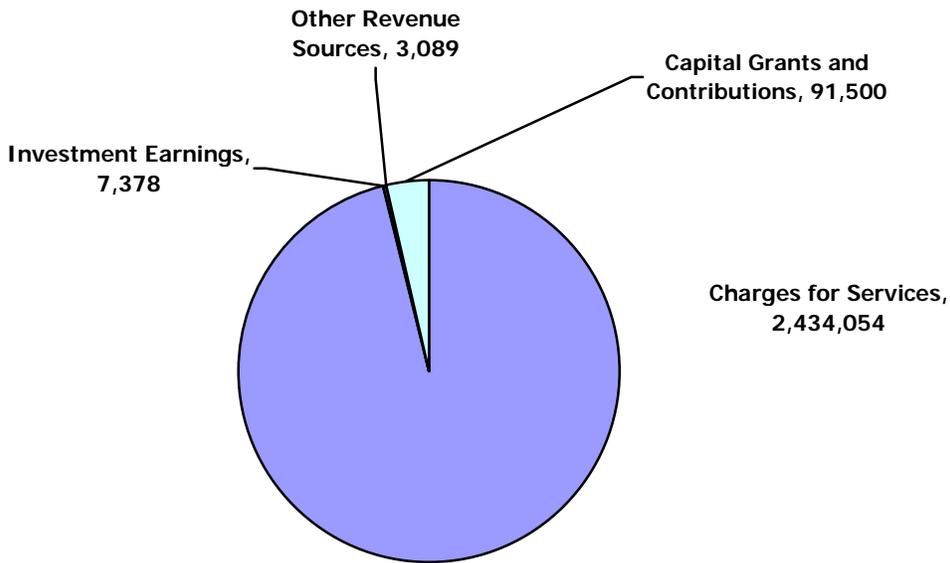


Revenues by Source for Governmental Type Activities

**Town of Nags Head
Management Discussion and Analysis
June 30, 2013**

Business Type Activities

Business type activities decreased the Town of Nags Head's net position by \$265,344. There are three separate and distinct operations accounted for in the Enterprise Funds: the Water Utility Operations, the Storm Water Fund, and Nags Head Leasing. Charges for services in the Water Fund decreased in the Water Operations Fund by \$87,044 and increased slightly in the Storm Water Fund by \$584 as compared to the preceding year. The Water Fund had an operating loss of \$427,753 for the year ended June 30, 2013 compared to an operating loss of \$11,656 for the prior fiscal year due to an increase in wholesale water costs, salaries and benefits, and tank repairs and repainting accompanied by the decrease in charges for services. During the fiscal year cash and cash equivalents increased slightly in the Water Fund up by \$962 to \$3,712,107. Net position for the Water Fund decreased by \$350,613 to \$9,767,122 but Unrestricted net position increased during the same time by \$73,992 to \$3,384,084. This amount represents 122.09 percent of Water Fund expenses including interest.



Revenues by Source for Business Type Activities

**Town of Nags Head
Management Discussion and Analysis
June 30, 2013**

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

A. Governmental Funds

As noted earlier, the Town of Nags Head uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. 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, available fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the Town of Nags Head. At the end of the current fiscal year, fund balance available in the General Fund was \$10,053,601 up from \$9,150,860 as of June 30, 2012. Total fund balance for the General Fund increased by \$1,742,659 from \$10,583,194 at June 30, 2012 to \$12,325,853 at June 30, 2013. As a measure of the general fund's liquidity, it may be useful to compare fund balance available for appropriation to total fund expenditures. Fund balance available for appropriation at 6/30/13 represents 64.37% of total General Fund expenditures compared with 55.30% for the prior year. The percentage decreased even though available fund balance increased due to the increase in expenditures from special obligation bond debt service.

As of June 30, 2013, the governmental funds of the Town of Nags Head reported combined fund balance of \$14,057,270, an increase of \$1,466,359 (+11.65 %) over last year. This increase was primarily the result of increases to fund balance restricted for Capital Reserve Fund for future beach renourishment costs and an increase in restricted assets for unexpended loan proceeds for capital not received as of the end of the fiscal year.

B. Proprietary Funds

The Town of Nags Head's proprietary funds provide the same type of information found in the government-wide statement but in more detail. Unrestricted net position of the Water Fund at the end of the fiscal year amounted to \$3,384,084. This represents an increase of \$73,992 (+2.24%). Unrestricted net position in the Storm Water Fund decreased by \$5,625 to \$118,899.

C. Capital Assets

The Town of Nags Head's investment in capital assets for its governmental and business-type activities as of June 30, 2013 totals \$54,709,739 (net of accumulated depreciation) which represents an decrease of \$6,928,016. These assets include buildings, construction in progress, other improvements, land, intangibles, machinery and equipment and vehicles.

Major capital asset transactions during the year include the following significant acquisitions and disposals:

- The first year of depreciation for the Town's Beach Nourishment capital project during the year ended June 30, 2013 of \$6,762,000.
- Transfer of the first portion of land purchased by the Water Fund in 2007 to the General Fund in the amount of \$300,000. These transfers will continue annually until land equal to

**Town of Nags Head
Management Discussion and Analysis
June 30, 2013**

the full purchase cost of \$1,623,174 has been transferred to and been repaid by the General Fund.

Town of Nags Head's Capital Assets
(net of depreciation)

	<u>Governmental Activities</u>		<u>Business - Type Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Land	\$ 8,172,825	\$ 7,872,825	\$ 2,153,473	\$ 2,453,473	\$ 10,326,298	\$ 10,326,298
Construction in Progress	834,280	227,086	66,389	315,914	900,669	543,000
Buildings	6,982,957	7,239,497	3,230,716	2,996,978	10,213,673	10,236,475
Other Improvements	29,186,698	35,755,505	-	-	29,186,698	35,755,505
Equipment	645,267	747,372	242,587	244,937	887,854	992,309
Vehicles	1,432,708	1,917,239	-	-	1,432,708	1,917,239
Intangibles	-	-	1,761,839	1,866,929	1,761,839	1,866,929
Total	\$ 47,254,735	\$ 53,759,524	\$ 7,455,004	\$ 7,878,231	\$ 54,709,739	\$ 61,637,755

Additional information regarding the Town of Nags Head's capital assets can be found in Note 4 of this report.

D. Long Term Debt

As of June 30, 2013, the Town of Nags Head had \$10,800,000 in bonded debt secured by the pledge of annual occupancy taxes. The Town's total debt decreased by \$3,168,943.

Town of Nags Head's Outstanding Debt

	<u>Governmental Activities</u>		<u>Business - Type Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Finance Contracts	\$ 11,632,276	\$ 15,379,322	\$ 493,795	\$ 565,967	\$ 12,126,071	\$ 15,945,289
Capital Leases	1,313,275	778,013	4,263	21,607	1,317,538	799,620
Other post employment benefits	555,021	386,083	62,353	44,492	617,374	430,575
Net pension obligation	17,101	71,203	-	-	17,101	71,203
Compensated Absences	490,989	489,320	40,067	42,076	531,056	531,396
Total	\$ 14,008,662	\$ 17,103,941	\$ 600,478	\$ 674,142	\$ 14,609,140	\$ 17,778,083

**Town of Nags Head
Management Discussion and Analysis
June 30, 2013**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The level of unemployment in Dare County ranged from 7.4% to 20.2% compared to the seasonally adjusted statewide average of 9.30% (down from 10.13% in the prior fiscal year).

Construction in fiscal year 2013 increased overall in the Town of Nags Head by \$5,495,482 (+35.82%) from the previous year. There were increases over the prior year in both residential and commercial development. Residential construction increased by \$5,394,453 and commercial construction was also up slightly by \$101,029. Both building permit and review fees increased from the prior year with building permit fees up by \$22,647 or 16.88% and review fees by \$3,549 or 21.89%. Facility fees decreased by \$13,519 or 33.7%.

The property tax base increased by .66% to \$3,133,209,763 in the fiscal year ended June 30, 2013. Occupancy tax continued showing growth for the third year in a row with an increase of \$601,144 or 30.86% above fiscal year 2011-2012. Combined sales tax revenues were also up for the third consecutive year for a combined increase of \$667,217 or 43.60%. Land transfer tax revenues increased for the fourth consecutive year by \$116,227 or 28.41%. Increases in the shared revenues were anticipated due to the distribution based on relative ad-valorem levies and the addition of the municipal service district taxes beginning in fiscal year 2011-2012. Investment earnings were also down town wide again by \$76,014 relative to the prior year due to the decline in market interest rates and market value fluctuations at the end of the fiscal year.

The Town's adopted budget for the fiscal year ending June 30, 2013 reflects no change to the property tax rate of .1775 per \$100 in assessed valuation compared to the previous year's rate of .1775. The Board designated two cents of this tax rate to be used for beach nourishment debt repayment or renourishment in the future as needed.

Considering the above indicators when adopting the operating budget for the next fiscal year, the Town's adopted 2013-2014 budget increased by \$1,466,275 (+8.70%) over the 2012-2013 adopted budget and increased by \$462,994 (+2.59%) over the amended budget for 2012-2013. The increase was attributable primarily to the increase in funds to be transferred to the Capital Reserve Fund, from the excess of taxes collected for bond debt in excess of the debt service and the restricted shared revenues from sales taxes that can only be used in the municipal service district for the purpose for which they were created, and an additional penny on the tax rate for recreational opportunities in the future including land for parks and extension of the multi-use path as examples. Additionally, funding was provided for three additional positions.

BUDGET HIGHLIGHTS FOR THE FISCAL YEAR ENDING June 30, 2014

Governmental Activities: The adopted budget for fiscal year 2013-2014 follows the reappraisal of real property in the Town effective as of January 1, 2013 which reduced the tax base from \$3,112,748,809 to \$2,324,345,368 a reduction in value of \$788,403,441 or 25.33%. The adopted tax rate for the fiscal year was \$.25/\$100 based on a revenue neutral rate of \$.24/\$100 plus an additional penny for the purchase or development of parks or multi-use path providing estimated revenues of \$5,855,554. The Board designated \$.027 of that tax rate to be used for current or future beach nourishment costs and debt service. The 2.7 cents generates an amount equivalent to what the 2 cents as previously designated had generated for the same purpose. The Town also continued the third year of an

**Town of Nags Head
Management Discussion and Analysis
June 30, 2013**

additional municipal service district tax but increased the rate from \$.16/\$100 to \$.23/\$100 in both municipal service districts to provide an additional projected \$1,792,120 for funding debt service costs on the bonds. The adopted budget reflects an increase of \$1,466,725 from the prior years adopted budget. Budgeted expenditures in the General Fund are generally flat in all departments with the exception of those requiring replacement capital items, new capital items, or new positions. Funding for 401k costs was changed to add an employer match only if employees contribute up to a maximum of 2%. Funding was included for a 2% cost of living increase and for one time merit increases. Positions were added in Police, Fire, and Ocean Rescue with reclassifications of positions made in Planning and Public Works. A pilot mandatory recycling seasonal program was added for those properties receiving cart roll back service. Capital replacement was reduced to four police vehicles, replacement of the dumpster truck and a residential trash truck trailer, four pickup trucks, a loader, a backhoe, gas heaters, an ATV for cart roll back, duty weapon replacements, a jet ski, two oxygen breathing tanks, ground storage tank improvements, waterline installation, and video/audio surveillance equipment. Funding was included for three new capital projects with extension of the multi-use path, improvements to Islington Street beach access, and office additions at Town Hall. The amount budgeted to be transferred to the Capital Reserve Fund for use in subsequent years also increased primarily from the additional one penny tax for parks and path.

Business –Type Activities: The adopted budget included an decrease of \$149,553 (-4.80%) for fiscal year 2013-2014. This includes a decrease in Water Fund revenues of \$70,217 and a decrease in Storm Water revenues of \$79,336. There is no change to water rates from the prior fiscal year with the last increase in rates effective July 1, 2010. Projected revenue from water sales is decreased by \$55,809 from \$2,457,000 to \$2,401,191 for FY 2013-2014 based on a projected decrease in volume of gallons sold as experienced in fiscal year 2012-2013. Appropriated retained earnings will be used to fund the debt service on the new water tank of \$93,875 and \$235,520 for funding capital equipment and projects for fiscal year 2013-2014. Also included in the adopted ordinance was funding for the second repayment of the Water Fund of \$300,000 to further complete the purchase of land by the General Fund from the Water Fund with the intent to continue this annually until the full amount of \$1,623,174 has been repaid.

Requests for Information

This financial report is designed to provide a general overview of the Town of Nags Head's finances and to demonstrate the Town's accountability for the money it receives. Questions concerning any information provided in this report or requests for additional information should be addressed to Finance Officer, Town of Nags Head, Administrative Services, P.O. Box 99, Nags Head, NC, 27959 or by calling 252-441-5508.

Town of Nags Head, North Carolina
Statement of Net Position
June 30, 2013

Exhibit 1

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 4,300,695	\$ 3,817,054	\$ 8,117,749
Investments	4,611,880	-	4,611,880
Taxes receivable (net)	31,422	-	31,422
Accounts receivable (net)	56,259	436,205	492,464
Accrued interest receivable	63,459	-	63,459
Due from other governments	1,240,167	-	1,240,167
Inventories	70,141	59,655	129,796
Prepaid items	10,571	70	10,641
Total current assets	<u>10,384,594</u>	<u>4,312,984</u>	<u>14,697,578</u>
Restricted assets:			
Cash and cash equivalents	<u>4,437,517</u>	-	<u>4,437,517</u>
Capital Assets:			
Land, non-depreciable improvements and construction in progress	9,007,105	2,219,862	11,226,967
Other capital assets, net of depreciation	<u>38,247,630</u>	<u>5,235,142</u>	<u>43,482,772</u>
Total capital assets	<u>47,254,735</u>	<u>7,455,004</u>	<u>54,709,739</u>
Total assets	<u>62,076,846</u>	<u>11,767,988</u>	<u>73,844,834</u>
LIABILITIES			
Current liabilities:			
Accounts payable	283,274	113,432	396,706
Salaries and benefits	333,419	19,468	352,887
Bonds and deposits	13,795	388,178	401,973
Due to other governments	849	-	849
Long-term liabilities:			
Due within one year	4,435,429	111,957	4,547,386
Due in more than one year	<u>9,573,233</u>	<u>488,522</u>	<u>10,061,755</u>
Total liabilities	<u>14,639,999</u>	<u>1,121,557</u>	<u>15,761,556</u>
DEFERRED INFLOWS OF RESOURCES			
Prepaid taxes and business licenses	28,687		28,687
Prepaid rents	31,471		31,471
Prepaid water impact fees		186,000	186,000
Total deferred inflows of resources	<u>60,158</u>	<u>186,000</u>	<u>246,158</u>
NET POSITION			
Net investment in capital assets	36,870,772	6,956,945	43,827,717
Restricted for:			
Streets	114,088	-	114,088
Stabilization by state statute	2,546,881	-	2,546,881
Public safety	12,405	-	12,405
Capital reserve fund	1,542,330	-	1,542,330
Unrestricted	<u>6,290,213</u>	<u>3,503,486</u>	<u>9,793,699</u>
Total net position	<u>\$ 47,376,689</u>	<u>\$ 10,460,431</u>	<u>\$ 57,837,120</u>

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, 2013

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities				
General Government	\$ 9,253,686	\$ 380,445	\$ 6,915	\$ 2,020,000
Public Safety	4,894,679	3,099	34,277	-
Public Works/Transportation	1,972,369	-	43,934	309,639
Environmental Protection	1,721,611	-	-	-
Interest on long-term debt	409,005	-	-	-
Total governmental activities (See Note 1)	18,251,350	383,544	85,126	2,329,639
Business-type activities:				
Water	2,771,846	2,319,482	-	91,500
Storm Water	29,519	114,572	-	-
Total business-type activities	2,801,365	2,434,054	-	91,500
Total primary government	21,052,715	2,817,598	85,126	2,421,139

General revenues:

Taxes:

Property taxes levied for general purpose

Municipal service district taxes

Occupancy tax

Land transfer taxes

Sales taxes

Other taxes

Other unrestricted intergovernmental revenues

Unrestricted investment earnings

Miscellaneous

Total general revenues

Total change in net position

Net position - beginning

Net position - ending

Exhibit 2

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (6,846,326)	\$ -	\$ (6,846,326)
(4,857,303)	-	(4,857,303)
(1,618,796)	-	(1,618,796)
(1,721,611)	-	(1,721,611)
(409,005)	-	(409,005)
(15,453,041)	-	(15,453,041)
-	(360,864)	(360,864)
-	85,053	85,053
	(275,811)	(275,811)
(15,453,041)	(275,811)	(15,728,852)
5,532,574	-	5,532,574
1,800,722	-	1,800,722
2,549,080	-	2,549,080
525,314	-	525,314
2,197,553	-	2,197,553
59,393	-	59,393
658,137	-	658,137
35,785	7,378	43,163
157,502	3,089	160,591
13,516,060	10,467	13,526,527
(1,936,981)	(265,344)	(2,202,325)
49,313,670	10,725,775	60,039,445
\$ 47,376,689	\$ 10,460,431	\$ 57,837,120

Town of Nags Head, North Carolina
Governmental Funds
Balance Sheet
June 30, 2013

Exhibit 3

	Major Funds		
	General	Beach Nourishment	Total
ASSETS			
Cash and cash equivalents	\$ 4,284,050	\$ 16,645	\$ 4,300,695
Investments	4,611,880	-	4,611,880
Taxes receivable (net)	31,422	-	31,422
Accounts receivable (net)	56,259	-	56,259
Accrued interest receivable	63,459	-	63,459
Due from other governments	1,240,141	26	1,240,167
Inventories	70,141	-	70,141
Prepaid items	10,571	-	10,571
Restricted assets:			
Cash and cash equivalents	2,679,401	1,758,116	4,437,517
Total assets	<u>13,047,324</u>	<u>1,774,787</u>	<u>14,822,111</u>
LIABILITIES			
Accounts payable	239,904	43,370	283,274
Salaries and benefits	333,419	-	333,419
Bonds and deposits	13,795	-	13,795
Due to other governments	849	-	849
Total liabilities	<u>587,967</u>	<u>43,370</u>	<u>631,337</u>
DEFERRED INFLOWS OF RESOURCES			
Prepaid taxes and business licenses	28,687	-	28,687
Prepaid rents	31,471	-	31,471
Property taxes receivable	31,422	-	31,422
Business licenses and miscellaneous receivables	41,923	-	41,923
Total deferred inflows of resources	<u>133,503</u>	<u>-</u>	<u>133,503</u>
FUND BALANCES:			
Nonspendable:			
Inventories	70,141	-	70,141
Prepays	10,571	-	10,571
Restricted:			
Restricted for Stabilization by State statute	2,191,540	355,341	2,546,881
Restricted for Streets	114,088	-	114,088
Restricted for Public Safety	12,405	-	12,405
Restricted for Capital Reserve Fund	1,542,330	-	1,542,330
Committed:			
Committed for Capital Projects	-	1,376,076	1,376,076
Assigned:			
Subsequent year's expenditures	477,850	-	477,850
Unassigned	7,906,928	-	7,906,928
Total fund balances	<u>12,325,853</u>	<u>1,731,417</u>	<u>14,057,270</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 12,913,820</u>	<u>\$ 1,774,787</u>	

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	47,254,735
Liabilities for earned revenues considered deferred inflows of resources in fund statements:	
Deferred taxes receivable	31,422
Deferred miscellaneous receivable	41,924
Long-term liabilities used in governmental activities are not financial uses and therefore are not reported in the funds	(14,008,662)
Net position of governmental activities (Exhibit 1)	<u>\$ 47,376,689</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, 2013

	Major Funds		
	General Fund	Beach Nourishment	Total
REVENUES			
Ad valorem taxes	\$ 7,327,126	\$ -	\$ 7,327,126
Other taxes and licenses	5,365,819	-	5,365,819
Unrestricted intergovernmental	623,658	-	623,658
Restricted intergovernmental	2,406,193	-	2,406,193
Permits and fees	226,348	-	226,348
Sales and services	3,099	-	3,099
Investment earnings	33,065	2,695	35,760
Miscellaneous	320,171	25	320,196
Total revenues	16,305,479	2,720	16,308,199
EXPENDITURES			
Current:			
General Government	2,403,961	-	2,403,961
Public Safety	4,462,517	-	4,462,517
Environmental Protection	1,425,084	-	1,425,084
Public Works	1,533,263	-	1,533,263
Debt service:			
Principal	4,267,602	-	4,267,602
Interest and other charges	409,005	-	409,005
Capital outlay	1,117,206	279,020	1,396,226
Total expenditures	15,618,638	279,020	15,897,658
Excess (deficiency) of revenues over expenditures	686,841	(276,300)	410,541
OTHER FINANCING SOURCES (USES)			
Capital lease obligations issued	1,055,818	-	1,055,818
Total other financing sources	1,055,818	-	1,055,818
Net change in fund balance	1,742,659	(276,300)	1,466,359
Fund balances - beginning	10,583,194	2,007,717	12,590,911
Fund balances - ending	\$ 12,325,853	\$ 1,731,417	\$ 14,057,270

Town of Nags Head, North Carolina
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Fiscal Year Ended June 30, 2013

Exhibit 4
(Continued)

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

Net changes in fund balances - total governmental funds \$ 1,466,359

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.

Capital Outlay	1,396,226	
Depreciation	<u>(7,901,015)</u>	(6,504,789)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues/expenditures in the funds.

Change in unavailable revenue for tax and misc revenues 6,170

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.

Debt Issued	(1,055,818)	
Increase in compensated absences	(1,669)	
Decrease in net pension obligation	54,102	
Increase in other post employment benefits	(168,938)	
Principal repayments	<u>4,267,602</u>	3,095,279

Total change in net position of governmental activities \$ (1,936,981)

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
For the Fiscal Year Ended June 30, 2013

	General Fund			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
Revenues:				
Ad valorem taxes	\$ 7,241,768	\$ 7,241,768	\$ 7,327,126	\$ 85,358
Other taxes and licenses	5,339,000	5,347,000	5,365,819	18,819
Unrestricted intergovernmental	626,040	626,040	623,658	(2,382)
Restricted intergovernmental	2,248,662	2,407,257	2,406,193	(1,064)
Permits and fees	219,069	219,069	226,348	7,279
Sales and services	4,000	4,000	3,099	(901)
Investment earnings	70,000	70,000	32,143	(37,857)
Miscellaneous	186,097	238,868	320,171	81,303
Total revenues	15,934,636	16,154,002	16,304,557	150,555
Expenditure:				
Current:				
General Government	3,011,830	2,607,356	2,424,118	183,238
Public Safety	4,410,184	5,330,572	4,797,389	533,183
Environmental Protection	1,498,394	1,612,334	1,435,144	177,190
Public Works	2,270,800	2,597,761	2,285,380	312,381
Debt service:				
Principal	4,111,771	4,270,937	4,267,602	3,335
Interest and other charges	413,614	413,614	409,005	4,609
Contingency	129,363	127,863	-	127,863
Total expenditures	15,845,956	16,960,437	15,618,638	1,341,799
Revenues over (under) expenditures	88,680	(806,435)	685,919	1,492,354
Other financing sources (uses):				
Transfers from other funds	555,163	40,163	40,163	-
Transfers to other funds	(1,014,782)	(903,582)	(920,963)	(17,381)
Installment purchase obligations issued	-	1,055,818	1,055,818	-
Appropriated Fund Balance	370,939	614,036	-	(614,036)
Total other financing sources (uses)	(88,680)	806,435	175,018	(631,417)
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	860,937	<u>\$ 860,937</u>
Fund balances, beginning of year			<u>9,837,557</u>	
Fund balances, end of year			<u><u>10,698,494</u></u>	
A legally budgeted Capital Reserve Fund is consolidated into the General Fund for reporting purposes:				
Interest Income			922	
Transfer to/from general fund			880,800	
Fund balance, beginning of the year			<u>745,637</u>	
Fund balance, end of year			<u><u>\$ 12,325,853</u></u>	

Town of Nags Head, North Carolina
Proprietary Funds
Statement of Fund Net Position
June 30, 2013

Exhibit 6

	Enterprise Funds			
	Major Funds		Non-Major	Total
	Water Fund	Storm Water Fund	Nags Head Leasing	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 3,712,107	\$ 104,444	\$ 503	\$ 3,817,054
Accounts receivable trade (net)	390,132	15,265	-	405,397
Accounts receivable other (net)	30,808	-	-	30,808
Prepays	70	-	-	70
Inventories	59,655	-	-	59,655
Total current assets	<u>4,192,772</u>	<u>119,709</u>	<u>503</u>	<u>4,312,984</u>
Capital assets:				
Land, non-depreciable improvements and construction in progress	2,168,134	51,728	-	2,219,862
Other capital assets, net of depreciation	4,712,964	522,178	-	5,235,142
Total capital assets (net)	<u>6,881,098</u>	<u>573,906</u>	<u>-</u>	<u>7,455,004</u>
Total assets	<u>11,073,870</u>	<u>693,615</u>	<u>503</u>	<u>11,767,988</u>
LIABILITIES				
Current liabilities:				
Accounts payable	112,622	810	-	113,432
Salaries and benefits	19,468	-	-	19,468
Customer deposits	388,178	-	-	388,178
Compensated absences - current	32,858	-	-	32,858
Capital leases payable - current	79,099	-	-	79,099
Total current liabilities	<u>632,225</u>	<u>810</u>	<u>-</u>	<u>633,035</u>
Noncurrent liabilities:				
Other post employment benefits	62,353	-	-	62,353
Compensated absences - non current	7,209	-	-	7,209
Capital leases payable - non current	418,960	-	-	418,960
Total noncurrent liabilities	<u>488,522</u>	<u>-</u>	<u>-</u>	<u>488,522</u>
Total liabilities	<u>1,120,747</u>	<u>810</u>	<u>-</u>	<u>1,121,557</u>
DEFERRED INFLOWS OF RESOURCES				
Prepaid impact fees	186,000	-	-	186,000
Total deferred inflows of resources	<u>186,000</u>	<u>-</u>	<u>-</u>	<u>186,000</u>
NET POSITION				
Net investment in capital assets	6,383,038	573,907	-	6,956,945
Unrestricted	3,384,084	118,899	503	3,503,486
Net Position of business-type activities	<u>\$ 9,767,122</u>	<u>\$ 692,806</u>	<u>\$ 503</u>	<u>\$ 10,460,431</u>

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, 2013

Exhibit 7

	Enterprise Funds			Total
	Water Fund	Storm Water Fund	Nags Head Leasing	
OPERATING REVENUES				
Charges for services	\$ 2,271,210	\$ 114,572	\$ -	\$ 2,385,782
Tap and connection fees	10,410	-	-	10,410
Late payment penalties	27,762	-	-	27,762
Water tag fees	10,100	-	-	10,100
Miscellaneous	3,089	-	-	3,089
Total operating revenues	2,322,571	114,572	-	2,437,143
OPERATING EXPENSES				
Administration	189,583	-	-	189,583
Septic Health	214,921	-	-	214,921
Operations	1,644,406	-	-	1,644,406
Distribution	450,861	-	-	450,861
Storm Water		12,772	-	
Depreciation and amortization	250,373	16,294	-	266,667
Total operating expenses	2,750,144	29,066	-	2,779,210
Total operating income (loss)	(427,573)	85,506	-	(342,067)
NONOPERATING REVENUES (EXPENSES)				
Investment earnings	7,162	215	1	7,378
Interest expense	(21,702)	(453)	-	(22,155)
Total nonoperating revenues and (expenses)	(14,540)	(238)	1	(14,777)
Income (loss) before contributions and transfers	(442,113)	85,268	1	(356,844)
Capital contributions from impact fees	91,500	-	-	91,500
Change in net position	(350,613)	85,268	1	(265,344)
Total net position - beginning	10,117,735	607,538	502	10,725,775
Total net position- ending	\$ 9,767,122	\$ 692,806	\$ 503	\$ 10,460,431

Town of Nags Head, North Carolina
Proprietary Funds
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2013

Exhibit 8

	Business-Type Activities			Total
	Enterprise Funds			
	Water Fund	Storm Water	Nags Head Leasing	
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 2,346,357	\$ 110,004	\$ -	\$ 2,456,361
Cash paid for goods and services	(1,805,198)	(11,963)	-	(1,817,161)
Cash paid to or on behalf of employees for services	(777,468)	-	-	(777,468)
Customer deposits received	32,554	-	-	32,554
Customer deposits returned	(23,406)	-	-	(23,406)
Other operating revenues	3,089	-	-	3,089
Net cash provided (used) by operating activities	(224,072)	98,041	-	(126,031)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Initial impact fees received	73,500	-	-	73,500
Interest paid on debt financing	(21,702)	(453)	-	(22,155)
Septic Loans issued	(20,522)	-	-	(20,522)
Repayment of septic loans	12,365	-	-	12,365
Principal paid on debt financing	(76,435)	(13,080)	-	(89,515)
Sale of capital asset	300,000	-	-	300,000
Acquisition of capital assets	(49,334)	(221,060)	-	(270,394)
Net cash provided (used) by capital and related financing activities	217,872	(234,593)	-	(16,721)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest	7,162	215	-	7,377
Net increase (decrease) in cash and cash equivalents	962	(136,337)	-	(135,375)
Cash balances - beginning of the year	3,711,145	240,781	503	3,952,429
Cash balances - end of the year	\$ 3,712,107	\$ 104,444	\$ 503	\$ 3,817,054
Reconciliation of operating income to net cash provided by operating activities				
Operating income	\$ (427,573)	\$ 85,506	\$ -	\$ (342,067)
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization	250,373	16,294	-	266,667
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable	26,875	(4,569)	-	22,306
(Increase) decrease in inventories	(3,941)	-	-	(3,941)
Increase (decrease) in accounts payable	(94,465)	810	-	(93,655)
Increase (decrease) in accrued liabilities	(2,350)	-	-	(2,350)
Increase (decrease) in customer deposits	9,148	-	-	9,148
Increase (decrease) in accrued OPEB liability	17,861	-	-	17,861
Total adjustments	203,501	12,535	-	216,036
Net cash provided (used) by operating activities	\$ (224,072)	\$ 98,041	\$ -	\$ (126,031)

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

**Town of Nags Head, North Carolina
Fiduciary Fund
Statement of Fiduciary Net Position
June 30, 2013**

Exhibit 9

	<u>Pension Trust</u>
	<u>Special Separation Allowance</u>
ASSETS	
Cash and cash equivalents	\$ 187,600
Total Assets	<u>187,600</u>
NET POSITION	
Assets held in trust for pension benefits	<u>\$ 187,600</u>

Town of Nags Head, North Carolina
Fiduciary Fund
Statement of Changes in Fiduciary Net Position
For the Fiscal Year Ended June 30, 2013

Exhibit 10

	Pension Trust
	Special Separation Allowance
Additions	
Employer Contributions	\$ 100,000
Investment Earnings	280
Total investment earnings	280
Less investment expense	-
Total additions	100,280
Deductions	
Expenditures	
Benefits	40,344
Administrative expenses	-
Total deductions	40,344
Change in net assets	59,936
Net position - beginning of the year	127,664
Net position - end of the year	\$ 187,600

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2013

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. 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, except for fiduciary activities. 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, proprietary, and fiduciary* – 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.

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.

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2013

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.

The Town reports the following fiduciary fund types:

Pension Trust. This is a fiduciary fund for the Law Enforcement Officers Supplemental Retirement.

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, Proprietary, and Fiduciary Fund Financial Statements. The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide, proprietary, and fiduciary 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, 2013

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 are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of January 1, 1993, 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, Dare County is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts in the County, including the Town of Nags Head. For registered motor vehicles, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, the Town's vehicle taxes for vehicles registered in Dare County from March 2012 through February 2013 apply to the fiscal year ended June 30, 2013. Uncollected taxes which were billed during this period are shown as a receivable on these financial statements.

Sales taxes collected and held by the State at year-end on behalf of the Town are recognized as revenue. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Grant revenues which are unearned at year-end are recorded as unearned revenues. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there 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.

As permitted by generally accepted accounting principles, the Town has elected to apply only applicable FASB Statements and Interpretations issued on or before November 30, 1989 that do not contradict GASB pronouncements in its accounting and reporting practices for its enterprise funds.

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2013

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.

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 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 including material adjustments related to hurricane effects.

2. Encumbrances

As required by North Carolina State Statutes, 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 mutual fund.

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) money market mutual fund, are valued at fair value, 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.

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2013

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 and the Water Fund are classified as restricted assets because their use is completely restricted to the purpose for which the debt was originally issued. The amount of unexpended debt proceeds in the General Fund as of June 30, 2013 is \$1,010,578. Powell Bill funds are also classified as restricted cash because it can be expended only for the purposes of maintaining, repairing, construction, reconstructing or widening of local streets per G.S. 136-41.1 through 136.41.4. General Fund restricted assets at June 30, 2013 included Powell Bill funds of \$114,088. Money in the Capital Reserve Fund of \$1,542,330 as of June 30, 2013 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. Beach Nourishment Capital Project Fund restricted assets of \$1,758,116 at June 30, 2013 represented unexpended debt proceeds. North Carolina controlled substance excise taxes in the amount of \$12,405 are classified as restricted assets since they may only be used for law enforcement purposes.

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, 2012.

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.

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2013

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 are recorded at their estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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:

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

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 no items that meet these criteria as of June 30, 2013.

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 five items that meet the criterion for this category – prepaid taxes and business licenses, prepaid rents, prepaid water impact fees, property taxes receivable, and business licenses and miscellaneous receivables.

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.

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2013

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.

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

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2013

the balance of the total unexpended Powell Bill funds.

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

Committed for capital projects - portion of fund balance that is committed by action of the Governing Body for future capital projects.

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.

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.

The Town of Nags Head has also adopted a minimum fund balance policy for the general fund which instructs management to conduct the business of the Town in such a manner that available fund balance is at least equal to or greater than five million dollars or 50% of budgeted expenditures excluding bond debt requirements, whichever is greater.

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.

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2013

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, 2013, the Town's deposits had a carrying amount of \$12,741,867 and a bank balance of \$12,777,477. Of the bank balance, \$4,543,529 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. At June 30, 2013, the Town's petty cash fund totaled \$1,000.

2. Investments

At June 30, 2013, the Town's investments were as follows:

Investment Type	Fair Value	< 1 Year	1-3 Years	3-10 Years	> 10 Years
FNMA	\$ 830,390			\$ 830,390	
FHL Banks	682,102			682,102	
GNMA Mortgage Backed Securities	546,248	-	-	304,289	241,959
NC Capital Management Trust - Cash Portfolio*	2,553,140	2,553,140	-	-	-
Total:	\$ 4,611,880	\$ 2,553,140	\$ -	\$ 1,816,781	\$ 241,959

* Because the NC Capital Management Trust Term Portfolio had duration of 0.3 years, it was presented as an investment with a maturity of less than one year.

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from interest rates, the Town's investment policy limits investments maturing in more than two years from the purchase date to no more than 20% of the portfolio balance.

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2013

Credit Risk. The Town has no formal policy regarding credit risk, but has internal management procedures that limits the Town's 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. The Town's investment in all Government Obligations and Agencies are rated AAA by Standard & Poor's as of June 30, 2013. The Town's investment in NC Capital Management Trust Cash Portfolio carried a credit rating of AAAM by Standard & Poor's as of June 30, 2013.

Concentration of Credit Risk. The Town's policy prohibits the investment of all long term securities with a single institution. There is no limit on the amount the Town may invest in any one issuer.

3. Receivables

The receivables shown in Exhibit A at June 30, 2013 were

	Accounts	Taxes	Due from other Governments	Interest Receivable	Total
Governmental Activities:					
General	\$ 56,284	\$ 41,422	\$ 1,240,141	\$ 63,459	\$ 1,401,306
Allowance for doubtful accounts	-	(10,000)	-	-	(10,000)
Total governmental activities	<u>\$ 56,284</u>	<u>\$ 31,422</u>	<u>\$ 1,240,141</u>	<u>\$ 63,459</u>	<u>\$ 1,391,306</u>
Business-type Activities:					
Water	\$ 405,311	\$ -	\$ -	\$ -	\$ 405,311
Stormwater	15,265	-	-	-	15,265
Allowance for doubtful accounts	(15,180)	-	-	-	(15,180)
Total business type activities	<u>\$ 405,396</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 405,396</u>

Due from other governments consisted of the following:

Occupancy tax	\$ 489,400
Land transfer tax	162,975
Sales taxes	348,579
Sales tax reimbursement	66,600
PARTF Grant	75,000
Outer Banks Visitors Bureau	80,771
Other	16,816
Total	<u>\$ 1,240,141</u>

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2013

4. Capital Assets

Capital asset activity for the Primary Government for the year ended June 30, 2013, was as follows:

	Beginning Balances	Increases	Decreases/ Transfers	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 7,872,825	\$ 300,000	\$ -	\$ 8,172,825
Construction in progress	227,086	608,694	(1,500)	834,280
Total capital assets not being depreciated	<u>8,099,911</u>	<u>908,694</u>	<u>(1,500)</u>	<u>9,007,105</u>
Capital assets being depreciated:				
Buildings	10,024,026	-	6,037	10,030,063
Other improvements	36,598,390	391,827	1,500	36,991,717
Equipment	2,085,513	95,705	(59,716)	2,121,502
Vehicles and motorized equipment	6,397,679	-	(186,339)	6,211,340
Total capital assets being depreciated	<u>55,105,608</u>	<u>487,532</u>	<u>(238,518)</u>	<u>55,354,622</u>
Less accumulated depreciation for:				
Buildings	2,784,529	262,577		3,047,106
Other improvements	842,885	6,962,134		7,805,019
Equipment	1,338,141	191,773	(53,679)	1,476,235
Vehicles and motorized equipment	4,480,440	484,531	(186,339)	4,778,632
Total accumulated depreciation	<u>9,445,995</u>	<u>\$ 7,901,015</u>	<u>\$ (240,018)</u>	<u>17,106,992</u>
Total capital assets being depreciated, net	<u>45,659,613</u>			<u>38,247,630</u>
Governmental activity capital assets, net	<u><u>\$ 53,759,524</u></u>			<u><u>\$ 47,254,735</u></u>

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

General Government	\$6,816,527
Public Safety	377,122
Public Works/Transportation	424,791
Environmental Protection	282,575
Total Depreciation expense	<u>\$7,901,015</u>

Capital asset activities for the Business-type activities for the year ended June 30, 2013 are as follows:

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2013

	Beginning Balances	Increases	Decreases/ Transfers	Ending Balances
Business-type activities:				
Water Fund				
Capital assets not being depreciated:				
Land	\$ 2,453,473	\$ -	\$ (300,000)	\$ 2,153,473
Construction in Progress	12,227	2,434	-	14,661
Total capital assets not being depreciated	<u>2,465,700</u>	<u>2,434</u>	<u>(300,000)</u>	<u>2,168,134</u>
Capital assets being depreciated:				
Plant	5,615,565	-	-	5,615,565
Equipment	839,543	46,900	-	886,443
Vehicles	144,862	-	-	144,862
Intangibles	4,203,619	-	-	4,203,619
Total capital assets being depreciated	<u>10,803,589</u>	<u>46,900</u>	<u>-</u>	<u>10,850,489</u>
Less accumulated depreciation for:				
Plant	2,765,704	106,662	-	2,872,366
Equipment	639,896	38,621	-	678,517
Vehicles	144,862	-	-	144,862
Intangibles	2,336,690	105,090	-	2,441,780
Total accumulated depreciation	<u>5,887,152</u>	<u>\$ 250,373</u>	<u>\$ -</u>	<u>6,137,525</u>
Total capital assets being depreciated, net	<u>4,916,437</u>			<u>4,712,964</u>
Water Fund capital assets, net	<u>\$ 7,382,137</u>			<u>\$ 6,881,098</u>
Storm Water Fund				
Capital assets not being depreciated:				
Construction in Progress	\$ 303,687	\$ 94,106	\$ (346,065)	\$ 51,728
Total capital assets not being depreciated	<u>303,687</u>	<u>94,106</u>	<u>(346,065)</u>	<u>51,728</u>
Capital assets being depreciated:				
Plant	158,447	346,065	-	504,512
Equipment	112,472	-	-	112,472
Total capital assets being depreciated	<u>270,919</u>	<u>346,065</u>	<u>-</u>	<u>616,984</u>
Less accumulated depreciation for:				
Plant	11,330	5,665	-	16,995
Furniture and equipment	67,182	10,629	-	77,811
Total accumulated depreciation	<u>78,512</u>	<u>\$ 16,294</u>	<u>\$ -</u>	<u>94,806</u>
Total capital assets being depreciated, net	<u>192,407</u>			<u>522,178</u>
Storm Water Fund capital assets, net	<u>496,094</u>			<u>573,906</u>
Business-type activities capital assets, net	<u>\$ 7,878,231</u>			<u>\$ 7,455,004</u>

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2013

The government has active construction projects as of June 30, 2013. At year-end, the government's estimated commitments to projects ongoing are as follows:

Project	Spent-to-date	Remaining Commitment
Beach Nourishment	\$ 34,312,287	\$ 355,315
Total	<u>\$ 34,312,287</u>	<u>\$ 355,315</u>

B. Liabilities

1. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

Plan Description

The Town of Nags Head contributes to 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 provides retirement and disability benefits to plan members and beneficiaries. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. 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.

Funding Policy

Plan members are required to contribute six percent of their annual covered salary. The Town is required to contribute at an actuarially determined rate. For the Town, the current rate for employees not engaged in law enforcement and for law enforcement officers is 6.74% and 6.77%, respectively, of annual covered payroll. The contribution requirements of members and of the Town of Nags Head are established and may be amended by the North Carolina General Assembly. The Town's contributions to LGERS for the years ended June 30, 2013, 2012, and 2011 were \$368,463, \$368,378, and \$338,133, respectively. The contributions made by the Town equaled the required contributions for each year.

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

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2013

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, 2012 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	21
Total	23

A separate report was not issued for the plan. The Separation Allowance is reported in the Town's report as a pension trust fund.

Summary of Significant Accounting Policies

Basis of Accounting. Financial statements for the Separation Allowance are prepared using the accrual basis of accounting. Employer contributions to the plan are recognized when due and when the Town has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of the plan.

Method Used to Value Investments. Investments are reported at fair value. Short-term debt, deposits, repurchase agreements, and the North Carolina Capital Management Trust investments are reported at cost or amortized cost, which approximates fair value. Certain longer term United States Government and United States Agency securities are valued at the last reported sales price.

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 by making contributions based on actuarial valuations through appropriations made in the General Fund operating budget. For the current year the Town contributed \$ 100,000 or 8.89% of annual covered payroll. 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, 2011 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, 2011 was 19 years.

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2013

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	\$ 46,769
Interest on net pension obligation	3,560
Adjustment to annual required contribution	<u>(4,431)</u>
Annual pension cost	45,898
Contributions made	<u>100,000</u>
Increase (decrease) in net pension obligation	(54,102)
Net pension obligation beginning of year	<u>71,203</u>
Net pension obligation end of year	<u><u>\$ 17,101</u></u>

3 Year Trend Information				
For Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation	
2011	\$ 31,059	0.0%	\$ 32,018	
2012	\$ 39,185	0.0%	\$ 71,203	
2013	\$ 45,898	217.9%	\$ 17,101	

As of December 31, 2012, the most recent actuarial valuation date, the plan was 41.13 percent funded. The actuarial accrued liability for benefits was \$507,378 and the actual value of assets was \$208,674, resulting in an unfunded actuarial accrued liability (UAAL) of \$298,684. The covered payroll (annual payroll of active employees covered by the plan) was \$1,125,261 and the ratio of the UAAL to the covered payroll was 26.54 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

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2013

enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2013 were \$70,667, which consisted of \$57,522 from the Town and \$13,145 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 an amount equal to one 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, 2013 were \$176,289, which consisted of \$43,114 from the Town and \$133,175 from employees.

e. Firemen's and Rescue Squad Workers' Pension Fund

Plan Description

The State of North Carolina contributes, on behalf of the Town of Nags Head, to the Firemen's and Rescue Squad Workers' Pension Fund (Fund), a cost-sharing multiple-employer defined benefit pension plan with a special funding situation administered by the State of North Carolina. The Fund provides pension benefits for eligible fire and rescue squad workers that have elected to become members of the fund. Article 86 of G.S. Chapter 58 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Firemen's and Rescue Squad Workers' Pension Fund 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 the Fund. 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

Plan members are required to contribute \$10 per month to the Fund. The State, a non-employer contributor, funds the plan through appropriations. The Town contributes \$10 per month on behalf of each firefighter employed by the Town and each qualified member of the Nags Head Volunteer Fire Department. The Town's contributions for the three years ended June 30, 2013, 2012, and 2011, were \$3,690, \$3,580, and \$3,500, respectively.

f. 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.

Town of Nags Head, North Carolina
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Funding Policy

The Town does not match contributions to the 457 deferred compensation plan. Total contributions for the year ended June 30, 2013 were \$42,872, which consisted of \$39,522 from regular employees and \$3,350 from law enforcement employees.

g. 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. 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, 2011, the date of the latest actuarial valuation:

Retired members	7
Active members:	
General Employees	61
Firefighters	27
Law Enforcement	21
Total	116

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 \$58 to \$747 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 4.89% of annual covered payroll. For the current year, the Town contributed \$72,650 or 1.11% 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 \$24,409 for the year ended June 30, 2013.

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

Town of Nags Head, North Carolina
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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	\$ 257,085
Interest on net OPEB obligation	17,223
Adjustment to annual required contribution	<u>(14,859)</u>
Annual OPEB cost (expense)	259,449
Contributions made	<u>72,650</u>
Increase (decrease) in net OPEB obligation	186,799
Net OPEB obligation, beginning of year	<u>430,575</u>
Net OPEB obligation, end of year	<u><u>\$ 617,374</u></u>

3 Year Trend Information			
For Year Ended June 30	OPEB Cost	Annual OPEB Cost Contributed	OPEB Obligation
2011	\$ 193,825	29.21%	\$ 279,672
2012	\$ 209,329	27.91%	\$ 430,575
2013	\$ 259,449	28.00%	\$ 617,374

Funded Status and Funding Progress. As of December 31, 2011, 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 \$2,362,760. The covered payroll (annual payroll of active employees covered by the plan) was \$5,262,661, and the ratio of the UAAL to the covered payroll was 44.90%. 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.

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, 2011 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 9.50 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

Town of Nags Head, North Carolina
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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, 2011, 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, 2013 the Town made no contributions to the State for death benefits. The Town's required contributions for employees not engaged in law enforcement and for law enforcement officers represented .0% and .0% 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.

3. Payables

Payables at Exhibit 1 at June 30, 2013 were as follows:

	Vendors	Salaries and Benefits	Customer Deposits	Total
Governmental Activities				
General	\$ 239,904	\$ 333,419	\$ 13,795	\$ 587,118
Beach Nourishment Fund	43,370	-	-	43,370
Total Governmental activities	<u>\$ 283,274</u>	<u>\$ 333,419</u>	<u>\$ 13,795</u>	<u>\$ 630,488</u>
Business-type Activities				
Water	\$ 112,622	\$ 19,468	\$ 388,178	\$ 520,268
Stormwater	810	-	-	810
Total Business-type activities	<u>\$ 113,432</u>	<u>\$ 19,468</u>	<u>\$ 388,178</u>	<u>\$ 521,078</u>

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2013

4. Deferred Outflows and Inflows of Resources

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

	Unavailable Revenue	Unearned Revenue
Prepaid taxes and privilege licenses (General Fund)	\$ -	\$ 28,687
Taxes and receivable (General Fund)	31,422	-
Privilege licenses receivable (General Fund)	39,324	-
Circuit breaker deferred receivable (General Fund)	2,054	-
Miscellaneous accounts receivable (General Fund)	546	-
Prepaid rent (General Fund)	-	31,471
Prepaid impact fees (Water Fund)	-	186,000
Total	\$ 73,346	\$ 246,158

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 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. The pools are reinsured through commercial companies for single occurrence claims against general liability, auto liability and property in excess of \$500,000 and \$300,000 up to statutory limits for workers' compensation. The property liability pool has an aggregate limit for the total property losses in a single year, with the reinsurance limit based upon a percentage of the total insurance values.

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.

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2013

6. Claims and Judgments

At June 30, 2013 the Town was a defendant to various lawsuits. 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.

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/police 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 \$106,666.67 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 reamortized with payments due in annual installments of \$97,046 plus accrued interest through May 17, 2019. The outstanding balance at June 30, 2013 is \$582,276.

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 \$102,840.98 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 reamortized with payments due in annual installments of \$93,875 including accrued interest through May 17, 2019. The outstanding balance at June 30, 2013 is \$493,795.

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, 2013 is \$250,000.

The town issued special obligation bonds under a five year installment financing contract in 2011 with RBC Bank for funding approximately half the costs of beach nourishment. The amount borrowed was \$18,000,000 at an interest rate of 2.48% which is secured by the pledge of occupancy tax revenues. Payments are due semiannually with interest only due in each October and interest plus principal of \$3,600,000 due each April through 2017. The outstanding balance at June 30, 2013 is \$10,800,000.

The Town currently has six leases outstanding for various vehicles and equipment. Annual payments range from \$14,282 to \$139,771. Expiration dates range from May 2014 to May 2019. Interest rates vary from 1.230% to 1.625%. The total outstanding at June 30, 2013 is \$1,313,275.

The Town purchased financial software during the year ending June 30, 2011 with the cost split between the general fund and the water fund. The terms of the purchase include equal installment payments over four years of \$ 18,545 with no interest. The total outstanding at June 30, 2013 is \$18,545.

Town of Nags Head, North Carolina
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The gross value of all assets recorded under capital leases and installment finance contracts is \$18,951,698. The following is an analysis of the assets recorded under capital leases and installment finance contracts in the Town's governmental funds at June 30, 2013:

Classes of Property	Cost
Building	\$ 1,600,000
Land	500,000
Vehicles and equipment	539,385
Other/infrastructure	16,312,313
Total	\$ 18,951,698

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

	General			General	
	Long-term Debt			Long-term Debt	Current
	June 30, 2012	Increases	Decreases	June 30, 2013	Portion
BY TYPE OF DEBT					
Finance Contract	\$ 15,379,322	\$ -	\$ (3,747,046)	\$ 11,632,276	\$ 3,747,046
Capital Leases	778,013	1,055,818	(520,557)	1,313,275	359,381
Post employment benefits	386,083	168,938	-	555,021	-
Net pension obligation	71,203	45,898	(100,000)	17,101	-
Compensated Absences	489,320	329,002	(327,332)	490,989	329,002
	\$ 17,103,941	\$ 1,599,656	\$ (4,694,935)	\$ 14,008,662	\$ 4,435,429

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

	General			General	
	Long-term Debt			Long-term Debt	Current
	June 30, 2012	Increases	Decreases	June 30, 2013	Portion
BY TYPE OF DEBT					
Finance Contract	\$ 565,967	\$ -	\$ (72,172)	\$ 493,795	\$ 74,836
Capital Leases	21,607	-	(17,343)	4,264	4,263
Post employment benefits	44,492	17,861	-	62,353	-
Compensated Absences	42,076	32,858	(34,867)	40,067	31,535
	\$ 674,142	\$ 50,719	\$ (124,382)	\$ 600,479	\$ 110,634

Town of Nags Head, North Carolina
Notes to the Financial Statements
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b. Changes in Long-Term Liabilities

Compensated absences have been liquidated in the General Fund and Proprietary Fund as follows:

General Fund

General Government	\$ 118,313	\$ 76,497	\$ 86,223	\$ 108,587
Public Safety	274,331	176,827	160,587	290,571
Public Works/Transportation	77,615	56,073	62,871	70,817
Environmental Protection	19,061	19,605	17,652	21,014
	<u>\$ 489,320</u>	<u>\$ 329,002</u>	<u>\$ 327,333</u>	<u>\$ 490,989</u>

Proprietary Fund

	<u>\$ 42,076</u>	<u>\$ 32,858</u>	<u>\$ 34,867</u>	<u>\$ 40,067</u>
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A summary of General government debt service obligations is as follows:

Year Ending June 30	Principal	Interest
2014	\$ 4,106,427	\$ 320,330
2015	4,049,791	219,723
2016	3,899,901	119,665
2017	275,851	20,763
2018	218,617	13,326
2019-2023	394,964	15,718
Total	<u>\$ 12,945,551</u>	<u>\$ 709,525</u>

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

Year Ending June 30	Principal	Interest
2014	\$ 79,099	\$ 19,011
2015	77,717	16,129
2016	80,709	13,136
2017	83,816	10,027
2018	87,043	6,799
2019-2023	89,674	3,447
Total	<u>\$ 498,058</u>	<u>\$ 68,549</u>

Amortization of assets acquired under capital leases in Enterprise Funds is included in depreciation. At June 30, 2013 the Town of Nags Head, North Carolina, has a legal debt margin of \$237,213,172.

Town of Nags Head, North Carolina
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For the Fiscal Year Ended June 30, 2013

8. Operating Leases

The Town entered into an operating lease for the lease of seven copiers effective March 11, 2010 for a period of 60 months. The lease calls for minimum monthly rental payments and per copy maintenance charges based on actual usage.

Total minimum lease payments for the remaining term of the contract at June 30, 2013, are as follows:

2014	5,925
2015	<u>5,431</u>
Total	<u>\$11,356</u>

During the year ended June 30, 2013, the total amount expended by the Town under the above operating lease was \$7,136 including both minimum monthly rentals and per copy charges.

Under a separate lease agreement effective September 17, 2008, the Town entered into a lease for one copier for a period of 60 months in the amount of \$242 per month plus monthly copy charges based on actual usage. This lease was replaced by a new lease agreement effective June 6, 2013, to lease one copier for a period of 60 months in the amount of \$242 per month plus per copy charges based on actual usage.

Total minimum lease payments for the remaining term of the contract at June 30, 2013, are as follows:

2014	\$2,904
2015	\$2,904
2016	\$2,904
2017	\$2,904
2018	<u>\$2,662</u>
Total	<u>\$14,278</u>

During the year ended June 30, 2013, the total amount expended by the Town under the above operating lease was \$3,768, including both minimum monthly rentals and overage per copy charges.

The Town leases office and laboratory space to North Carolina University Systems for a period of ten years beginning in May 2005 through December 2013 for an annual rental amount of \$35,000. During the year ending June 30, 2009 this was increased for a one time reimbursement of \$34,500 for leasehold improvements to the office space. The Town agreed to the early termination of this lease in September of 2012 with the completion of their new facilities. The total earned under this lease in the year ended June 30, 2013 was \$8,750. The Town entered into month to month leases of this facility for the remainder of the fiscal year with North Carolina Shellfish and Outer Banks Community Care Clinic. The amounts earned under these leases as of June 30, 2013 were \$4,375 and \$4,500, respectively.

The Town leases space on the water tower in south Nags Head and the newly constructed 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, was \$279,577. The amount earned for the year ended June 30, 2013 was \$7,532, with rent abatement in the amount of \$22,596. The total amount of rental

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2013

abatement to date is \$108,062 and the current lease goes through February 2018. AT&T also leases space on the water tower in south Nags Head which earned \$28,800 for the year ending June 30, 2013 and expires in May 2016. Additional space leased on the cell tower at town hall with Verizon through August 2014 and with Ntelos through June 2015 earned \$35,841 and \$30,554, respectively, for the year ended June 30, 2013.

During the year ending June 30, 2012 the Town entered into lease 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.

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, repayment was made in the amount of \$16,000.

Transfers to/from other funds for the year ended June 30, 2013 consisted of the following:

From the General Fund to the Capital Reserve Fund for future capital purchases	\$ 920,963
From the Capital Reserve Fund to the General Fund for current year capital purchases	\$ 40,163
From the General Fund to the Water Fund for the purchase of capital (land)	\$ 300,000

D. On-Behalf of Payments for Fringe Benefits and Salaries

For the fiscal year ended June 30, 2013, the Town has recognized on-behalf payments for pension contributions made by the State as a revenue and an expenditure of \$4,797 for the 13 volunteer firemen who perform fire fighting duties for the Town's fire department. The volunteers and employees elected to be members of the Firemen and Rescue Squad Workers' Pension Fund, a cost-sharing, multiple-employer public employee retirement system established and administered by the State of North Carolina. The plan is funded by a \$10 monthly contribution paid by each member, investment income, and a State appropriation.

E. Fund Balance

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

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2013

Total Fund Balance - General Fund	\$12,325,853
Less:	
Nonspendable	(80,712)
Stabilization by State Statute	(2,191,540)
Restricted for Streets	(114,088)
Restricted for Public Safety	(12,405)
Restricted for capital reserve fund	(1,542,330)
Restricted for 2012-2013 budget	(477,850)
Fund Balance Available	\$7,906,928

At June 30, 2013, \$873,605 of open purchase orders and contracts were outstanding in the General Fund. These encumbrances outstanding will be re-appropriated in the subsequent year's budget. The Beach Nourishment Capital Project Fund had \$355,315 in outstanding encumbrances at June 30, 2013. The Water Fund had \$1,849 in encumbrances outstanding at June 30, 2013. There were no open purchase orders in any of the other Town funds.

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 Firemen's Relief Fund. The State Insurance Commissioner appoints one additional member to the local board of trustees. The Firemen'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 Firemen'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, 2013. The Firemen's Relief Fund does not issue separate audited financial statements. Instead, the local board of trustees files an annual financial report with the State Firemen'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 until the Water Fund has been fully reimbursed and the property fully transferred to the Town's General Fund. 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 March 31, 2009, the parties entered into a lease agreement for a portion of the jointly owned property to be used for recreational activities for a period of three years in the amount of \$42,500 annually. These revenues will be used to cover the ongoing operating costs of the property with any extra reserved for future development. The funds are held in an enterprise fund by the Outer Banks Visitors Bureau. This lease agreement was not renewed at termination and the amount of funds held by the Outer Banks Visitors Bureau at June 30, 2013 was \$42,474. A memorandum of understanding formalizing the cost and revenue sharing for the property was signed during the prior fiscal year. Costs incurred during

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2013

the year ended June 30, 2013 for insurance, utilities, and maintenance were reimbursed under the terms of the memorandum of understanding from the rental revenues received for the property.

IV. Summary Disclosure of Commitments and 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. Jennette's Pier

During the year ending June 30, 2003, the Town agreed conceptually to participate in the acquisition by The North Carolina Aquarium Society of the Jennette's Pier property by making a one time contribution of \$300,000, based on a mutually agreed to Memorandum of Understanding between and among various agencies of North Carolina State Government, Dare County and the Town of Nags Head. This was recorded as a payable at that time. As of October 7, 2005 a Memorandum of Understanding was entered into between the Town, Dare County, the North Carolina Aquarium Society, the North Carolina Aquariums, and the Clean Water Management Trust and payment of the \$300,000 was made to Clean Water Management Trust at that time. The transfer of this property from the North Carolina Aquarium Society to the North Carolina Aquariums took place in the fall of 2007. Construction began in the spring of 2009 and was completed and opened to the public in spring of 2011.

C. 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 2012-13 year was \$71.13 per ton.

D. Volunteer Fire Department Agreement

The Board of Commissioners maintains an agreement with the Nags Head Volunteer Fire Department (NHVFD) that calls for incentive pay based on an individual members qualifications and call response. Billing for the incentive is based on the twelve-month period of November through October each year. Under the agreement, it is the obligation of NHVFD to provide an accurate accounting of the incentive earned at various intervals during the year including the Town's fiscal year end. 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.

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2013

The amount expended under this agreement for the full year ending June 30, 2013 was \$5,210 plus an additional \$262 in related FICA.

E. 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, 2013, accumulated amortization totaled \$2,441,780.

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 effected by the revised agreement.

F. 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, 2013, 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 711 WCU's which are guaranteed by the Town and are valued at \$1,422,000. The Town reimbursed Ammons-Dare Corporation for 100 unused WCU's in the amount of \$200,000 during the fiscal year ending June 30, 1992, 50 unused WCU's in the amount of \$100,000 during the fiscal year ending June 30, 1993, 15 units in the amount of \$30,000 during the fiscal year ending June 30, 1995, and 31 units in the amount of \$62,000 in the year ended June 30, 1996. The remaining 93 WCU's in the amount of \$186,000 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.

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2013

G. 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. The facility fees are deposited in a separate interest-bearing account. The interest earned shall be used solely for purposes specified in the account.

For the year ended June 30, 2013, the following Facility Fee Revenue (including interest) was collected in the General Fund:

Administration	\$	10,068
Fire		3,702
Police		3,875
Sanitation		2,011
Recreation		6,942
Total	\$	<u>26,598</u>

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, 2013, the facility fees were transferred to the Capital Reserve Fund where they will remain until funds are needed for appropriate capital expenditures.

During the year ended June 30, 2013, \$4,106 of administration facility fees was used toward the debt for the new phone system and \$4,293 in recreation fees was used toward the debt on ocean rescue 800MHZ radio debt. Police facility fees of \$20,764 were used for a portion of new police 800 MHZ radio debt and debt for replacement police and animal control vehicles. Fire facility fees of \$16,000 was used toward repayment of interfund debt and \$11,000 of sanitation facility fees was used for debt for replacement vehicles.

As of June 30, 2013, the following balances of facility fees remained, and are included in the Capital Reserve Fund:

Administration	\$	73,931
Fire		4,658
Police		96,975
Sanitation		3,073
Recreation		51,241
Total	\$	<u>229,878</u>

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2013

The following schedule summarizes facility fees collected and used from the inception of the fees to date:

Facility Fees Collected (inclusive of interest):

	Admin.	Fire	Police	Sanitation	Recreation	Total
FY 89-90	\$ 29,114	\$ 19,035	\$ 7,179	\$ 16,548	\$ -	\$ 71,876
FY 90-91	17,704	15,761	6,293	10,194	-	49,952
FY 91-92	24,115	27,159	11,204	15,236	-	77,714
FY 92-93	24,392	16,237	6,509	12,473	-	59,611
FY 93-94	23,758	24,740	10,317	12,476	-	71,291
FY 94-95	25,965	27,202	11,743	17,074	-	81,984
FY 95-96	28,330	28,125	12,570	19,832	-	88,857
FY 96-97	22,811	11,699	5,322	9,682	-	49,514
FY 97-98	34,009	15,243	15,749	10,406	-	75,407
FY 98-99	45,061	23,584	28,535	19,367	-	116,547
FY 99-00	45,953	31,970	43,067	24,461	14,473	159,924
FY 00-01	64,457	66,526	102,658	47,078	41,911	322,630
FY 01-02	64,532	34,245	43,293	30,466	42,338	214,874
FY 02-03	63,155	36,834	50,102	33,571	38,719	222,381
FY 03-04	39,368	16,606	18,221	10,109	28,633	112,937
FY 04-05	33,300	45,226	75,807	23,782	23,479	201,594
FY 05-06	24,395	14,920	20,474	13,677	23,030	96,496
FY 06-07	15,490	16,598	27,048	14,878	10,935	84,949
FY 07-08	28,606	12,856	24,638	11,786	19,005	96,891
FY 08-09	5,631	14,296	25,639	16,191	3,466	65,223
FY 09-10	6,378	3,925	5,842	5,836	4,396	26,377
FY 10-11	8,185	3,424	4,621	4,826	6,101	27,157
FY 11-12	9,833	6,455	9,514	7,259	7,056	40,117
FY 12-13	10,068	3,702	3,875	2,011	6,942	26,598
Total	\$ 694,610	\$ 516,368	\$ 570,220	\$ 389,219	\$ 270,484	\$ 2,440,901

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2013

Facility Fees Used:

	Admin.	Fire	Police	Sanitation	Recreation	Total
FY 89-90	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
FY 90-91	-	-	-	-	-	-
FY 91-92	-	30,000	-	20,000	-	50,000
FY 92-93	-	-	6,520	-	-	6,520
FY 93-94	-	26,247	4,097	-	-	30,344
FY 94-95	-	26,247	4,097	-	-	30,344
FY 95-96	-	75,765	-	-	-	75,765
FY 96-97	160,000	-	40,000	5,000	-	205,000
FY 97-98	10,000	-	5,000	5,000	-	20,000
FY 98-99	35,000	-	16,120	-	-	51,120
FY 99-00	31,500	26,942	28,434	18,864	-	105,740
FY 00-01	31,500	23,584	13,500	19,818	7,065	95,467
FY 01-02	31,500	31,970	48,227	71,677	44,000	227,374
FY 02-03	31,500	66,526	13,500	36,716	25,000	173,242
FY 03-04	56,861	40,591	60,601	50,999	42,000	251,052
FY 04-05	31,500	30,667	18,648	52,356	25,000	158,171
FY 05-06	31,500	16,427	25,198	36,716	52,000	161,841
FY 06-07	31,500	45,225	25,033	9,000	8,850	119,608
FY 07-08	31,500	14,921	39,627	12,000	-	98,048
FY 08-09	31,500	16,598	25,033	5,000	2,449	80,580
FY 09-10	31,500	24,000	25,033	22,000	-	102,533
FY 10-11	35,606	-	33,049	10,000	4,293	82,948
FY 11-12	4,106	-	20,764	-	4,293	29,163
FY 12-13	4,106	16,000	20,764	11,000	4,293	56,163
Total	\$ 620,679	\$ 511,710	\$ 473,245	\$ 386,146	\$ 219,243	\$ 2,211,023
Remaining	\$73,931	\$4,658	\$96,975	\$3,073	\$51,241	\$229,878

H. Beach Nourishment

On November 2, 2005, the Town adopted a capital project ordinance for Beach Nourishment with an estimated cost of \$27,697,850 to be funded by bond proceeds in the amount of \$26,997,850 and a contribution from the General Fund in the amount of \$700,000. This project ordinance was amended several times between then and the amended ordinance in place as of June 30, 2012 reflecting an estimated project cost of \$36,000,000 with \$18 million provided from special obligation bonds issued during the prior fiscal year and \$18 million from Dare County pursuant to an interlocal agreement signed during the prior fiscal year. Costs of the project included \$1,762,125 for construction engineering and oversight with costs beginning under the contract in 2005 and completed in the year ending June 30, 2012. Additional costs provided in the ordinance included Capital Construction of \$25,528,000, Mobilization of \$4,656,000, Monitoring of \$829,670, Other costs of \$1,571,162 for extension of the outfalls, Professional Fees of \$330,713, and Contingency of \$1,322,330. Additionally the ordinance included the transfer of funds from the General Fund of \$1,027,251 for funding the upfront costs which was then refunded to the General Fund in the same amount during the year ended June 30, 2012.

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2013

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 and remaining professional fees. Total costs incurred through June 30, 2013 include \$1,762,122 for engineering and construction oversight, \$25,530,000 in project construction costs, \$4,654,000 in mobilization, \$1,570,308 for other costs, \$345,530 in professional fees, and \$450,327 in monitoring costs. Funds committed as of June 30, 2013 include \$355,315 for post construction monitoring contracts.

The financing for the project was provided by special obligation bonds in the amount of \$18,000,000 secured by the Town's occupancy tax revenues. The terms of the debt obligation requires annual repayment of principal in the amount of \$3,600,000 and semiannual payment of interest. Repayment of the bond proceeds and interest is expected to be provided by both a town wide tax and additional taxes on the properties located in the municipal service districts for the next three years. The Town also received funding through an interlocal agreement with Dare County providing eighteen million dollars towards the construction costs and an additional two million annually for five years to be used towards the repayment of debt. Funds received from these sources for debt repayment in excess of the amount needed for debt costs were transferred from the General Fund to the Capital Reserve Fund during the year in the amount of \$ 357,503 for a total of \$710,450 to be used in the future for debt repayment in the next three years or additional beach renourishment as needed. Additionally, \$536,862 was transferred from sales tax revenues derived from the municipal service district levy to be used in the future for the same reasons as restricted by state statute for use in the municipal service district for the purpose for which they were established.

I. Subsequent Events

Management has evaluated subsequent events through October 22, 2013, the date on which the financial statements were available to be issued.

V. Change in Accounting Principles/Restatement

The Town implemented Governmental Accounting Standards Board (GASB) Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, in the fiscal year ending June 30, 2013. In accordance with GASB Statement 63, the Statement of Net Assets has been replaced with the Statement of Net Position. Items on the Statement of Net Position are now classified into Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position.

Town of Nags Head, North Carolina
Law Enforcement Officers' Special Separation Allowance
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]
12/31/1998	\$62,331	\$83,495	\$21,164	74.65%	\$656,523	3.22%
12/31/1999	71,819	81,751	9,932	87.85%	579,505	1.71%
* 12/31/2000	88,268	145,789	57,521	60.55%	673,137	8.55%
12/31/2001	90,229	178,317	88,088	50.60%	771,135	11.42%
12/31/2002	90,891	182,538	91,647	49.79%	815,534	11.24%
12/31/2003	151,541	212,074	60,533	71.46%	915,380	6.61%
12/31/2004	184,675	250,217	65,542	73.81%	1,026,938	6.38%
12/31/2005	217,715	241,698	23,983	90.08%	1,021,727	2.35%
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%

* Valuations beginning December 31, 2000 reflect a change in actuarial assumptions

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

Year Ended <u>June 30</u>	Annual Required <u>Contribution</u>	Percentage <u>Contributed</u>
1999	8,503	74.46%
2000	10,300	74.65%
2001	8,148	87.85%
2002	15,773	60.55%
2003	18,854	50.60%
2004	19,026	157.68%
2005	18,650	169.69%
2006	20,819	138.75%
2007	16,393	223.61%
2008	16,335	0.00%
2009	23,846	125.81%
2010	25,855	0.00%
2011	31,062	0.00%
2012	39,494	0.00%
2013	46,769	213.73%

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	12/31/2012
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	18 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	\$0	\$1,737,866	\$1,737,866	0.00%	\$5,725,487	30.40%
12/31/2011	\$0	\$2,362,760	\$2,362,760	0.00%	\$5,262,661	44.90%

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

Year Ended <u>June 30</u>	Annual Required <u>Contribution</u>	Percentage <u>Contributed</u>
2010	193,043	26.20%
2011	193,043	29.33%
2012	207,793	28.12%
2013	257,085	28.26%

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	12/31/2011
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay, open
Remaining amortization period	30 years
Asset valuation method	Market value of assets
Actuarial assumptions:	
Investment rate of return *	4.00%
Medical cost trend rate	9.50 - 5.00%
Year of Ultimate trend rate	2018
* Includes inflation at	3.00%

**TOWN OF NAGS HEAD, NORTH CAROLINA
GENERAL FUND**

Schedule 1

**Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual
For the Year Ended June 30, 2013**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
REVENUES			
Ad Valorem Taxes:			
Current year	\$ -	\$ 5,478,436	\$ -
Municipal service district		1,796,955	
Discounts		(48,410)	
Prior year		16,642	
DMV current year		69,316	
DMV prior year		2,892	
Penalties and interest		11,295	
Total	7,241,768	7,327,126	85,358
Other Taxes and Licenses:			
Occupancy tax		2,549,080	
Land Transfer tax		525,314	
Local governmental sales tax		1,264,357	
1/2% sales tax revenue		933,196	
Privilege licenses		58,202	
Mixed beverage tax		34,479	
Privilege license penalties		1,191	
Total	5,347,000	5,365,819	18,819
Intergovernmental Revenues:			
Unrestricted:			
Utility Franchise tax		328,307	
Telecommunications tax		54,232	
Natural Gas Franchise fee		4,891	
Solid Waste Disposal fees		1,741	
Video programming tax/franchise fees		147,640	
Cable Franchise - PEG fund fees		63,672	
Beer and wine		11,196	
ABC revenue		11,979	
Total	626,040	623,658	(2,382)
Restricted:			
Federal:			
FEMA Reimbursement		14,947	
Drug Enforcement Overtime Grant		4,499	
Miscellaneous		5,000	
State:			
FEMA Reimbursement		4,982	
State Street Aid allocation-Powell Bill		116,059	
PARTF Grant		75,000	
CAMA Reimbursement		4,415	
Controlled substance excise tax		2,706	
Local:			
Contributions from Dare County		2,024,005	
Government Access Channel Grant		20,000	
Outer Banks Visitor Bureau grant		128,580	

**TOWN OF NAGS HEAD, NORTH CAROLINA
GENERAL FUND**

Schedule 1

**Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual
For the Year Ended June 30, 2013**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Miscellaneous		6,000	
Total	<u>2,407,257</u>	<u>2,406,193</u>	<u>(1,064)</u>
Total Intergovernmental Revenues	<u>3,033,297</u>	<u>3,029,851</u>	<u>(3,446)</u>
Permits and Fees:			
Building permits		156,813	
Facility fees		26,597	
Inspection and review fees		19,761	
Beach driving permits		18,277	
CAMA permits		4,500	
Motor vehicle licenses		400	
Total	<u>219,069</u>	<u>226,348</u>	<u>7,279</u>
Sales and Services:			
Court costs and fees	<u>4,000</u>	<u>3,099</u>	
Total	<u>4,000</u>	<u>3,099</u>	<u>(901)</u>
Investment Earnings	<u>70,000</u>	<u>32,143</u>	<u>(37,857)</u>
Other Revenues:			
Other rents		137,656	
Sale of materials		58,742	
Miscellaneous		52,825	
Sale of assets		15,605	
Damage recovery		30,330	
Civil Penalties		1,450	
Cart rollback		14,991	
Contributions to Police, Fire & Rescue Benevolent Fund		8,572	
Total	<u>238,868</u>	<u>320,171</u>	<u>81,303</u>
Total Revenues	<u>16,154,002</u>	<u>16,304,557</u>	<u>150,555</u>
EXPENDITURES			
General Government:			
Governing Body:			
Fees paid to elected officials		34,114	
FICA expense		2,610	
Contracted services		39,139	
Department supplies and materials		9,360	
Special events		789	
Dues and subscriptions		5,740	
Printing		2,176	
Travel		1,505	
Training		370	
Equipment rental		179	

**TOWN OF NAGS HEAD, NORTH CAROLINA
GENERAL FUND**

Schedule 1

**Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual
For the Year Ended June 30, 2013**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Employee incentive		250	
Contribution to YMCA		4,000	
Contribution to Nags Head Woods		21,000	
Contribution to Government Access Channel		64,672	
Contribution to UNC/CSI		5,861	
Contributions, miscellaneous		7,568	
Capital Outlay, equipment		20,157	
		<hr/>	
Total	237,143	219,490	(17,653)
		<hr/>	
Special Obligation Bonds:			
Debt service, bond principal		3,600,000	
Debt service, interest		356,624	
		<hr/>	
Total	3,957,120	3,956,624	(496)
		<hr/>	
Administration:			
Salaries and wages		355,459	
FICA expense		26,134	
Group insurance		58,945	
Group insurance - retiree		9,899	
Retirement		23,520	
401(k) account		3,490	
Contracted services		5,968	
Travel		5,492	
Advertising		3,530	
Departmental supplies		4,252	
Dues and subscriptions		1,497	
Equipment rental		3,768	
Telephone		4,597	
Employee training		2,670	
Postage		989	
Professional fees		35	
Repairs and maintenance, vehicles		9	
Automotive Supplies		415	
Reimbursement from Water Fund		(67,587)	
		<hr/>	
Total	472,260	443,082	(29,178)
		<hr/>	
Administrative Services:			
Salaries and wages		297,012	
FICA expense		20,951	
Group insurance expense		40,712	
Retirement		18,809	
401(k) account		2,790	
Unemployment expense		15,085	
Insurance		338,937	
Contracted services		2,854	
Employee training		2,275	
Professional services		22,073	

**TOWN OF NAGS HEAD, NORTH CAROLINA
GENERAL FUND**

Schedule 1

**Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual
For the Year Ended June 30, 2013**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Fines and forfeitures		3,264	
Departmental supplies and materials		14,642	
Postage		8,737	
Telephone		3,108	
Travel		3,884	
Other supplies, computers		1,759	
Equipment rental		4,223	
Printing		3,740	
Repairs and maintenance, equipment		109	
Wellness program		8,321	
Personnel Committee		1,209	
Special contracted services		890	
Dues and subscriptions		1,027	
Purchases for resale		1,984	
Advertising		703	
Repairs and maintenance, vehicles		801	
Automotive supplies		1,401	
Reimbursement from Water Fund		(143,596)	
Debt service, vendor finance		14,282	
		<hr/>	
Total	742,022	691,986	(50,036)
		<hr/>	
Information Technology:			
Salaries and wages		120,024	
FICA expense		9,122	
Group insurance		13,095	
Retirement		8,101	
401(k) account		1,202	
Contracted services		7,800	
Contracted services, website		1,911	
Contracted services, annual contracts		22,842	
Professional services		123	
Departmental supplies		14,238	
Telephone		5,173	
Postage		19	
Repairs and maintenance, equipment		7,216	
Other supplies		6,871	
Internet costs		8,103	
Equipment rental		14,439	
Dues and subscriptions		150	
Reimbursement from Water Fund		(14,227)	
Debt service, capital lease		18,126	
Debt service, interest		1,124	
		<hr/>	
Total	268,468	245,452	(23,016)
		<hr/>	
Planning and Development:			
Salaries and wages		493,380	
FICA expense		36,378	
Group insurance		63,451	
Retirement		32,909	

**TOWN OF NAGS HEAD, NORTH CAROLINA
GENERAL FUND**

Schedule 1

**Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual
For the Year Ended June 30, 2013**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
401(k) account		4,883	
Planning board, board of adjustment		9,660	
Uniforms		550	
Professional services		23,377	
Departmental supplies		10,359	
Travel		555	
Printing		127	
Advertising		2,456	
Telephone		5,194	
Postage		677	
Repairs and maintenance, vehicles		2,419	
Repairs and maintenance, equipment		1,400	
Other supplies		3,172	
Automotive supplies		3,786	
Employee training		1,420	
Equipment rental		1,252	
Dues and subscriptions		2,140	
Reimbursement from Water Fund		(76,954)	
Capital outlay, equipment			
Debt service, capital lease		9,266	
Debt service, interest		151	
Total	687,383	632,008	(55,375)
Legal Services:			
Professional services		239,021	
Reimbursement from Water Fund		(3,972)	
Total	243,028	235,049	(7,979)
Total General Government	6,607,424	6,423,691	(183,733)
Public Safety:			
Police Department:			
Salaries and wages		1,259,283	
FICA expense		91,820	
Group insurance		242,817	
Group insurance - retiree		9,869	
Retirement		84,745	
401(k) account		58,717	
Separation Allowance		100,000	
Automotive supplies		77,096	
Departmental supplies		29,550	
Repairs and maintenance, vehicles		22,311	
Repairs and maintenance, equipment		22,696	
Printing		709	
Telephone		17,088	
Other supplies		2,607	
Uniforms		11,241	

**TOWN OF NAGS HEAD, NORTH CAROLINA
GENERAL FUND**

Schedule 1

**Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual
For the Year Ended June 30, 2013**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Equipment rental		7,491	
Travel		3,958	
Professional services		11,597	
Employee training		2,359	
Special investigations		2,000	
Postage		995	
Dues and subscriptions		972	
Advertising		167	
Contracted services		1,001	
Reimbursement from Water Fund		(6,827)	
Capital outlay, equipment		15,450	
Debt service, capital lease		121,047	
Debt service, interest		3,987	
Total	2,256,990	2,194,746	(62,244)
Drug Forfeiture:			
Department supplies		5,363	
Contracted services		750	
Telephone		521	
Total	6,686	6,634	(52)
Fire Department:			
Salaries and wages		1,298,993	
FICA expense		94,600	
Group insurance		250,267	
Retirement expense		90,265	
401(k) account		13,074	
Departmental supplies		36,964	
Repairs and maintenance, vehicles		27,285	
Uniforms		10,254	
Repairs and maintenance, equipment		4,201	
Automotive supplies		22,232	
Telephone		6,716	
Employee training		1,965	
OSHA Compliance		1,248	
Travel		3,573	
Safety training		4,783	
Other supplies		5,762	
Equipment rental		1,205	
Dues and subscriptions		2,273	
Professional services		9,611	
Advertising		48	
Postage		437	
Contracted Services		7,805	
Printing		641	
Capital outlay, equipment		288,360	
Debt service, capital lease		257,246	
Debt service, interest		28,956	
Total	2,934,998	2,468,764	(466,234)

**TOWN OF NAGS HEAD, NORTH CAROLINA
GENERAL FUND**

Schedule 1

**Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual
For the Year Ended June 30, 2013**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Volunteer Fire:			
Incentive pay		5,210	
FICA expense		262	
Uniforms		1,625	
Dues and subscriptions		390	
Training		40	
Travel		135	
Repairs and maintenance, equipment		-	
Professional services		8,091	
Retirement		6,768	
Department supplies		5,353	
Total	28,009	27,874	(135)
Ocean Rescue:			
Salaries and wages		386,967	
FICA expense		22,842	
Group insurance		6,244	
Retirement expense		2,536	
401(k) account		376	
Departmental supplies		21,784	
Uniforms		10,786	
Automotive supplies		14,588	
Repairs and maintenance, equipment		3,230	
Travel		970	
Repairs and maintenance, vehicles		2,342	
Professional fees		3,335	
Telephone		1,324	
Employee training		59	
Printing		873	
Dues and subscriptions		1,210	
Advertising		36	
Postage		43	
Capital outlay, equipment		31,062	
Debt service, capital lease		37,293	
Debt service, interest		1,223	
Total	554,381	549,123	(5,258)
Total Public Safety	5,781,064	5,247,141	(533,923)
Environmental Protection:			
Sanitation:			
Salaries and wages		381,878	
FICA expense		27,778	
Group insurance		77,416	
Group insurance - retiree		9,899	
Retirement		24,226	
401(k) account		3,595	
Repairs and maintenance, vehicles		128,047	
Automotive supplies		124,071	

**TOWN OF NAGS HEAD, NORTH CAROLINA
GENERAL FUND**

Schedule 1

**Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual
For the Year Ended June 30, 2013**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Department supplies		27,336	
Uniforms		3,530	
Contracted services		13,000	
Recycling		6,650	
Repairs and maintenance, equipment		6,431	
Professional Fees		50	
Equipment rental			
Advertising		412	
Capital outlay, equipment		10,060	
Debt service, capital lease		130,311	
Debt service, interest		5,630	
		<hr/>	
Total	1,156,119	980,320	(175,799)
		<hr/>	
Solid Waste:			
Tipping fees		590,765	
		<hr/>	
Total	596,863	590,765	(6,098)
		<hr/>	
Total Environmental Protection	1,752,982	1,571,085	(181,897)
		<hr/>	
Public Works:			
Administration:			
Salaries and wages		219,383	
FICA expense		15,923	
Group insurance		42,227	
Group insurance - retiree		26,361	
Retirement		14,948	
401(k) account		2,218	
Contracted services		23,961	
Purchase for resale		45,071	
Telephone		6,563	
Departmental supplies		2,363	
Other supplies		880	
Advertising		80	
Equipment rental		199	
Automotive supplies		4,510	
Employee training		356	
Travel		441	
Dues and subscriptions		788	
Postage		152	
Repairs and maintenance, equipment		5	
Repairs and maintenance, vehicles		2,188	
Uniforms		170	
Professional fees		579	
Reimbursement from Water Fund		(142,965)	
		<hr/>	
Total	286,970	266,401	(20,569)
		<hr/>	
Public Facilities Maintenance:			

**TOWN OF NAGS HEAD, NORTH CAROLINA
GENERAL FUND**

Schedule 1

**Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual
For the Year Ended June 30, 2013**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Salaries and wages		360,130	
FICA expense		26,453	
Group insurance		72,032	
Retirement		23,389	
401(k) account		3,470	
Repairs and maintenance, facilities		38,405	
Utilities		173,292	
Contracted services		124,446	
Department supplies		16,247	
Repairs and maintenance, equipment		28,837	
Signs		17,840	
Automotive supplies		25,877	
Repairs and maintenance, other		57,152	
Other supplies		16,147	
Professional services		1,540	
Uniforms		2,512	
Repairs and maintenance, vehicles		4,234	
Employee training		544	
Travel		399	
Advertising		249	
Special Projects, lighting			
Special Projects, sandfencing		48,202	
Street supplies, Powell Bill		17,148	
Dues and subscriptions		100	
Reimbursement from Water Fund		(50,112)	
Capital outlay, multi use path grant		173,331	
Capital outlay, Whalebone Park grant		160,164	
Capital outlay, other		58,331	
Capital outlay, equipment		7,777	
Capital outlay, other Powell Bill		60,542	
Capital outlay, land from water fund		300,000	
Debt service, capital lease		80,031	
Debt service, interest		11,310	
Total	<u>2,128,868</u>	<u>1,860,019</u>	<u>(268,849)</u>

Maintenance Garage:

Salaries and wages	159,432
FICA account	11,732
Group insurance	39,165
Group insurance, retiree	7,544
Retirement	10,764
401(k) account	1,597
Other supplies	9,151
Departmental supplies	11,609
Uniforms	1,579
Contracted services	963
Professional services	30
Automotive supplies	1,016
Repairs and maintenance, vehicles	321

**TOWN OF NAGS HEAD, NORTH CAROLINA
GENERAL FUND**

Schedule 1

**Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual
For the Year Ended June 30, 2013**

	<u>Budget</u>	<u>Actual</u>	Variance Over (Under)
Employee training		1,176	
Repairs and maintenance, equipment		2,982	
Reimbursement from Water Fund		(8,760)	
Total	275,266	250,301	(24,965)
Total Public Works	2,691,104	2,376,721	(314,383)
Contingency	127,863	-	(127,863)
Total Expenditures	16,960,437	15,618,638	(1,341,799)
Revenues Over (Under) Expenditures	(806,435)	685,919	1,492,354
Other Financing Sources (Uses):			
Capital lease issued	1,055,818	1,055,818	-
Transfers to/from Capital Reserve Funds (Net)	(863,419)	(880,800)	(17,381)
Transfers from Capital Projects Fund (Net)			-
Appropriated Fund Balance	614,036	-	(614,036)
Other financing sources (uses), net	806,435	175,018	(631,417)
Net change in fund balance	<u>\$ -</u>	860,937	<u>\$ 860,937</u>
FUND BALANCE, beginning		<u>9,837,557</u>	
FUND BALANCE, ending		<u>\$ 10,698,494</u>	

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, 2013

	Budget	Actual Amounts	Variance Over (Under)
Revenues:			
Investment earnings	\$ -	\$ 922	\$ 922
Total revenues	-	922	922
Other financing sources (uses):			
Transfers from other funds	1,014,782	920,963	(93,819)
Transfers to other funds	(40,163)	(40,163)	-
Appropriated Fund Balance	(974,619)	-	974,619
Total other financing sources (uses)	-	880,800	880,800
Net change in fund balance	\$ -	881,722	\$ 881,722
Fund balances, beginning of year		745,637	
Fund balances, end of year		\$ 1,627,359	

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, 2013

Schedule 3

	Project Authorization	Prior Years	Actual Current Year	Total to Date	Variance Over (Under)
Revenues					
Investment Earnings	\$ -	\$ 38,080	\$ 2,695	\$ 40,775	\$ 40,775
Restricted intergovernmental Donations	18,000,000	18,000,000	-	18,000,000	-
	-	2,904	25	2,929	2,929
Total revenues	18,000,000	18,040,984	2,720	18,043,704	43,704
Expenditures					
Professional Fees	330,713	315,044	30,486	345,530	14,817
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	1,322,330	-	-	-	(1,322,330)
Monitoring	829,670	201,793	248,534	450,327	(379,343)
Other Costs	1,571,162	1,570,308	-	1,570,308	(854)
Total Expenditures	36,000,000	34,033,267	279,020	34,312,287	(1,687,713)
Revenues over (under) expenditures	(18,000,000)	(15,992,283)	(276,300)	(16,268,583)	1,731,417
Other financing sources (uses):					
Bonds issued	18,000,000	18,000,000	-	18,000,000	-
Transfers to other funds	(1,027,251)	(1,027,251)	-	(1,027,251)	-
Transfers from other funds	1,027,251	1,027,251	-	1,027,251	-
Total other financing sources (uses)	18,000,000	18,000,000	-	18,000,000	-
Net change in fund balance	\$ -	\$ 2,007,717	(276,300)	\$ 1,731,417	\$ 1,731,417
Fund balance, beginning of year			2,007,717		
Fund balance, end of year			<u>\$ 1,731,417</u>		

**Town of Nags Head, North Carolina
Water Fund**

Schedule 4

**Schedule of Revenues and Expenditures-Budget and Actual (Non GAAP)
For the Fiscal Year Ended June 30, 2013**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
REVENUES			
Operating Revenues:			
Water sales	\$ -	\$ 2,271,210	\$ -
Tap and connection fees		10,410	
Late payment penalties and interest		27,762	
Water cutoff tag fees		10,100	
Miscellaneous		3,089	
	<hr/>		
Total	2,509,943	2,322,571	(187,372)
<hr/>			
Non-Operating Revenues:			
Interest earned on investments		7,162	
Impact fees		73,500	
Ammons Dare impact fees		18,000	
	<hr/>		
Total	2,450	98,662	96,212
	<hr/>		
Total Revenues	2,512,393	2,421,233	(91,160)
<hr/>			
EXPENDITURES			
Administration:			
Salaries and wages		65,535	
FICA expense		4,386	
Group insurance		21,494	
Retirement expense		4,014	
401(k) account		596	
Reimburse General Fund administrative expenses		71,404	
Contracted services		4,619	
Postage		10,144	
Supplies and materials		1,594	
Repairs and maintenance, equipment		797	
Bad debt		5,000	
	<hr/>		
Total Administration	205,236	189,583	(15,653)
<hr/>			
Septic Health:			

**Town of Nags Head, North Carolina
Water Fund**

Schedule 4

**Schedule of Revenues and Expenditures-Budget and Actual (Non GAAP)
For the Fiscal Year Ended June 30, 2013**

	<u>Budget</u>	<u>Actual</u>	Variance Over <u>(Under)</u>
Salaries and wages		48,608	
FICA expense		3,665	
Group insurance		6,625	
Retirement		3,248	
401(k) account		482	
Contracted services		250	
Reimburse General Fund administrative expenses		107,471	
Inspection rebates		7,912	
Pumping credits		1,350	
Postage		93	
Travel		1,200	
Water quality testing		28,397	
Telephone		623	
Printing		3,393	
Employee training		288	
Automotive supplies		744	
Repairs and maintenance, vehicles		444	
Departmental supplies		128	
Total Septic Health	229,440	214,921	(14,519)
Operations:			
Salaries and wages		288,562	
FICA expense		20,769	
Group insurance		49,994	
Retirement		19,147	
401(k) account		2,841	
Purchases for resale		730,180	
Reimburse General Fund administrative expenses		190,077	
Insurance		52,252	
Utilities		37,882	
Contracted services		5,615	
Departmental supplies		30,249	
Professional fees		8,013	
Other supplies		4,585	
Repairs and maintenance, equipment		162,200	
Postage		1,533	
Telephone		4,012	

**Town of Nags Head, North Carolina
Water Fund**

Schedule 4

**Schedule of Revenues and Expenditures-Budget and Actual (Non GAAP)
For the Fiscal Year Ended June 30, 2013**

	<u>Budget</u>	<u>Actual</u>	Variance Over <u>(Under)</u>
Uniforms		1,426	
Dues and subscriptions		2,167	
Equipment rental		658	
Printing		3,127	
Automotive supplies		7,654	
Employee training		1,435	
Travel		658	
Advertising		68	
Repairs and maintenance, vehicles		1,441	
Total Operations	1,718,013	1,626,545	(91,468)
Operations Distribution:			
Salaries and wages		158,950	
FICA expense		11,795	
Group insurance		42,414	
Group insurance, retiree		9,079	
Retirement		11,165	
401(k) account		1,657	
Reimburse General Fund administrative expenses		146,048	
Contracted services		1,134	
Other supplies		11,540	
Repairs and maintenance, other		23,691	
Insurance		6,443	
Automobile supplies		9,220	
Departmental supplies		7,883	
Professional fees		30	
Uniforms		1,470	
Repairs and maintenance, vehicles		1,465	
Repairs and maintenance, buildings		66	
Telephone		1,381	
Dues and subscriptions		1,449	
Advertising		60	
Repairs and maintenance, equipment		1,471	
Travel		1,131	
Employee training		1,307	
Postage		12	

**Town of Nags Head, North Carolina
Water Fund**

Schedule 4

**Schedule of Revenues and Expenditures-Budget and Actual (Non GAAP)
For the Fiscal Year Ended June 30, 2013**

	<u>Budget</u>	<u>Actual</u>	Variance Over <u>(Under)</u>
Total Operations Distribution	473,672	450,861	(22,811)
TOTAL EXPENDITURES	2,626,361	2,481,910	(144,451)
REVENUES OVER (UNDER) EXPENDITURES	(113,968)	(60,677)	53,291
Other Sources and (Uses):			
Appropriated Retained Earnings	419,106	-	
Debt interest	(21,813)	(21,702)	
Debt principal	(76,325)	(76,435)	
Septic Health Loans provided to customers	(25,000)	(20,522)	
Principal repayments Septic Health Loans	15,000	12,365	
Capital outlay:			
Machinery and equipment	(47,000)	(46,900)	
Other	(100,000)	(2,434)	
Contingency	(50,000)	-	
Total Other Sources and (Uses)	113,968	(155,628)	(269,596)
Revenues and Other Sources Over (under) Expenditures and Other Uses	-	(216,305)	(216,305)
RECONCILIATION OF MODIFIED ACCRUAL TO FULL ACCRUAL BASIS			
Revenues under expenditures		(216,305)	
Reconciling items:			
Septic Health Loans		20,522	
Principal repayments Septic Health Loans		(12,365)	
Payment of debt principal		76,435	
Increase in accrued OPEB liability		(17,861)	
Capital outlay		49,334	
Depreciation and amortization		(250,373)	
Change in net assets		<u>\$ (350,613)</u>	

Storm Water Fund

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

For the Fiscal Year Ended June 30, 2013

	<u>Budget</u>	<u>Actual</u>	Variance Over (Under)
REVENUES			
Operating Revenues:			
Storm Water Fees	\$ 113,736	\$ 114,572	\$ 836
Total	113,736	114,572	836
Nonoperating Revenues:			
Interest earned on investments	-	215	215
Total	-	215	215
Total Revenues	113,736	114,787	1,051
EXPENDITURES			
Utilities		696	
Automotive Supplies		4,142	
Water quality testing		4,050	
Department Supplies		2,007	
Repairs and maintenance, equipment		1,877	
Total Expenditures	17,972	12,772	5,200
Revenues Over (Under) Expenditures	95,764	102,015	6,251
Other Financing Sources (Uses)			
Appropriated retained earnings	115,266	-	
Interest	(490)	(453)	
Debt Principal	(13,274)	(13,080)	
Capital Outlay Other	(197,266)	(94,106)	
Total Other Financing Sources (Uses)	(95,764)	(107,639)	(11,875)
Revenues and other financing sources over (under) expenditures and other uses	\$ -	(5,624)	\$ (5,624)

RECONCILIATION OF MODIFIED ACCRUAL BASIS
TO FULL ACCRUAL BASIS

Revenues over (under) expenditures (5,624)
Reconciling items:

Storm Water Fund

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

For the Fiscal Year Ended June 30, 2013

Capital Outlay	94,106
Payment of Debt Principal	13,080
Depreciation	<u>(16,294)</u>
Change in net assets	<u>\$ 85,268</u>

TOWN OF NAGS HEAD, NORTH CAROLINA
Schedule of Ad Valorem Taxes Receivable
June 30, 2013

Schedule 6

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2012</u>	<u>Additions</u>	<u>Collection And Credits</u>	<u>Adjustments</u>	<u>Uncollected Balance June 30, 2013</u>
2012-2013	\$ -	\$ 5,453,918	\$ 5,545,901	\$ 108,542	\$ 16,559
2012-2013 MSD	-	1,786,924	1,798,805	16,094	\$ 4,213
2011-2012	23,970		\$ 17,122	\$ (106)	6,742
2011-2012 MSD	946		443	(3)	500
2010-2011	3,594	-	1,309	(28)	2,257
2009-2010	1,705	-	332	-	1,373
2008-2009	933	-	53	-	880
2007-2008	1,243	-	123	-	1,120
2006-2007	895	-	-	-	895
2005-2006	1,752	-	5	-	1,747
2004-2005	2,609	-	74	-	2,535
2003-2004	2,685	-	84	-	2,601
2002-2003	1,728	-	1,728	-	-
	<u>\$ 42,060</u>	<u>\$ 7,240,842</u>	<u>\$ 7,365,979</u>	<u>\$ 124,499</u>	<u>\$ 41,422</u>

Less allowance for uncollectible
ad valorem taxes receivable

10,000

Ad Valorem Taxes Receivable, net

\$ 31,422

Reconciliation with revenues:

Taxes, ad valorem , General Fund	\$ 7,327,126
Amounts written off for tax year 2000-01	239
DMV written off	1,489
Amounts written off <\$1	10
Plus discounts taken	48,410
Less penalties and interest	(11,295)
	<u>\$ 7,365,979</u>

Town of Nags Head, North Carolina
Analysis of Current Tax Levy
For the Fiscal Year Ended June 30, 2013

Schedule 7

	Town - Wide		Total Levy		
			Property Excluding Registered Motor Vehicles	Registered Motor Vehicles	
	Property Valuation	Rate	Total Levy		
Original levy:					
Property taxed at current year's rate	\$3,071,576,203	0.1775	\$5,452,054	\$5,452,054	
Penalties			1,864	1,864	
Total	3,071,576,203		5,453,918	5,453,918	-
Discoveries:					
Current year taxes	62,287,862		110,552	33,525	77,027
Penalties			(7)	(7)	
Total	62,287,862		110,545	33,518	77,027
Releases:	(654,302)		(2,003)	(1,395)	(608)
Total property valuation	3,133,209,763				
Net levy			5,562,460	5,486,041	76,419
Uncollected taxes at June 30, 2013			(16,559)	(7,606)	(8,953)
Current year taxes collected			5,545,901	\$5,478,436	\$67,466
Current levy collection percentage			99.70%	99.86%	88.28%



CERTIFIED PUBLIC ACCOUNTANTS

Jeff Dowdy, CPA • Teresa Osborne, CPA

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

To the Mayor and Members of the 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 financial statements of the governmental activities, business-type activities, each major fund, and the aggregated remaining fund information of the Town of Nags Head, North Carolina, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town of Nags Head's basic financial statements, and have issued our report thereon dated October 22, 2013

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.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit our attention by those charged with governance.

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

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Compliance and Other Matters

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

Purpose of this Report

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

Dowdy & Osborne, LLP

Dowdy & Osborne, LLP
Nags Head, North Carolina

October 22, 2013