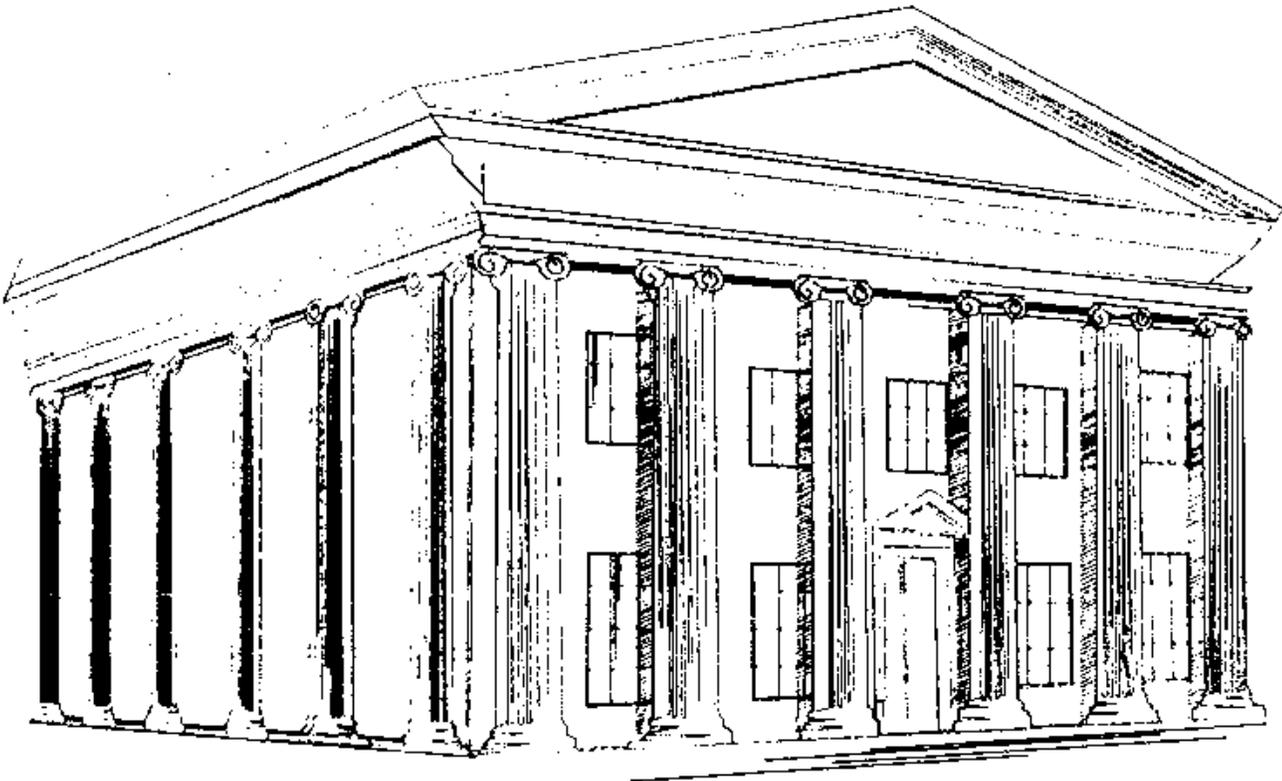


# Town of Nags Head North Carolina

**Basic Financial Statements  
For The Year Ended June 30, 2006**



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Martin Starnes & Associates, CPAs, P.A.

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

**TOWN OF NAGS HEAD, NORTH CAROLINA  
BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006**

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Martin Starnes & Associates, CPAs, P.A.

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**INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying financial statements of the governmental activities, 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, 2006, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Nags Head, North Carolina's management. Our responsibility is to express an opinion on these basic 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the general fund, each major fund, and the aggregate remaining fund information of the Town of Nags Head, North Carolina as of June 30, 2006, the respective changes in financial position and cash flows, where appropriate, thereof, and the respective budgetary comparison for the general fund and Capital Reserve Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion thereon.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 16, 2006 on our consideration of the Town of Nags Head's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit prepared in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Town of Nags Head, North Carolina taken as a whole. The individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Martin Starnes & Associates, CPAs, P.A.*

Martin Starnes & Associates, CPAs, P.A.

August 16, 2006

## **Town of Nags Head, North Carolina Management Discussion and Analysis**

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, 2006. 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 at the close of the fiscal year by \$31,789,159 (net assets).

The Town's net assets increased by \$2,211,646 over the prior year. The governmental net assets increased by \$1,860,871 (+9.72%). The business-type net assets increased by \$350,775 (+3.37%).

At the end of the current fiscal year, the total unreserved fund balance for the General Fund was \$7,069,915 which was up by \$3,639,577 (+106.1%) from the prior year. This unreserved fund balance represents 53.44% of total general fund expenditures for the fiscal year. The increase is due primarily to the costs incurred for the emergency berm and other storm repair costs that were reimbursed by FEMA during the fiscal year in the amount of \$2,171,809.

The Town of Nags Head's total debt decreased by \$694,637 (-9.70%) during the current fiscal year.

The General Fund budget for the fiscal year ended June 30, 2006 was adopted with a tax rate of \$.1475 per \$100 assessed valuation down from .373 in the prior year due to significant increases in assessed valuations from full revaluation effective with the January 2005 valuations. Total assessed valuation increased from \$1,009,875,661 as of June 30, 2005 to \$2,970,977,582 as of June 30, 2006 an increase of \$1,961,101,921 (+194.19%).

General Fund budget amendments during FY 2006 totaled just over \$2.3 million with individual increases (decreases) by functional area noted below:

- General Government increased by \$31,972 for beach nourishment costs and Harvey property improvements partially offset by the allocation of merit pay, career development and reimbursements from the Water Fund for administrative oversight.
- Public Safety increased by \$442,060 to fund capital purchases budgeted at the first year debt payment amount, added funding for equipping the new fire/police facility, higher than normal maintenance/repair of vehicles in the Fire department, additional salaries in Ocean Rescue for providing ocean rescue services to the National Park Service, and additional funding for fire volunteer incentive pay for the final year of the old funding policy.
- Environmental Protection increased by \$425,925 due to capital purchases budgeted at the first year debt payment amount.
- Public Works increased by \$1,514,130 to fund capital purchases budgeted at the first year debt payment amount and grant and Town funding of access improvements at Barnes and Albatross streets.

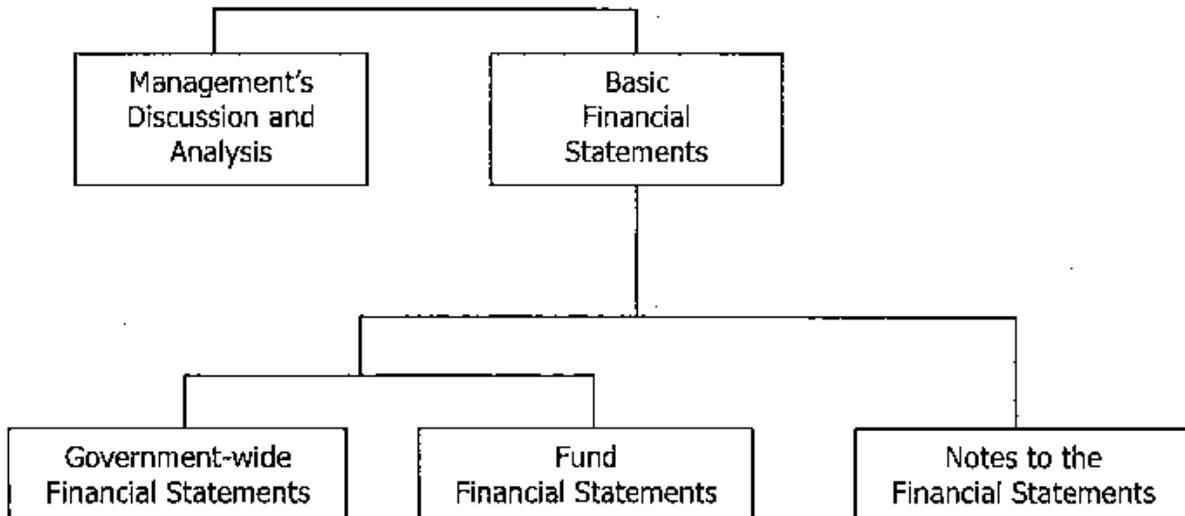
Key Ratios

% Debt to General Governmental Expenses	55.00%
% Property Tax Collection	99.97%
% Increase in Assessed Property Valuation	194.19%

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis are intended to serve as an introduction to the Town of Nags Head's basic financial statements. The 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)

Figure 1 – Required Components of Annual Financial Report



**A. Government-Wide Financial Statements**

The government-wide statement report 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 assets reports the Town's net assets and includes all, both current and non-current, assets and liabilities of the government. The difference between the two is reported as net assets. Over time, increases or decreases in the Town's net assets are one indication of whether its financial health is improving or deteriorating. You will also need to 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 assets have 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.

*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 this fund are used only for their intended purposes. The Town's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. 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 assets 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 \$31,789,159 at the close of the fiscal year ended June 30, 2006. A large portion of the Town of Nags Head's net assets \$16,403,979 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 assets \$133,310 represents resources that are subject to restrictions on how they may be used. The remainder of \$15,251,870 in unrestricted net assets 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's Net Assets					
	Governmental Activities		Business - Type Activities		Total	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Current and Other Assets	\$ 12,820,681	\$ 14,279,122	\$ 6,473,053	\$ 7,419,930	\$ 19,293,734	\$ 21,699,052
Capital Assets, Net	14,421,240	12,192,164	6,248,972	5,198,544	20,670,212	17,390,708
<b>Total Assets</b>	<u>27,241,921</u>	<u>26,471,286</u>	<u>12,722,025</u>	<u>12,618,474</u>	<u>39,963,946</u>	<u>39,089,760</u>
Long-Term Debt Outstanding	5,705,330	6,170,274	1,150,271	1,351,268	6,855,601	7,521,542
Other Liabilities	529,156	1,154,448	790,030	836,257	1,319,186	1,990,705
<b>Total Liabilities</b>	<u>6,234,486</u>	<u>7,324,722</u>	<u>1,940,301</u>	<u>2,187,525</u>	<u>8,174,787</u>	<u>9,512,247</u>
<b>Net Assets</b>	<u>\$ 21,007,435</u>	<u>\$ 19,146,564</u>	<u>\$ 10,781,724</u>	<u>\$ 10,430,949</u>	<u>\$ 31,789,159</u>	<u>\$ 29,577,513</u>
Investment in Capital Assets, Net of Related Debt	11,273,798	10,406,903	5,130,179	5,037,063	16,403,977	15,443,966
Restricted	133,310	272,141	-	-	133,310	272,141
Unrestricted	9,600,327	8,467,520	5,651,545	5,393,886	15,251,872	13,861,406
<b>Total Net Assets</b>	<u>\$ 21,007,435</u>	<u>\$ 19,146,564</u>	<u>\$ 10,781,724</u>	<u>\$ 10,430,949</u>	<u>\$ 31,789,159</u>	<u>\$ 29,577,513</u>

See Exhibit 1

Town of Nags Head's Changes in Net Assets

	Governmental Activities		Business - Type Activities		Total	
	2006	2005	2006	2005	2006	2005
<b>Revenues:</b>						
<b>Program Revenues:</b>						
Charges for Services	\$ 605,719	\$ 768,898	\$ 2,663,177	\$ 2,485,027	\$ 3,268,896	\$ 3,253,925
Operating Grants	1,000,671	3,974,089	-	-	1,000,671	3,974,089
Capital Grants	354,585	80,806	-	-	354,585	80,806
<b>General Revenues:</b>						
Property Taxes	4,452,450	3,774,572	-	-	4,452,450	3,774,572
Other Taxes	4,431,297	4,724,246	-	-	4,431,297	4,724,246
Investment Income	371,338	231,813	183,864	92,874	555,202	324,687
Other	616,951	684,780	334,324	447,104	951,275	1,131,884
<b>Total Revenues</b>	<b>\$ 11,833,011</b>	<b>\$ 14,239,204</b>	<b>\$ 3,181,365</b>	<b>\$ 3,025,005</b>	<b>\$ 15,014,376</b>	<b>\$ 17,264,209</b>
<b>Expenses:</b>						
General Government	2,268,425	2,330,058	-	-	2,268,425	2,330,058
Public Safety	4,185,344	3,379,659	-	-	4,185,344	3,379,659
Public Works/Transportation	1,472,469	6,251,881	-	-	1,472,469	6,251,881
Environmental Protection	1,725,256	1,466,331	-	-	1,725,256	1,466,331
Interest on Long Term Debt	220,646	153,985	-	-	220,646	153,985
Water Utility	-	-	2,930,590	2,613,785	2,930,590	2,613,785
Other	-	-	-	-	-	-
<b>Total Expenses</b>	<b>9,872,140</b>	<b>13,581,914</b>	<b>2,930,590</b>	<b>2,613,785</b>	<b>12,802,730</b>	<b>16,195,699</b>
<b>Net Increase in Net Assets Before Transfers</b>	<b>1,960,871</b>	<b>657,290</b>	<b>250,775</b>	<b>411,220</b>	<b>2,211,646</b>	<b>1,068,510</b>
Transfers	(100,000)	(19,400)	100,000	19,400	-	-
<b>Net Assets - July 1</b>	<b>19,146,564</b>	<b>18,508,674</b>	<b>10,430,949</b>	<b>10,000,329</b>	<b>29,577,513</b>	<b>28,509,003</b>
<b>Net Assets - June 30</b>	<b>\$ 21,007,435</b>	<b>\$ 19,146,564</b>	<b>\$ 10,781,724</b>	<b>\$ 10,430,949</b>	<b>\$ 31,789,159</b>	<b>\$ 29,577,513</b>

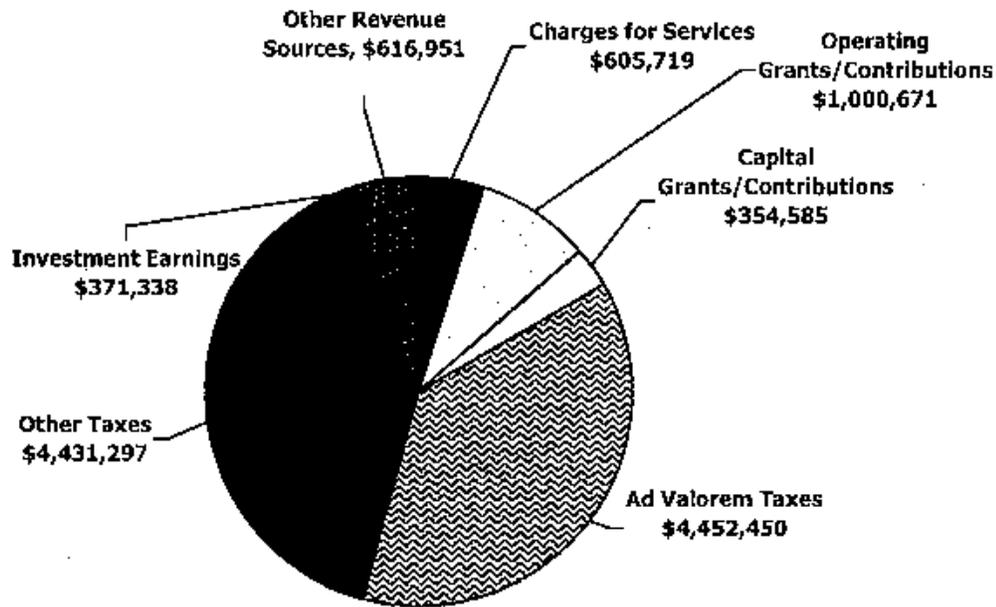
See Exhibit 2

**A. Governmental Activities**

Governmental activities increased the Town of Nags Head's net assets by \$1,860,871. The governmental activities revenue decreased by \$2,406,193, which included a decrease in FEMA reimbursement revenue from \$3,754,280 in the prior year to \$980,648. Ad valorem tax revenue was up by \$677,878 with other taxes down by \$292,949. Investment earnings increased by \$139,525, however building permits were down for the third year in a row with a decrease of \$47,260.

Without the FEMA revenue, total governmental fund revenues were up by \$367,439 (+3.5%).

During the year, the Town's governmental expenses were \$9,872,140 a decrease of \$3,709,774 (-27.3%). Note, however, that the prior year included Isabel related expenditures of \$4,950,181. Without these storm expenditures the total expenses actually increased by \$1,240,407 (+14.4%).

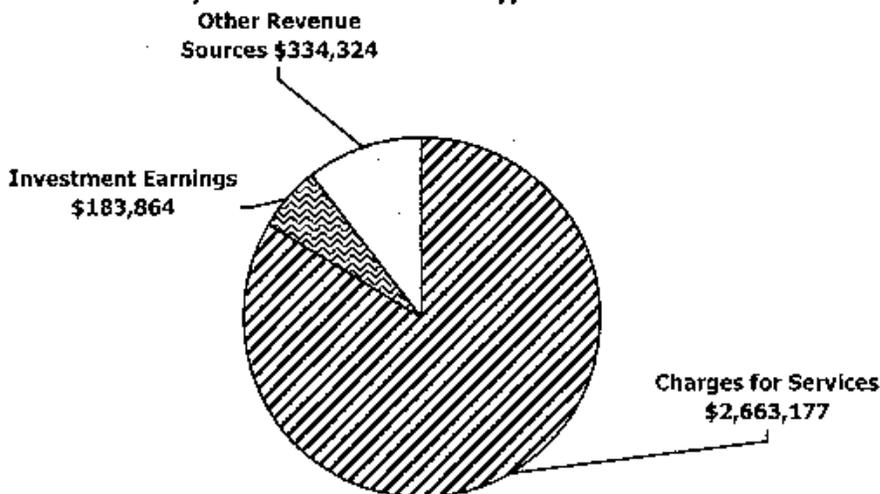


**Revenues by Source for Governmental Type Activities**

**B. Business Type Activities**

Business type activities increased the Town of Nags Head's net assets by \$350,775. 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 service in the Water Fund increased in both the Water Operations Fund and the Storm Water Fund by \$104,130 and \$74,020, respectively, as compared to the preceding year.

**Revenues by Source for Business Type Activities**



## ***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, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the Town of Nags Head. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$7,069,915, while total fund balance reached \$8,826,552. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents 53.44 percent of total General Fund expenditures. Note that this is up significantly from the prior year unreserved General Fund balance of \$3,430,338 (22.1% percent of expenditures).

At June 30, 2006, the governmental funds of the Town of Nags Head reported combined fund balance of \$10,218,732, a 7.8 percent increase over last year. Included in this change in fund balance are increases in fund balance in both the General and newly created Beach Nourishment Project Fund partially offset by a decrease in fund balance in the Capital Reserve Fund.

### **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 assets of the Water Fund at the end of the fiscal year amounted to \$5,480,088. This represents an increase of \$142,972 from the prior year. This increase is compounded by an increase in unrestricted net assets for the Storm Water Fund, newly created in the prior fiscal year, of \$171,001.

### **C. Capital Assets**

The Town of Nags Head's investment in capital assets for its governmental and business-type activities as of June 30, 2006, totals \$20,670,212 (net of accumulated depreciation). These assets include buildings, land, intangibles, machinery and equipment and vehicles.

Major capital asset transactions during the year include the following additions (there were no significant demolitions or disposals):

- Completion of the construction for the South Nags Head Fire Station.
- Completion of the construction for replacement elevated water storage tank.

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

	Governmental Activities		Business - Type Activities		Total	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Land	\$ 5,020,808	\$ 5,002,999	\$ 204,205	\$ 204,205	\$ 5,225,013	\$ 5,207,204
Construction in Progress	509,749	536,535	-	555,715	509,749	1,092,250
Buildings	5,171,568	3,608,812	2,886,688	1,333,619	8,058,256	4,942,431
Other Improvements	621,181	195,744	-	-	621,181	195,744
Equipment	671,673	577,722	575,372	418,348	1,247,045	996,070
Vehicles	2,426,261	2,270,352	76,759	73,923	2,503,020	2,344,275
Intangibles	-	-	2,505,948	2,612,735	2,505,948	2,612,735
<b>Total</b>	<b>\$ 14,421,240</b>	<b>\$ 12,192,164</b>	<b>\$ 6,248,972</b>	<b>\$ 5,198,545</b>	<b>\$ 20,670,212</b>	<b>\$ 17,390,709</b>

See Exhibit 1

**D. Long Term Debt**

As of June 30, 2006, the Town of Nags Head had no bonded debt. The Town's total debt decreased by \$694,637 for the year.

Town of Nags Head's Outstanding Debt

	Governmental Activities		Business - Type Activities		Total	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Finance Contracts	\$ 4,214,715	\$ 5,007,866	\$ 950,688	\$ 1,097,159	\$ 5,165,403	\$ 6,105,025
Capital Leases	1,134,231	832,728	168,105	224,623	1,302,336	1,057,351
Compensated Absences	356,384	329,680	31,478	29,486	387,862	359,166
	<u>\$ 5,705,330</u>	<u>\$ 6,170,274</u>	<u>\$ 1,150,271</u>	<u>\$ 1,351,268</u>	<u>\$ 6,855,601</u>	<u>\$ 7,521,542</u>

***ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES***

The Level of unemployment in Dare County ranged from 2.4% to 8.4% compared to the seasonally adjusted statewide average of 4.9%.

Construction in fiscal year 2006 decreased overall in the Town of Nags Head by \$13,921,554 (-24.6%) from the previous year. This was due to a decrease in commercial construction of \$10,397,000 and a decrease in residential and other construction of \$3,524,554. Both building permit fees and review fees were also down in fiscal year 2005-2006, the third straight decrease in annual revenues for building permit fees.

The property tax base increased by 194.19% to \$2,970,977,582 in the fiscal year ended June 30, 2006. Occupancy tax and sales tax revenues for the Town were up in fiscal year 2005-2006. Land transfer tax revenues took a big hit during the year with the stalling real estate market.

The Town's adopted budget for the fiscal year ending June 30, 2006 includes a reduction in the property tax rate to .1475 per \$100 in assessed valuation compared to .373 in the previous year as a result of the county wide property revaluation.

Considering the above indicators when adopting the operating budget for the next fiscal year, the Town's adopted 2006-2007 budget decreased by \$3,768,060 (-23.6%) over the 2005-2006 amended budget and decreased \$693,533 (-5.38%) over the adopted budget for 2005-2006.

### ***BUDGET HIGHLIGHTS FOR THE FISCAL YEAR ENDING June 30, 2007***

**Governmental Activities:** The adopted budget for fiscal year 2005-2006 is based on the estimated increased property valuation of \$2,966,256,884 up .40% from the prior year valuation of 2,954,382,671.970,460,090 allowing the tax rate to remain steady at \$.1475/\$100. The adopted budget reflects a decrease of \$693,533 from the prior year's adopted budget. Decreased in funding include a reduction of \$250,000 in land transfer tax revenues, a reduction of \$400,000 in anticipated grant revenues, a reduction in building permit fees of \$75,000, reduced rents from the YMCA pass-through of \$99,000, and a reduction in funding from the Capital Reserve Fund of \$130,000. These are partially offset by increases in budgeted revenues from investment interest of \$205,000, increased reimbursement from the Water Fund for indirect costs of \$40,000, and cable franchise fees of \$114,000.

Budgeted expenditures in the General Fund are generally flat with the exception of funding for Planning & Development which decreased by \$389,000 due to the reduction in grant projects of \$408,000 which corresponds to the reduction in revenues noted above. All access grant project expenditures and revenues for FY 2005 – 2006 were included in a Beach and Sound Access Capital Project Fund. The pass-through debt payments for the YMCA debt are also down by \$99,000. In addition, there was an overall reduction in funding for new capital of \$370,000. These decreases were at least partially offset for full annual funding for staffing the new fire station in south Nags Head and a 3.4% cost of living adjustment for all employees.

**Business –Type Activities:** The water rates in the Town will remain the same with projected growth in gallons purchased of 1.3%. Appropriated retained earnings will be used to fund the debt service on the new water tank, water line improvement projects, and to match any grant funds received for sand bottom tank replacement.

### **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 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 Assets**  
**June 30, 2006**

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 6,525,397	\$ 6,009,612	\$ 12,535,009
Investments	2,801,677	-	2,801,677
Taxes receivable (net)	9,981	-	9,981
Accounts receivable (net)	95,367	419,552	514,919
Accrued interest receivable	31,975	-	31,975
Due from other governments	1,079,725	540	1,080,265
Inventories	69,263	43,229	112,492
Special assessments	996	-	996
Prepaid items	4,796	120	4,916
Total current assets	<u>10,619,177</u>	<u>6,473,053</u>	<u>17,092,230</u>
Restricted assets:			
Cash and cash equivalents	154,504	-	154,504
Non-current assets:			
Capital Lease Receivable	2,047,000	-	2,047,000
Capital Assets (Note 4):			
Land, non-depreciable improvements and construction in progress	5,530,556	204,205	5,734,761
Other capital assets, net of depreciation	8,890,684	6,044,767	14,935,451
Total capital assets	<u>14,421,240</u>	<u>6,248,972</u>	<u>20,670,212</u>
Total Assets	<u>\$ 27,241,921</u>	<u>\$ 12,722,025</u>	<u>\$ 39,963,946</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	\$ 283,086	\$ 141,763	\$ 424,849
Accrued liabilities	90,488	6,654	97,142
Unearned revenue	44,403	257,152	301,555
Bonds and deposits	109,895	384,461	494,356
Due to other governments	1,284	-	1,284
Long-term liabilities:			
Due within one year	1,322,933	164,157	1,487,090
Due in more than one year	4,382,397	986,114	5,368,511
Total liabilities	<u>6,234,486</u>	<u>1,940,301</u>	<u>8,174,787</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	11,273,798	5,130,179	16,403,977
Restricted for:			
Powell bill expenditures	128,853	-	128,853
Public safety enforcement	4,457	-	4,457
Unrestricted	9,600,327	5,651,545	15,251,872
Total net assets	<u>\$ 21,007,435</u>	<u>\$ 10,781,724</u>	<u>\$ 31,789,159</u>

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

**Town of Nags Head, North Carolina**  
**Statement of Activities**  
**For the Year Ended June 30, 2006**

<b>Functions/Programs</b>	<b>Program Revenues</b>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
<b>Primary Government:</b>				
<b>Governmental Activities:</b>				
General Government	\$ 2,268,425	\$ 544,238	\$ 4,155	\$ -
Public Safety	4,185,344	61,481	18,369	-
Public Works/Transportation	1,472,469	-	978,147	354,585
Environmental Protection	1,725,256	-	-	-
Interest on long-term debt	220,646	-	-	-
Total governmental activities (See Note 1)	<u>9,872,140</u>	<u>605,719</u>	<u>1,000,671</u>	<u>354,585</u>
<b>Business-type activities:</b>				
Water	2,829,877	2,552,381	-	330,395
Storm Water	100,713	110,796	-	-
Nags Head Leasing	-	-	-	-
Total business-type activities	<u>2,930,590</u>	<u>2,663,177</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 12,802,730</u>	<u>\$ 3,268,896</u>	<u>\$ 1,000,671</u>	<u>\$ 354,585</u>

**General revenues:**

Taxes:

Property taxes, levied for general purpose

Occupancy tax

Land transfer taxes

Sales taxes

Other taxes

Grants and contributions not restricted to specific programs

Unrestricted investment earnings

Miscellaneous

Transfers

Total general revenues, special items and transfers

Total change in net assets

Net assets - beginning

Net assets - ending

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

Exhibit 2

<u>Net (Expense) Revenue and changes in Net Assets</u>		
<u>Primary Government</u>		
<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ (1,720,032)	\$ -	\$ (1,720,032)
(4,105,494)	\$ -	(4,105,494)
(139,737)	\$ -	(139,737)
(1,725,256)	\$ -	(1,725,256)
<u>(220,646)</u>	<u>\$ -</u>	<u>(220,646)</u>
<u>(7,911,165)</u>	<u>-</u>	<u>(7,911,165)</u>
-	52,899	52,899
-	10,083	10,083
-	-	-
-	<u>62,982</u>	<u>62,982</u>
<u>(7,911,165)</u>	<u>62,982</u>	<u>(7,848,183)</u>
4,452,450	-	4,452,450
1,650,845	-	1,650,845
1,053,725	-	1,053,725
1,686,091	-	1,686,091
40,636	-	40,636
380,061	-	380,061
371,338	183,864	555,202
236,890	3,929	240,819
<u>(100,000)</u>	<u>100,000</u>	<u>-</u>
<u>9,772,036</u>	<u>287,793</u>	<u>10,059,829</u>
1,860,871	350,775	2,211,646
<u>19,146,564</u>	<u>10,430,949</u>	<u>29,577,513</u>
<u>\$ 21,007,435</u>	<u>\$ 10,781,724</u>	<u>\$ 31,789,159</u>

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

**Town of Nags Head, North Carolina**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2006**

	<b>Major Funds</b>			
	<u>General</u>	<u>Capital Reserve</u>	<u>Beach Nourishment</u>	<u>Total</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 5,331,994	\$ 689,276	\$ 504,127	\$ 6,525,397
Investments	2,801,677	-	-	2,801,677
Taxes receivable (net)	9,981	-	-	9,981
Accounts receivable (net)	95,367	-	-	95,367
Accrued interest receivable	31,975	-	-	31,975
Due from other governments	1,079,725	-	-	1,079,725
Due from other funds	-	201,773	-	201,773
Inventories	69,263	-	-	69,263
Special assessments	996	-	-	996
Prepaid items	4,796	-	-	4,796
Capital lease receivable	2,047,000	-	-	2,047,000
Restricted assets:				
Cash and cash equivalents	154,504	-	-	154,504
Total assets	<u>\$ 11,627,278</u>	<u>\$ 891,049</u>	<u>\$ 504,127</u>	<u>\$ 13,022,454</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 280,090	\$ -	\$ 2,996	\$ 283,086
Accrued expenses	90,488	-	-	90,488
Bonds and deposits	109,895	-	-	109,895
Due to other funds	201,773	-	-	201,773
Due to other governments	1,284	-	-	1,284
Deferred revenue	2,072,793	-	-	2,072,793
Unearned revenue	44,403	-	-	44,403
Total liabilities	<u>2,800,726</u>	<u>-</u>	<u>2,996</u>	<u>2,803,722</u>
<b>Fund balances:</b>				
<b>Reserved for:</b>				
Encumbrances	202,513	-	1,392,153	1,594,666
Inventories	69,263	-	-	69,263
State statute	1,192,251	201,773	-	1,394,024
Streets - Powell bill	128,853	-	-	128,853
Prepays	4,796	-	-	4,796
Drug enforcement	4,457	-	-	4,457
Restricted assets	154,504	-	-	154,504
Unreserved	6,480,422	-	-	6,480,422
Designated for future capital	-	492,976	(891,022)	(398,046)
Designated for next year budget	589,493	196,300	-	785,793
Total fund balances	<u>8,826,552</u>	<u>891,049</u>	<u>501,131</u>	<u>10,218,732</u>
Total liabilities and fund balances	<u>\$ 11,627,278</u>	<u>\$ 891,049</u>	<u>\$ 504,127</u>	<u>\$ 13,022,454</u>

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Liabilities for earned but deferred revenues in the fund statements.

    Deferred FEMA receivable

    Deferred capital lease receivable

    Deferred taxes receivable

Some liabilities, including bonds payable and accrued interest, are not due and payable in the current period and therefore are not reported in the funds.

Net assets of governmental activities

\$ 14,421,240

2,047,000

25,793

(5,705,330)

\$ 21,007,435

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

**Town of Nags Head, North Carolina**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Governmental Funds**  
**For the Fiscal Year Ended June 30, 2006**

	<u>Major Funds</u>			
	<u>General Fund</u>	<u>Capital Reserve</u>	<u>Beach Nourishment</u>	<u>Total</u>
<b>REVENUES</b>				
Ad valorem taxes	\$ 4,440,726	\$ -	\$ -	\$ 4,440,726
Other taxes and licenses	4,471,101	-	-	4,471,101
Unrestricted intergovernmental	340,257	-	-	340,257
Restricted Intergovernmental	2,601,200	-	-	2,601,200
Permits and fees	504,085	-	-	504,085
Sales and services	9,041	-	-	9,041
Investment earnings	351,226	18,634	1,478	371,338
Miscellaneous	665,192	-	-	665,192
Total revenues	<u>13,382,828</u>	<u>18,634</u>	<u>1,478</u>	<u>13,402,940</u>
<b>EXPENDITURES</b>				
Current:				
General Government	2,203,315	-	-	2,203,315
Public Safety	3,907,522	-	-	3,907,522
Environmental Protection	1,381,614	-	-	1,381,614
Public Works	1,259,762	-	-	1,259,762
Debt service:				
Principal	1,355,924	-	-	1,355,924
Interest and other charges	220,646	-	-	220,646
Capital outlay	<u>2,901,303</u>	-	200,347	<u>3,101,650</u>
Total expenditures	<u>13,230,086</u>	-	<u>200,347</u>	<u>13,430,433</u>
Excess (deficiency) of revenues over expenditures	<u>152,742</u>	<u>18,634</u>	<u>(198,869)</u>	<u>(27,493)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers from other funds	421,632	146,497	700,000	1,268,129
Transfers to other funds	(946,497)	(421,632)	-	(1,368,129)
Installment purchase obligations Issued	<u>864,273</u>	-	-	<u>864,273</u>
Total other financing sources (uses)	<u>339,408</u>	<u>(275,135)</u>	<u>700,000</u>	<u>764,273</u>
Net change in fund balance	492,150	(256,501)	501,131	736,780
Fund balances - beginning	<u>8,334,402</u>	<u>1,147,550</u>	-	<u>9,481,952</u>
Fund balances - ending	<u>\$ 8,826,552</u>	<u>\$ 891,049</u>	<u>\$ 501,131</u>	<u>\$ 10,218,732</u>

(continued)

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

**Town of Nags Head, North Carolina**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Governmental Funds**  
**For the Fiscal Year Ended June 30, 2006**

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

Net changes in fund balances - total governmental funds \$ 736,780

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	\$ 3,101,650	
Depreciation	<u>(872,577)</u>	2,229,073

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

Change in deferred revenue for tax revenues	11,724
Change in deferred FEMA revenue	(1,196,653)
Change in deferred capital lease receivable	(385,000)

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 assets. This is the amount by which principal repayments exceeded the proceeds from lease purchase financing.

Debt Issued	\$ (864,273)	
Increase in compensated absence	(26,704)	
Principal Repayments	<u>1,355,924</u>	<u>464,947</u>

Total changes in net assets of governmental activities \$ 1,860,871

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

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**Town of Nags Head, North Carolina**  
**General Fund and Annually Budgeted Capital Reserve Fund**  
**Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual**  
**For the Fiscal Year Ended June 30, 2006**

	<b>General Fund</b>			<b>Variance with Final Budget - Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>	<b>Actual Amounts</b>	
<b>Revenues:</b>				
Ad valorem taxes	\$ 4,331,636	\$ 4,331,636	\$ 4,440,726	\$ 109,090
Other taxes and licenses	4,495,000	4,495,000	4,471,101	(23,899)
Unrestricted intergovernmental	336,500	336,500	340,257	3,757
Restricted intergovernmental	824,662	2,912,875	2,601,200	(311,675)
Permits and fees	567,150	577,150	504,085	(73,065)
Special assessments	500	500	499	(1)
Sales and services	7,000	7,000	9,041	2,041
Investment earnings	200,000	232,000	351,226	119,226
Miscellaneous	794,653	841,795	664,693	(177,102)
Total revenues	<u>11,557,101</u>	<u>13,734,456</u>	<u>13,382,828</u>	<u>(351,628)</u>
<b>Expenditures:</b>				
Current:				
General Government	3,354,454	3,386,426	2,627,676	(758,750)
Public Safety	4,086,072	4,528,132	4,106,280	(421,852)
Environmental Protection	1,537,281	1,963,206	1,914,867	(48,339)
Public Works	1,825,903	3,340,033	3,004,693	(335,340)
Debt service:				
Principal	1,009,859	1,377,006	1,355,924	(21,082)
Interest and other charges	401,981	401,981	220,646	(181,335)
Capital Improvements Plan	412,134	5,269	-	(5,269)
Contingency	75,000	15,158	-	(15,158)
Total expenditures	<u>12,702,684</u>	<u>15,017,211</u>	<u>13,230,086</u>	<u>(1,787,125)</u>
Revenues over (under) expenditures	<u>(1,145,583)</u>	<u>(1,282,755)</u>	<u>152,742</u>	<u>1,435,497</u>
<b>Other financing sources (uses):</b>				
Transfers from other funds	782,322	426,932	421,632	(5,300)
Transfers to other funds	(200,000)	(960,000)	(946,497)	13,503
Installment purchase obligations issued	-	864,273	864,273	-
Appropriated Fund Balance	563,261	951,550	-	(951,550)
Total other financing sources (uses)	<u>1,145,583</u>	<u>1,282,755</u>	<u>339,408</u>	<u>(943,347)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	492,150	<u>\$ 492,150</u>
Fund balances, beginning of year			8,334,402	
Prior period adjustment			-	
Fund balances, end of year			<u>\$ 8,826,552</u>	

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



**Town of Nags Head, North Carolina**  
**Statement of Net Assets**  
**Proprietary Funds**  
**June 30, 2006**

	<b>Enterprise Funds</b>			<b>Total</b>
	<b>Major Funds</b>		<b>Non-Major</b>	
	<b>Water Fund</b>	<b>Storm Water Fund</b>	<b>Nags Head Leasing</b>	
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 5,821,543	\$ 187,613	\$ 456	\$ 6,009,612
Accounts receivable trade (net)	400,698	4,217	-	404,915
Accounts receivable other (net)	14,637	-	-	14,637
Due from other governments	540	-	-	540
Prepays	-	120	-	120
Inventories	43,229	-	-	43,229
<b>Total current assets</b>	<b>6,280,647</b>	<b>191,950</b>	<b>456</b>	<b>6,473,053</b>
Restricted assets:				
Cash and cash equivalents	-	-	-	-
Capital assets:				
Land, non-depreciable improvements and construction in progress	204,205	-	-	204,205
Other capital assets, net of depreciation	6,044,767	-	-	6,044,767
<b>Total capital assets (net)</b>	<b>6,248,972</b>	<b>-</b>	<b>-</b>	<b>6,248,972</b>
<b>Total Assets</b>	<b>\$ 12,529,619</b>	<b>\$ 191,950</b>	<b>\$ 456</b>	<b>\$ 12,722,025</b>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	\$ 120,814	\$ 20,949	\$ -	\$ 141,763
Accrued liabilities	6,654	-	-	6,654
Unearned revenue	257,152	-	-	257,152
Customer deposits	380,571	-	-	380,571
Cash Bonds	3,890	-	-	3,890
Compensated absences - current	27,571	-	-	27,571
Capital leases payable - current	136,586	-	-	136,586
<b>Total current liabilities</b>	<b>933,238</b>	<b>20,949</b>	<b>-</b>	<b>954,187</b>
Noncurrent liabilities:				
Compensated absences - non current	3,907	-	-	3,907
Capital leases payable - non current	982,207	-	-	982,207
<b>Total noncurrent liabilities</b>	<b>986,114</b>	<b>-</b>	<b>-</b>	<b>986,114</b>
<b>Total liabilities</b>	<b>1,919,352</b>	<b>20,949</b>	<b>-</b>	<b>1,940,301</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	5,130,179	-	-	5,130,179
Unrestricted	5,480,088	171,001	456	5,651,545
<b>Total net assets</b>	<b>\$ 10,610,267</b>	<b>\$ 171,001</b>	<b>\$ 456</b>	<b>\$ 10,781,724</b>

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

**Town of Nags Head, North Carolina**  
**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**Proprietary Funds**  
**For the Fiscal Year Ended June 30, 2006**

	<b>Enterprise Funds</b>			<b>Total</b>
	<b>Water Fund</b>	<b>Storm Water Fund</b>	<b>Nags Head Leasing</b>	
<b>OPERATING REVENUES</b>				
Charges for services	\$ 2,076,403	\$ 110,796	\$ -	\$ 2,187,199
Contribution to Fresh Pond	250,287	-	-	250,287
Charges to other governmental units	73,876	-	-	73,876
Rents	99,104	-	-	99,104
FEMA Recovery	323	-	-	323
Tap and connection fees	23,405	-	-	23,405
Late payment penalties	18,111	-	-	18,111
Water Tag Fees	10,872	-	-	10,872
Miscellaneous	3,929	-	-	3,929
<b>Total operating revenues</b>	<u>2,556,310</u>	<u>110,796</u>	<u>-</u>	<u>2,667,106</u>
<b>OPERATING EXPENSES</b>				
Administration	146,538	-	-	146,538
Septic Health	272,218	-	-	272,218
Operations	1,328,873	-	-	1,328,873
Fresh Pond Operations	237,965	-	-	237,965
Distribution	525,830	-	-	525,830
Storm Water	-	100,713	-	100,713
Depreciation and amortization	268,809	-	-	268,809
<b>Total operating expenses</b>	<u>2,780,233</u>	<u>100,713</u>	<u>-</u>	<u>2,880,946</u>
<b>Total operating income</b>	(223,923)	10,083	-	(213,840)
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Investment earnings	179,260	4,592	12	183,864
Interest expense	(49,644)	-	-	(49,644)
<b>Total nonoperating revenue (expenses)</b>	<u>129,616</u>	<u>4,592</u>	<u>12</u>	<u>134,220</u>
<b>Income (loss) before contributions and transfers</b>	(94,307)	14,675	12	(79,620)
Capital contributions from Impact fees	287,000	-	-	287,000
Capital contributions from Infrastructure	43,395	-	-	43,395
Transfer from General Fund	-	100,000	-	100,000
Change in net assets	236,088	114,675	12	350,775
Total net assets - beginning	10,374,179	56,326	444	10,430,949
Total net assets - ending	<u>\$ 10,610,267</u>	<u>\$ 171,001</u>	<u>\$ 456</u>	<u>\$ 10,781,724</u>

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

**Town of Nags Head, North Carolina**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Fiscal Year Ended June 30, 2006**

	Business-Type Activities Enterprise Funds			Total
	Water Fund	Storm Water	Nags Head Leasing	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash received from customers	\$ 2,773,756	\$ 111,211	\$ -	\$ 2,884,967
Cash paid for goods and services	(1,869,903)	(79,884)	-	(1,949,787)
Cash paid to or on behalf of employees for services	(688,465)	-	-	(688,465)
Customer deposits received	12,493	-	-	12,493
Customer deposits returned	-	-	-	-
Other operating revenues	104,869	-	-	104,869
Net cash provided (used) by operating activities	<u>332,750</u>	<u>31,327</u>	<u>-</u>	<u>364,077</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Total cash flows from noncapital financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Initial impact fees received	255,000	-	-	255,000
Transfer from General Fund	-	100,000	-	100,000
Proceeds from financing capital assets	21,868	-	-	21,868
Interest paid on debt financing	(49,644)	-	-	(49,644)
Net septic loans	8,445	-	-	8,445
Principal paid on debt financing	(224,857)	-	-	(224,857)
Acquisition of capital assets	(1,275,841)	-	-	(1,275,841)
Net cash provided (used) by capital and related financing activities	<u>(1,265,029)</u>	<u>100,000</u>	<u>-</u>	<u>(1,165,029)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest	<u>179,260</u>	<u>4,592</u>	<u>12</u>	<u>183,864</u>
Net increase (decrease) in cash and cash equivalents	(753,019)	135,919	12	(617,088)
Balances - beginning of the year	<u>6,574,562</u>	<u>51,694</u>	<u>444</u>	<u>6,626,700</u>
Balances - end of the year	<u>\$ 5,821,543</u>	<u>\$ 187,613</u>	<u>\$ 456</u>	<u>\$ 6,009,612</u>

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

**Town of Nags Head, North Carolina**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Fiscal Year Ended June 30, 2006**

	Business-Type Activities Enterprise Funds			Total
	Water Fund	Storm Water	Nags Head Leasing	
Reconciliation of operating income to net cash provided by operating activities	(223,923)	10,083	-	(213,840)
Operating income				
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization	268,809	-	-	268,809
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable	320,803	415	-	321,218
(Increase) decrease in inventories	245	-	-	245
(Increase) decrease in prepaids	-	(120)	-	-
Increase (decrease) in accounts payable	(27,760)	20,949	-	(6,811)
Increase (decrease) in accrued liabilities	(19,430)	-	-	(19,430)
Increase (decrease) in customer deposits	12,493	-	-	12,493
Increase (decrease) in deferred revenue	1,513	-	-	1,513
Total adjustments	<u>556,673</u>	<u>21,244</u>	<u>-</u>	<u>577,917</u>
Net cash provided by operating activities	<u>\$ 332,750</u>	<u>\$ 31,327</u>	<u>\$ -</u>	<u>\$ 364,077</u>

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

**Town of Nags Head, North Carolina**  
**Statement of Fiduciary Net Assets**  
**Fiduciary Funds**  
**June 30, 2006**

	<u>Pension Trust</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ <u>221,297</u>
Total Assets	\$ <u>221,297</u>
<b>NET ASSETS</b>	
Held in trust for pension benefits	\$ <u>221,297</u>

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

**Town of Nags Head, North Carolina**  
**Statement of Changes in Fiduciary Net Assets**  
**Fiduciary Funds**  
**For the Fiscal Year Ended June 30, 2006**

	<u>Pension Trust</u>
<b>Additions</b>	
Employer Contributions	\$ 28,886
Investment Earnings	<u>6,073</u>
Total investment earnings	6,073
Less investment expense	<u>-</u>
Total additions	34,959
<b>Deductions</b>	
Benefits	-
Administrative expenses	<u>-</u>
Total deductions	<u>-</u>
Change in net assets	34,959
Net assets - beginning of the year	<u>186,338</u>
Net assets - end of the year	<u>\$ 221,297</u>

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

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2006**

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**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 assets 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.

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2006**

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

The Town reports the following major governmental funds:

**General Fund.** The General Fund is the general operating fund of the Town. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund. The primary revenue sources are ad valorem taxes, grants, and various other taxes and licenses. The primary expenditures are for public safety, public works/transportation, and environmental protection services.

**Capital Reserve Fund.** This fund is used to accumulate funds for capital projects.

**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.

**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.

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2006**

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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.

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 60 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 motor vehicles registered under the staggered system, 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 2005 through February 2006 apply to the fiscal year ended June 30, 2006. Uncollected taxes that were billed during this period are shown as a receivable in these financial statements and are offset by deferred revenues. For vehicles registered under the annual system, taxes are due on May 1 of each year. For those vehicles registered and billed under the annual system, uncollected taxes are reported as a receivable on the financial statements and are offset by deferred revenues because the due date and the date upon which interest begins to accrue passed prior to June 30. The taxes for vehicles registered annually that have already been collected as of year-end are also reflected as deferred revenues at June 30, 2006 because they are intended to finance the Town's operations during the 2007 fiscal year.

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2006**

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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 are both restricted and unrestricted net assets 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.

#### **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. Project ordinances are adopted for the Beach Nourishment Capital Project Fund and Beach Access Project Fund, both of which are general governmental fund capital projects.

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.

At June 30, 2006, \$202,513 of open purchase orders and contracts were outstanding in the General Fund. These encumbrances outstanding are reported as "Reserved for encumbrances" in the fund balance section of the balance sheet for the General Fund and will be re-appropriated in the subsequent year's budget. The Beach Nourishment Capital Project Fund had \$1,392,153 in outstanding encumbrances at June 30, 2006. The Water Fund and Storm Water Funds had \$28,572 and \$97,933, respectively, in encumbrances outstanding at June 30, 2006. There were no open purchase orders in any of the other Town funds.

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2006**

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**E. Assets, Liabilities, 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.

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.

**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, 2005.

**Town of Nags Head, North Carolina  
Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2006**

**5. Allowances for Doubtful Accounts**

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

**6. Inventory and Prepaid Items**

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

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

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

**7. Capital Assets**

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of five years. Minimum capitalization cost is \$5,000. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets 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:

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

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2006**

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**8. 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 assets.

**9. 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.

**10. Net Assets/Fund Balances**

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

In the governmental fund financial statements, reservations of fund balance represent amounts that cannot be appropriated or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

State law [G.S. 159-13(b)(16)] restricts appropriation of fund balance for the subsequent year's budget to an amount not to exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts as those amounts stand at the close of the fiscal year preceding the budget year.

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2006**

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The governmental fund types classify fund balances as follows:

**Reserved:**

Reserved for inventories - portion of fund balance that is not available for appropriation because it represents the year-end fund balance of ending inventories, which are not expendable, available resources.

Reserved for encumbrances - portion of fund balance available to pay for commitments related to purchase orders or contracts which remain unperformed at year-end.

Reserved by State statute - portion of fund balance, in addition to reserves for encumbrances and reserves for inventories, which is not available for appropriation under State law [G.S. 159-8(a)]. This amount is usually comprised of accounts receivable and interfund receivables, which have not been offset by deferred revenues.

Reserved for streets - Powell Bill - portion of fund balance that is available for appropriation but legally segregated for street construction and maintenance expenditures. This amount represents the balance of the total unexpended Powell Bill funds.

Reserved for prepaids - portion of fund balance that is not available for appropriation because it represents the year-end fund balance for prepaid expenses for the subsequent fiscal year which are not expendable, available resources.

Reserved for restricted assets - portion of fund balance which is not available for appropriation because it represents loan escrow funds not yet reimbursed for the purchase of capital assets financed by debt.

Reserved for drug forfeiture/enforcement - portion of fund balance that is available for appropriation but legally segregated for expenditure as designated by the Director of Public Safety.

**Unreserved:**

Designated for subsequent year's expenditures - portion of the total fund balance available for appropriation that has been designated for the adopted 2006 - 2007 budget ordinance.

Undesignated - portion of total fund balance available for appropriation that is uncommitted at year-end.

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2006**

**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 does not have a policy regarding custodial credit risk for deposits.

At June 30, 2006, the Town's deposits had a carrying amount of \$2,057,786 and a bank balance of \$2,300,529. Of the bank balance, \$596,521 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. At June 30, 2006, the Town's petty cash fund totaled \$250.

2. Investments

At June 30, 2006, the Town's investments were as follows:

Investment Type	Fair Value	Less than			
		6 Months	6-12 Months	1-3 Years	3-7 Years
US Government Obligations	\$ 1,463,255	\$ 263,844	\$ 122,539	\$ 1,076,872	\$ -
US Government Agencies	1,338,422	314,086	122,735	550,582	351,019
NC Capital Management Trust - Term Portfolio*	10,852,774	-	10,852,774	-	-
Total:	<u>\$ 13,654,451</u>	<u>\$ 577,930</u>	<u>\$ 11,098,048</u>	<u>\$ 1,627,454</u>	<u>\$ 351,019</u>

\* Because the NC Capital Management Trust Term Portfolio had duration of 0.9 years, it was presented as an investment with a maturity of 6-12 months.

*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, 2006**

*Credit Risk.* The Town's investments in the NC Capital Management Trust Term Portfolio is unrated. The Term Portfolio is authorized to invest in obligations of the US government and agencies, and also in high-grade money market instruments as permitted under North Carolina General Statutes 159-30 as amended. The Town has no policy on credit risk.

*Concentration of Credit Risk.* The Town's policy prohibits the investment off all long term securities with a single institution. There is no limit on the amount the Town may invest in any one issuer. The Town has more than 5% invested in Federal Home Loan Mortgage securities. These investments are 6.27% of the Town's total investments.

**3. Receivables**

The receivables shown in Exhibit A at June 30, 2006 were as follows:

	<u>Accounts</u>	<u>Taxes</u>	<u>Due from other Governments</u>	<u>Interest Receivable</u>	<u>Total</u>
<b>Governmental Activities:</b>					
General	\$ 95,367	\$ 19,981	\$ 1,079,725	\$ 31,975	\$ 1,227,048
Other governmental	-	-	-	-	-
Allowance for doubtful accounts	-	(10,000)	-	-	(10,000)
Total governmental activities	<u>\$ 95,367</u>	<u>\$ 9,981</u>	<u>\$ 1,079,725</u>	<u>\$ 31,975</u>	<u>\$ 1,217,048</u>
<b>Business-type Activities:</b>					
Water	\$ 430,850	\$ -	\$ 540	\$ -	\$ 431,390
Stormwater	4,217	-	-	-	4,217
Allowance for doubtful accounts	(15,515)	-	-	-	(15,515)
Total business type activities	<u>\$ 419,552</u>	<u>\$ -</u>	<u>\$ 540</u>	<u>\$ -</u>	<u>\$ 420,092</u>

Due from other governments consisted of the following:

Occupancy tax	\$ 287,439
Land transfer tax	227,872
Sales taxes	259,285
Tax reimbursement	120,398
Ocean rescue services	18,650
Grants	152,315
Other	<u>13,766</u>
Total	<u>\$ 1,079,725</u>

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2006**

Capital Lease receivable

The Town assisted the Outer Banks Family YMCA in obtaining tax exempt financing for the YMCA property located within the Town of Nags Head. The Town acquired title to the YMCA property and borrowed funds from the Bank of America in the amount of \$3,721,000. The Town has entered into an agreement to lease the property to the YMCA for the total of the amount due under the financing arrangement and has no financial responsibility beyond lease payments. The total payments received under this lease for the fiscal year ended June 30, 2006 were \$471,745 and the payments made were \$385,000 in principal and \$86,745 in interest.

4. Capital Assets

Capital asset activity for the Primary Government for the year ended June 30, 2006, was as follows:

	Beginning Balances	Increases	Decreases/ Transfers	Ending Balances
<b>Governmental activities:</b>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 5,002,999	\$ 17,809	\$ -	\$ 5,020,808
Construction in progress	536,535	1,613,421	(1,640,208)	509,748
Total capital assets not being depreciated	<u>5,539,534</u>	<u>1,631,230</u>	<u>(1,640,208)</u>	<u>5,530,556</u>
<b>Capital assets being depreciated:</b>				
Buildings	5,068,180	392,925	1,313,052	6,774,157
Other improvements	234,377	117,083	316,788	668,248
Equipment	1,170,861	242,481	(24,892)	1,388,450
Vehicles and motorized equipment	4,764,083	717,933	(132,837)	5,349,179
Total capital assets being depreciated	<u>11,237,501</u>	<u>1,470,422</u>	<u>1,472,111</u>	<u>14,180,034</u>
<b>Less accumulated depreciation for:</b>				
Buildings	1,459,368	143,220	-	1,602,588
Other improvements	38,633	18,802	(10,369)	47,066
Equipment	593,139	148,530	(24,892)	716,777
Vehicles and motorized equipment	2,493,731	562,025	(132,837)	2,922,919
Total accumulated depreciation	<u>4,584,871</u>	<u>\$ 872,577</u>	<u>\$ (168,098)</u>	<u>5,289,350</u>
Total capital assets being depreciated, net	<u>6,652,630</u>			<u>8,890,684</u>
<b>Governmental activity capital assets, net</b>	<u>\$ 12,192,164</u>			<u>\$ 14,421,240</u>

**Town of Nags Head, North Carolina**  
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Depreciation expense was charged to functions/programs of the primary government as follows:

General Government	\$	57,170
Public Safety		260,127
Public Works/Transportation		211,868
Environmental Protection		343,412
Total Depreciation expense	\$	<u>872,577</u>

Capital asset activities for the Business-type activities for the year ended June 30, 2006 was as follows:

	<u>Beginning</u> <u>Balances</u>	<u>Increases</u>	<u>Decreases/ Transfers</u>	<u>Ending</u> <u>Balances</u>
<b>Business-type activities:</b>				
Enterprise Funds				
Capital assets not being depreciated:				
Land	\$ 204,205	\$ -	\$ -	\$ 204,205
Construction in Progress	555,715	1,145,370	(1,701,085)	-
Total capital assets not being depreciated	<u>759,920</u>	<u>1,145,370</u>	<u>(1,701,085)</u>	<u>204,205</u>
<b>Capital assets being depreciated:</b>				
Plant	4,263,911	151,343	1,508,985	5,924,239
Equipment	797,996	-	192,100	990,096
Vehicles	158,175	22,523	(35,837)	144,861
Intangibles	4,203,620	-	-	4,203,620
Total capital assets being depreciated	<u>9,423,702</u>	<u>173,866</u>	<u>1,665,248</u>	<u>11,262,816</u>
<b>Less accumulated depreciation for:</b>				
Plant	2,930,292	107,259	-	3,037,551
Equipment	379,648	35,077	-	414,725
Vehicles	84,252	19,687	(35,837)	68,102
Intangibles	1,590,885	106,786	-	1,697,671
Total accumulated depreciation	<u>4,985,077</u>	<u>\$ 268,809</u>	<u>\$ (35,837)</u>	<u>5,218,049</u>
Total capital assets being depreciated, net	<u>4,438,625</u>			<u>6,044,767</u>
Fund capital assets, net	<u>5,198,545</u>			<u>6,248,972</u>
<b>Business-type activities capital assets, net</b>	<u>\$ 5,198,545</u>			<u>\$ 6,248,972</u>

**Town of Nags Head, North Carolina  
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The government has active construction projects as of June 30, 2006. At year-end, the government's estimated commitments to projects ongoing are as follows:

Project	Spent-to-date	Remaining Commitment
Beach Nourishment, construction oversight	\$ 200,247	\$ 1,392,153
Harvey site access grant	299,050	14,785
Total	<u>\$ 499,297</u>	<u>\$ 1,406,938</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 4.89% and 4.78%, 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, 2006, 2005, and 2004 were \$240,884, 208,997, and \$200,402, respectively. The contributions made by the Town equaled the required contributions for each year.

**Town of Nags Head, North Carolina**  
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b. Law Enforcement Officers Special Separation Allowance

*Plan Description*

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

All full time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2005, the Separation Allowance's membership consisted of:

Retirees receiving benefits	0
Terminated plan members entitled to but not yet receiving benefits	0
Active plan members	22
Total	<u>22</u>

A separate report was not issued for the plan.

*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 benefit payments on a pay as you go basis through appropriations made in the General Fund operating budget. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. There were no contributions made by employees.

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The annual required contribution for the current year was determined as part of the December 31, 2005 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 7.25% investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 4.5% to 12.3% per year. Item (b) included an inflation component of 3.75%. 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, 2005 was 25 years.

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

Annual required contribution	\$ 20,819
Interest on net pension obligation	(410)
Adjustment to annual required contribution	<u>325</u>
Annual pension cost	20,734
Contributions made	<u>(28,886)</u>
Increase (decrease) in net pension obligation	(8,152)
Net pension obligation beginning of year	<u>(5,653)</u>
Net pension obligation end of year	<u>\$ (13,805)</u>

For Year Ended June 30	3 Year Trend Information		Net Pension Obligation
	Annual Pension Cost (APC)	Percentage of APC Contributed	
2004	\$ 19,342	155.1%	\$ 7,225
2005	18,769	168.6%	(5,653)
2006	20,734	139.3%	(13,805)

**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.

*Funding Policy*

Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2006 were \$71,085, which consisted of \$54,336 from the Town and \$16,749 from the law enforcement officers.

**Town of Nags Head, North Carolina**  
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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 three 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, 2005 were \$216,361, which consisted of \$115,915 from the Town and \$100,446 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, 2006, 2005 and 2004 were \$3,855, \$3,740, and \$5,392, respectively.

f. Other Post-employment Benefits

According to a Town resolution, the Town provides post-employment health care benefits to retirees of the Town, provided they participate in the North Carolina Local Governmental Employees' Retirement System (System) and have at least ten years of creditable service with the Town. The Town contributes towards the cost of coverage for these benefits according to the following scale: ten years or more at 25%, fifteen years or more at 50%, twenty years or more at 75%, and twenty-five years or more at 100%. Also, the

**Town of Nags Head, North Carolina**  
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Town's retirees can purchase coverage for their dependents at the Town's group rates. Currently 7 retirees are eligible for post-employment health benefits. For the fiscal year ended June 30, 2006, the Town made payments for post-employment health benefit premiums of \$27,355. The Town obtains health care coverage through private insurers.

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, 2006, the Town made contributions to the State for death benefits of \$4,999. The Town's required contributions for employees not engaged in law enforcement and for law enforcement officers represented .09% and .14% 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.

2. Payables

Payables at Exhibit A at June 30, 2006 were as follows:

	Vendors	Salaries and Benefits	Accrued Interest	Customer Deposits	Total
<b>Governmental Activities</b>					
General	\$ 280,090	\$ 90,488	\$ -	\$ 109,895	\$ 480,473
Beach Nourishment Fund	<u>2,996</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,996</u>
Total Governmental activities	<u>\$ 283,086</u>	<u>\$ 90,488</u>	<u>\$ -</u>	<u>\$ 109,895</u>	<u>\$ 483,469</u>
<b>Business-type Activities</b>					
Water	120,814	6,654	-	384,461	511,929
Stormwater	<u>20,949</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,949</u>
Total Business-type activities	<u>\$ 141,763</u>	<u>\$ 6,654</u>	<u>\$ -</u>	<u>\$ 384,461</u>	<u>\$ 532,878</u>

**Town of Nags Head, North Carolina**  
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**3. Deferred / Unearned Revenues**

The balance in deferred / unearned revenues at year-end is composed of the following elements:

	Deferred Revenue	Unearned Revenue
Prepaid taxes and privilege licenses (General Fund)		\$ 44,403
Taxes and privilege licenses receivable (General Fund)	24,274	-
Capital Lease for YMCA (General Fund)	2,047,000	-
Special assessment receivable (General Fund)	996	-
Miscellaneous accounts receivable (General Fund)	523	-
Prepaid rent (Water Fund)	-	31,152
Prepaid impact fees (Water Fund)	-	226,000
<b>Total</b>	<b>\$ 2,072,793</b>	<b>\$ 301,555</b>

**4. Risk Management**

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in 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.

**5. Claims and Judgments**

At June 30, 2006, 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.

**6. Long-Term Debt**

**a. Capital Leases and Installment Finance Contracts**

The Town entered into a fifteen year installment financing contract in 1995 with First Union National Bank of North Carolina for the construction of a 19,348 square foot municipal complex. The amount borrowed was \$2,400,000 at an interest rate of 4.80% and is secured by the property. Payments are due in semi-annual installments of \$113,143 with final payment due December 15, 2010.

**Town of Nags Head, North Carolina**  
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The Town entered into a fifteen year installment financing contract in 2002 with Bank of America for the construction of the YMCA building. The amount borrowed was \$3,721,000 requiring repayment in quarterly installments of varying amounts. The interest rate is variable and is calculated as 65% of London Interbank Offering Rate (LIBOR) plus 1.14% per annum and is secured by the property and the building. The Town has entered into an agreement to lease the property to the YMCA for the total of the amount due under the financing arrangement and has no financial responsibility beyond lease payments. The Lease Agreement with the YMCA calls for payments in the amount of the debt to be made directly to Bank of America as they become due. Should the YMCA default on the payments, the bank may take possession of the property. The Town has the right in that case to purchase the property at 25% below market value and take possession of the property by continuing to make the debt service payments.

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 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 Town currently has eight leases outstanding for various vehicles and equipment. Annual payments range from \$15,912 to \$126,970. Expiration dates range from February 2007 to March 2010. Interest rates vary from 2.42% to 4.44%.

The gross value of all assets recorded under capital leases and installment finance contracts is \$7,094,919. The following is an analysis of the assets recorded under capital leases and installment finance contracts in the Town's at June 30, 2006:

Classes of Property	Cost
Building	\$ 4,000,000
Vehicles and equipment	3,094,919
Total	<u>\$ 7,094,919</u>

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

	Outstanding July 1, 2005	Increases	Decreases	Outstanding June 30, 2006	Current Portion
<b>BY TYPE OF DEBT</b>					
Finance Contract	\$5,007,866		(\$793,151)	\$4,214,715	\$610,032
Capital Leases	832,728	864,273	(562,770)	1,134,231	460,273
Compensated Absences	329,680	252,628	(225,924)	356,384	252,628
	<u>6,170,274</u>	<u>1,116,901</u>	<u>(1,581,845)</u>	<u>5,705,330</u>	<u>1,322,933</u>

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

	General Long-term Debt			General Long-term Debt	
	July 1, 2005	Increases	Decreases	June 30, 2006	Current Portion
<b>BY TYPE OF DEBT</b>					
Finance Contract	\$ 1,097,159	\$ -	\$ (146,471)	\$ 950,688	\$ 61,950
Capital Leases	224,623	21,868	(78,386)	168,105	74,636
Compensated Absences	29,486	27,571	(25,579)	31,478	27,571
	<u>\$ 1,351,268</u>	<u>\$ 49,439</u>	<u>\$ (250,436)</u>	<u>\$ 1,150,271</u>	<u>\$ 164,157</u>

**b. Changes in Long-Term Liabilities**

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

	Balance July 1, 2005	Earned	Used	Balance July 1, 2005
<b>General Fund</b>				
General Government	\$ 83,803	\$ 62,550	\$ 54,609	\$ 91,744
Public Safety	164,200	127,822	110,127	181,895
Public Works/Transportation	53,092	22,348	22,118	28,815
Environmental Protection	28,585	39,908	39,070	53,930
	<u>\$ 329,680</u>	<u>\$ 252,628</u>	<u>\$ 225,924</u>	<u>\$ 356,384</u>
<b>Proprietary Fund</b>	<u>\$ 29,486</u>	<u>\$ 27,571</u>	<u>\$ 25,579</u>	<u>\$ 31,478</u>

**Town of Nags Head, North Carolina**  
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A summary of General government debt service obligations is as follows:

Year Ending June 30	Principal	Interest
2007	\$ 1,070,305	\$ 356,559
2008	923,256	290,631
2009	748,635	233,651
2010	617,843	187,041
2011	398,536	146,027
2012 - 2016	1,225,233	388,715
2017 - 2019	365,138	25,573
<b>Total</b>	<b>\$ 5,348,946</b>	<b>\$ 1,628,197</b>

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

Year Ending June 30	Principal	Interest
2007	\$ 136,586	\$ 42,912
2008	117,153	37,360
2009	97,928	33,154
2010	64,340	29,534
2011	66,819	27,057
2012 - 2016	374,713	94,660
2017 - 2019	261,254	20,370
<b>Total</b>	<b>\$ 1,118,793</b>	<b>\$ 285,047</b>

Amortization of assets acquired under capital leases in Enterprise Funds is included in depreciation. At June 30, 2006 the Town of Nags Head, North Carolina, has a legal debt margin of \$231,210,468.

#### 7. Operating Leases

The Town entered into an operating lease for the lease of six copiers effective November 19, 2004 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, 2006, are as follows:

2007	\$ 6,808
2008	6,808
2009	6,808
2010	2,269
<b>Total</b>	<b>\$ 22,693</b>

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
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During the year ended June 30, 2006, the total amount expended by the Town under the above operating lease was \$8,327 including both minimum monthly rentals and per copy charges.

Under a separate lease agreement effective July 31, 2003, the Town leases one copier for a period of 60 months in the amount of \$213 per month plus monthly copy charges of \$115 per month which includes up to 11,500 copies. Copies in excess of that amount are additional.

Total minimum lease payments for the remaining term of the contract at June 30, 2006, are as follows:

2007	\$ 3,933
2008	<u>656</u>
Total	\$ <u>4,589</u>

During the year ended June 30, 2006, the total amount expended by the Town under the above operating lease was \$3,972 including both minimum monthly rentals and overage per copy charges.

The Town assisted the Outer Banks Family YMCA in obtaining tax exempt financing for the YMCA property located within the Town of Nags Head. The Town acquired title to the YMCA property and borrowed funds from the Bank of America in the amount of \$3,721,000. The terms of the loan call for varying quarterly principal payments over fifteen years with interest determined quarterly as 65% of London Interbank Offering Rate (LIBOR) plus 1.14% per annum. The Town has entered into an agreement to lease the property to the YMCA for the total of the amount due under the financing arrangement and has no financial responsibility beyond lease payments. The total payments received under this operating lease for the fiscal year ended June 30, 2006 were \$474,745 and the payments made were \$385,000 in principal and \$86,745 in interest.

#### 8. Interfund Balances and Activity

The balance sheet for Government Funds shows a liability in the General Fund of \$201,773 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 \$16,427.

**Town of Nags Head, North Carolina**  
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Transfers to/from other funds for the year ended June 30, 2006 consisted of the following:

From the General Fund to the Capital Reserve Fund for future capital purchases	\$ 146,497
From the General Fund to the Storm Water Fund for funding start up costs	100,000
From the General Fund to the Beach Nourishment Capital Project fund for capital purchases.	700,000
From the Capital Reserve Fund to the General Fund for current year capital purchases	<u>421,632</u>
Total	<u>\$ 1,368,129</u>

**9. On-Behalf of Payments for Fringe Benefits and Salaries**

For the fiscal year ended June 30, 2006, the Town has recognized on-behalf payments for pension contributions made by the State as a revenue and an expenditure of \$15,848 for the 71 volunteer firemen who perform fire fighting duties for the Town's fire department and on-behalf payments of \$15,848 as a revenue and an expenditure. 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 State appropriation.

**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, 2006. 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 Post Office Box 188, Farmville, NC 27828.

**Town of Nags Head, North Carolina**  
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**IV. Related Party Transactions**

State statute prohibits transactions between a municipality and its elected officials. The state excludes any municipality with a population of less than 15,000, but limits the dollar value of all transactions within a twelve-month period to \$25,000 per elected official. In compliance with the restrictions of this statute, the following is a listing of all elected officials who transacted business with the Town. During the fiscal period ending June 30, 2006, the aggregate dollar value of such transactions is as follows:

Brant Murray (Murray Auto Supply)	\$ 12,590
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**V. 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.

**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. Charges are based on the Town's actual tonnage of solid waste; the rate in effect in the 2005 - 2006 year was \$59.04 per ton.

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2006**

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**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 amount expended under this agreement in the current fiscal year was \$19,682. The method of calculation of incentive pay was amended 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. The amount expended under this agreement for the partial year of December 2005 through June 2006 was \$2,750.

**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 \$589,620 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, 2006, accumulated amortization totaled \$1,697,671.

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.

**F. Fresh Pond Operations**

As part of the agreement with Dare County and the Town of Kill Devil Hills, the Town of Nags Head operates the Fresh Pond surface water facility for the regional system. The terms of the agreement require the Town to provide an annual accounting to the Regional Water System and to settle any difference in water revenues and expenses. Pursuant to the Regional Water System agreement, Fresh Pond Capital as of June 1996 is to be used for capital expenditures of Fresh Pond. After this amount is exhausted, Dare County, Kill Devil Hills and the Town will share in capital expenditures evenly. All funds previously set aside for capital expenditures under this agreement have been expended as of June 30, 2006. In the case of capital expenditures in excess of \$100,000, each entity must agree to fund their share or accept a reduction in their allocation from the Fresh Pond water supply. During the fiscal year ending June 30, 2006 the Town received \$133,121 from the Regional Water System in reimbursement of excess operating costs from the prior fiscal year and an additional \$58,583 from both Dare County and Kill Devil Hills for their share of Fresh Pond capital expenditures.

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2006**

**G. 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, 2006, 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 691 WCU's which are guaranteed by the Town and are valued at \$1,382,000. 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 113 WCU's in the amount of \$226,000 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.

**H. 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, 2006, the following Facility Fee Revenue (including interest) was collected in the General Fund:

Administration	\$	24,395
Fire		14,920
Police		20,474
Sanitation		13,677
Recreation		<u>23,030</u>
Total	\$	<u>96,496</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, 2006, the facility fees were transferred to the Capital Reserve Fund where they will remain until funds are needed for appropriate capital expenditures.

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2006**

During the year ended June 30, 2006, administration facility fees in the amount of \$31,500 and police facility fees in the amount of \$13,500 were used toward the municipal complex debt. Police facility fees of \$11,698 were used for a portion of new police vehicle debt. Fire facility fees of \$16,427 were used toward the interfund loan used to satisfy the previous fire station debt. There was \$36,716 in sanitation facility fees used toward the debt for new equipment. Lastly, \$25,000 for recreation facility fees were used toward the YMCA skateboard park and an additional \$27,000 for partial funding of improvements to the Harvey site soundside access.

As of June 30, 2006, the following balances of facility fees remained, and are included in the Capital Reserve Fund:

Administration	\$	159,558
Fire		60,146
Police		185,101
Sanitation		9,286
Recreation		17,518
Total	\$	<u>431,609</u>

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
Total	<u>\$ 610,419</u>	<u>\$ 455,112</u>	<u>\$ 469,043</u>	<u>\$ 326,432</u>	<u>\$ 212,583</u>	<u>\$ 2,073,589</u>

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2006**

**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
<b>Total</b>	<b>450,861</b>	<b>394,966</b>	<b>283,942</b>	<b>317,146</b>	<b>195,065</b>	<b>1,641,980</b>
<b>Remaining</b>	<b>\$ 159,558</b>	<b>\$ 60,146</b>	<b>\$ 185,101</b>	<b>\$ 9,286</b>	<b>\$ 17,518</b>	<b>\$ 431,609</b>

**I. Hurricane Recovery**

The Town of Nags Head entered into agreements to complete infrastructure repairs/replacements necessitated by Hurricane Isabel in September 2003. As of June 30, 2005, all contracts for the emergency berm project, the road repair project and the beach emergency berm project had been completed. The amount remaining to be reimbursed from FEMA at June 30, 2005 was \$2,392,554. Of that amount \$1,196,652 has been reflected as a receivable and deferred revenue as of June 30, 2005. The remaining \$1,195,902 was the amount expended in excess of the original project worksheet and is subject to approval by FEMA as part of the final inspection currently expected in December 2005. As of June 30, 2006 the Town had received \$2,171,809 including \$60,169 in reimbursement of administrative costs. The remaining \$280,914 represents the costs of sprigging the emergency berm and was initially denied by FEMA. The Town has appealed this decision. The costs were reported as expenditures in the year incurred and no receivable or revenue has been recorded by the Town related to reimbursement of these costs.

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2006**

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**J. 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. The initial phase of that project is a contract for the engineering and construction oversight in the amount of \$1,592,500. The contract allows for cancellation at any time by either party upon payment of costs incurred through the date of cancellation. The project will require a bond referendum and approval by the Town's voters for the funding of the project which is anticipated for November 2006. Should the referendum not be approved it is the intent of the Board to fund costs incurred through that date from the General Fund Undesignated Fund Balance. The total amount expended under this contract at June 30, 2006 was \$200,347.

**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]
12/31/1996	\$ 46,607	\$ 56,414	\$ 9,807	82.62%	\$ 553,649	1.77%
12/31/1997	49,502	66,480	16,978	74.46%	571,738	2.97%
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%

\* 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**

<u>Year Ended</u> <u>June 30</u>	<u>Annual Required</u> <u>Contribution</u>	<u>Percentage</u> <u>Contributed</u>
1996	\$ 4,113	100.00%
1997	5,310	100.00%
1998	7,398	82.62%
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	17,883	49.79%
2005	7,225	71.46%
2006	(5,653)	73.81%

**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	12/31/2005
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	25 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	7.25%
Projected salary increases *	4.5 - 12.3%
* Includes inflation at	3.75%
Cost-of-living adjustments	N/A

**TOWN OF NAGS HEAD, NORTH CAROLINA**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual - General Fund For the Year Ended June 30, 2006**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
<b>REVENUES</b>			
Ad Valorem Taxes:			
Current year		\$ 4,333,326	
Prior year		1,589	
DMV current year		97,561	
DMV prior year		(583)	
Penalties and interest		<u>8,833</u>	
<b>Total</b>	<u>4,331,636</u>	<u>4,440,726</u>	<u>109,090</u>
Other Taxes and Licenses:			
Occupancy tax		1,650,845	
Land Transfer tax		1,053,725	
Local governmental sales tax		955,163	
1/2% sales tax revenue		730,928	
Privilege licenses		40,309	
Mixed beverage tax		39,804	
Privilege license penalties		<u>327</u>	
<b>Total</b>	<u>4,495,000</u>	<u>4,471,101</u>	<u>(23,899)</u>
Intergovernmental Revenues:			
Unrestricted:			
Utility/Telecommunications Franchise tax		313,140	
Beer and wine		13,666	
ABC revenue		<u>13,451</u>	
<b>Total</b>	<u>336,500</u>	<u>340,257</u>	<u>3,757</u>
Restricted:			
FEMA Reimbursement		2,177,301	
Contributions from governmental units		52,440	
State Street Aid allocation		134,348	
DCM Grant		155,604	
Drug Fund revenue		12,719	
O.B. Visitors Bureau Grant (Local Funds)		64,633	
CAMA Reimbursement		<u>4,155</u>	
<b>Total</b>	<u>2,912,875</u>	<u>2,601,200</u>	<u>(311,675)</u>
<b>Total Intergovernmental Revenues</b>	<u>3,249,375</u>	<u>2,941,457</u>	<u>(307,918)</u>
Permits and Fees:			
Building permits		258,312	
Facility fees		96,497	
Inspection and review fees		78,384	
Cable franchise fees		<u>47,648</u>	

**TOWN OF NAGS HEAD, NORTH CAROLINA**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual - General Fund For the Year Ended June 30, 2006**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Beach driving permits		11,552	
CAMA permits		11,500	
Motor vehicle licenses		<u>192</u>	
Total	<u>577,150</u>	<u>504,085</u>	<u>(73,065)</u>
Special Assessments:			
Pond Island Project		<u>499</u>	
Total	500	499	(1)
Sales and Services:			
Court costs and fees		<u>9,041</u>	
Total	<u>7,000</u>	<u>9,041</u>	<u>2,041</u>
Investment Earnings	<u>232,000</u>	<u>351,226</u>	<u>119,226</u>
Other Revenues:			
YMCA Rents		506,745	
Sale of materials		32,233	
Miscellaneous		61,941	
Sale of assets		23,469	
Damage recovery		22,314	
Civil Penalties		2,143	
Contributions to Police, Fire & Rescue Benevolent Fund		<u>15,848</u>	
Total	<u>841,795</u>	<u>664,693</u>	<u>(177,102)</u>
Total Revenues	<u>13,734,456</u>	<u>13,382,828</u>	<u>(351,628)</u>
<b>EXPENDITURES</b>			
General Government:			
Governing Body:			
Fees paid to elected officials		26,443	
FICA expense		2,023	
Contracted services		70,802	
Contracted services - beach nourishment		88,824	
Professional Fees		5,800	
Capital outlay, art		6,634	
Department supplies and materials		6,395	
Dues and subscriptions		3,717	
Printing		3,200	
Travel		3,980	
Telephone		358	

**TOWN OF NAGS HEAD, NORTH CAROLINA**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual - General Fund For the Year Ended June 30, 2006**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Training		1,260	
Equipment rental		386	
Employee incentive		250	
Contribution to YMCA - Skatebaord Park		25,000	
Contribution to Nags Head Woods		14,000	
Contribution to Community Care Clinic		10,000	
Contribution to Jockey's Ridge State Park		10,000	
Contribution to the Dept. of the Interior		10,000	
Contribution to Wright Flight		5,000	
Contribution OB History		1,000	
Contribution to OB Chamber		714	
Contributions, miscellaneous		<u>15,100</u>	
Total	<u>338,275</u>	<u>310,886</u>	<u>27,389</u>
Special Projects:			
YMCA principal passthrough		385,000	
YMCA interest passthrough		<u>86,745</u>	
Total	<u>653,080</u>	<u>471,745</u>	<u>181,335</u>
Administration:			
Salaries and wages		229,213	
FICA expense		16,755	
Group insurance		39,944	
Group insurance - retiree		4,990	
Retirement		10,905	
401(k) account		6,691	
Contracted services		17,085	
Travel		8,292	
Advertising		5,494	
Departmental supplies		11,588	
Dues and subscriptions		2,706	
Equipment rental		3,972	
Telephone		2,981	
Employee training		2,689	
Postage		651	
Career development		2,283	
Repairs and maintenance, equipment		217	
Other supplies		1,513	
Reimbursement from Water Fund		<u>(71,124)</u>	
Total	<u>345,514</u>	<u>296,845</u>	<u>48,669</u>
Administrative Services:			
Salaries and wages		368,842	
FICA expense		26,657	
Group insurance expense		58,760	

**TOWN OF NAGS HEAD, NORTH CAROLINA**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual - General Fund For the Year Ended June 30, 2006**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Retirement		16,713	
401(k) account		10,254	
Unemployment expense		26,439	
Insurance		242,905	
Contracted services		91,598	
Employee training		1,912	
Professional services		26,516	
Departmental supplies and materials		24,575	
Postage		10,371	
Telephone		12,638	
Travel		5,918	
Other supplies		11,569	
Equipment rental		12,542	
Printing		7,408	
Repairs and maintenance, equipment		4,102	
Career development		3,549	
Wellness program		-	
Personnel Committee		2,457	
Special contracted services		1,187	
Dues and subscriptions		1,631	
Purchases for resale		735	
Internet costs		2,758	
Advertising		670	
Repairs and maintenance, vehicles		171	
Automotive supplies		468	
Reimbursement from Water Fund		(212,035)	
Capital outlay, equipment		15,394	
Debt service, capital lease		176,416	
Debt service, interest		49,870	
<b>Total</b>	<u>1,348,000</u>	<u>1,002,990</u>	<u>345,010</u>
<b>Planning and Development:</b>			
Salaries and wages		524,555	
FICA expense		38,709	
Group insurance		77,609	
Group insurance - retiree		3,743	
Retirement		25,630	
401(k) account		15,725	
Planning board, board of adjustment		9,660	
Contracted services		1,018	
Professional services		18,316	
Departmental supplies		9,456	
Travel		4,663	
Advertising		6,089	
Telephone		4,890	
Postage		3,003	
Repairs and maintenance, vehicles		702	

**TOWN OF NAGS HEAD, NORTH CAROLINA**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual - General Fund For the Year Ended June 30, 2006**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Repairs and maintenance, equipment		2,603	
Other supplies		6,274	
Uniforms		1,459	
Automotive supplies		4,179	
Employee training		2,264	
Equipment rental		1,680	
Dues and subscriptions		2,254	
Printing		1,015	
Land Use Plan Grant		40,870	
Reimbursement from Water Fund		(35,272)	
Capital outlay, DCM Curlew Access		81,806	
Capital outlay, DCM Harvey site		293,177	
Capital outlay, cemetery		3,849	
Capital outlay, equipment		23,501	
Debt service, capital lease		7,877	
Debt service, interest		-	
<b>Total</b>	<u>1,513,621</u>	<u>1,181,304</u>	<u>332,317</u>
<b>Legal Services:</b>			
Professional services		72,044	
Reimbursement from Water Fund		(2,230)	
<b>Total</b>	<u>75,770</u>	<u>69,814</u>	<u>5,956</u>
<b>Total General Government</b>	<u>4,274,260</u>	<u>3,333,584</u>	<u>940,676</u>
<b>Public Safety:</b>			
Police Department:			
Salaries and wages		1,090,926	
FICA expense		81,037	
Group insurance		179,017	
Group insurance - retiree		1,057	
Retirement		52,269	
401(k) account		52,976	
Separation allowance		28,886	
Automotive supplies		54,198	
Departmental supplies		34,770	
Repairs and maintenance, vehicles		12,089	
Repairs and maintenance, equipment		22,945	
Telephone		13,870	
Other supplies		5,460	
Uniforms		13,238	
Career development		8,207	
Equipment rental		10,230	
Travel		6,861	

**TOWN OF NAGS HEAD, NORTH CAROLINA**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual - General Fund For the Year Ended June 30, 2006**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Professional services		8,789	
Employee training		2,862	
Special investigations		3,588	
Repairs and maintenance, range		761	
Postage		1,402	
Dues and subscriptions		1,309	
Advertising		750	
Contracted services		400	
Grant, Governor's Highway Safety		-	
Reimbursement from Water Fund		(12,183)	
Capital outlay, equipment		85,419	
Capital outlay, Governor's Crime Commission		50,000	
Capital outlay, CJIN Grant		-	
Debt service, capital lease		118,413	
Debt service, interest		<u>3,495</u>	
<b>Total</b>	<u>2,120,464</u>	<u>1,933,041</u>	<u>187,423</u>
<b>Drug Forfeiture:</b>			
Department supplies		25,210	
Capital outlay, NC GHSP Grant		<u>10,323</u>	
<b>Total</b>	<u>36,027</u>	<u>35,533</u>	<u>494</u>
<b>Fire Department:</b>			
Salaries and wages		1,025,437	
FICA expense		74,860	
Group insurance		194,952	
Group insurance - retiree		98	
Retirement expense		52,254	
401(k) account		30,764	
Departmental supplies		97,566	
Repairs and maintenance, vehicles		49,523	
Uniforms		18,347	
Repairs and maintenance, equipment		13,775	
Automotive supplies		14,255	
Telephone		4,391	
Employee training		6,004	
OSHA Compliance		5,747	
Career development		5,043	
Travel		6,417	
Safety training		10,747	
Other supplies		7,795	
Equipment rental		2,307	
Dues and subscriptions		1,600	
Professional services		8,478	
Postage		504	

**TOWN OF NAGS HEAD, NORTH CAROLINA**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual - General Fund For the Year Ended June 30, 2006**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Contracted Services		1,016	
Printing		365	
Advertising		-	
Grant, NCLM Safety		330	
Capital outlay, FEMA fire grant		-	
Capital outlay, equipment		15,434	
Debt service, capital lease		303,075	
Debt service, interest		<u>61,706</u>	
<b>Total</b>	<u>2,163,289</u>	<u>2,012,790</u>	<u>150,499</u>
<b>Volunteer Fire:</b>			
Incentive pay		22,432	
Repairs and maintenance, equipment		120	
Training		255	
Travel		797	
Professional services		3,422	
Retirement		17,593	
Department supplies		<u>9,471</u>	
<b>Total</b>	<u>49,206</u>	<u>54,090</u>	<u>(4,884)</u>
<b>Ocean Rescue:</b>			
Salaries and wages		362,546	
FICA expense		19,221	
Group insurance		5,066	
Retirement expense		2,157	
401(k) account		1,320	
Departmental supplies		29,483	
Uniforms		10,994	
Automotive supplies		7,905	
Repairs and maintenance, equipment		5,129	
Travel		3,889	
Repairs and maintenance, vehicles		680	
Professional fees		936	
Telephone		1,599	
Employee training		720	
Printing		390	
Dues and subscriptions		1,050	
Advertising		672	
Postage		45	
Capital outlay, equipment		37,582	
Debt service, capital lease		21,684	
Debt service, interest		<u>291</u>	
<b>Total</b>	<u>598,550</u>	<u>513,359</u>	<u>85,191</u>

**TOWN OF NAGS HEAD, NORTH CAROLINA**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual - General Fund For the Year Ended June 30, 2006**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Animal Control:			
Salaries and wages		43,342	
FICA expense		3,144	
Group insurance		8,493	
Group insurance - retiree		-	
Retirement		2,072	
401(k) account		2,167	
Automotive supplies		3,113	
Departmental supplies		870	
Career development		-	
Repairs and maintenance, vehicles		436	
Professional fees		285	
Equipment rental		254	
Employee training		-	
Travel		162	
Telephone		371	
Uniforms		1,178	
Repairs and maintenance, equipment		24	
Printing		220	
Debt service, capital lease		-	
Debt service, interest		-	
Total	<u>73,644</u>	<u>66,131</u>	<u>7,513</u>
Total Public Safety	<u>5,041,180</u>	<u>4,614,944</u>	<u>426,236</u>
Environmental Protection:			
Sanitation:			
Salaries and wages		404,002	
FICA expense		29,919	
Group insurance		80,771	
Retirement		18,904	
401(k) account		11,598	
Repairs and maintenance, vehicles		118,889	
Automotive supplies		74,572	
Department supplies		26,513	
Uniforms		6,325	
Contracted services		11,093	
Recycling		4,673	
Repairs and maintenance, equipment		10,860	
Professional Fees		437	
Travel		1,606	
Employee training		300	
Postage		-	
Advertising		318	
Dues and subscriptions		385	

**TOWN OF NAGS HEAD, NORTH CAROLINA**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual - General Fund For the Year Ended June 30, 2006**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Capital outlay, equipment		529,266	
Capital outlay, other		3,987	
Debt service, capital lease		268,538	
Debt service, interest		<u>15,522</u>	
<b>Total</b>	<u>1,665,789</u>	<u>1,618,478</u>	<u>47,311</u>
<b>Solid Waste:</b>			
Tipping fees		<u>580,449</u>	
<b>Total</b>	<u>590,000</u>	<u>580,449</u>	<u>9,551</u>
<b>Total Environmental Protection</b>	<u>2,255,789</u>	<u>2,198,927</u>	<u>56,862</u>
<b>Public Works:</b>			
<b>Administration:</b>			
Salaries and wages		167,350	
FICA expense		12,112	
Group insurance		27,264	
Group insurance - retiree		9,981	
Retirement		8,171	
401(k) account		5,013	
Contracted services		1,490	
Purchase for resale		31,915	
Telephone		6,595	
Departmental supplies		3,014	
Other supplies		589	
Advertising		525	
Travel		339	
Equipment rental		1,654	
Automotive supplies		880	
Employee training		205	
Career development		1,729	
Dues and subscriptions		666	
Postage		534	
Repairs and maintenance, equipment		897	
Repairs and maintenance, vehicles		233	
Uniforms		367	
Professional fees		2,789	
Reimbursement from Water Fund		(87,745)	
Capital outlay, equipment		24,815	
Debt service, capital lease		8,317	
Debt service, interest		<u>-</u>	
<b>Total</b>	<u>301,400</u>	<u>229,699</u>	<u>71,701</u>

**TOWN OF NAGS HEAD, NORTH CAROLINA**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual - General Fund For the Year Ended June 30, 2006**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Public Facilities Maintenance:			
Salaries and wages		368,370	
FICA expense		27,020	
Group insurance		84,125	
Retirement		17,450	
401(k) account		10,705	
Special Projects - FEMA		-	
Special Projects		-	
Repairs and maintenance, facilities		59,479	
Utilities		150,268	
Contracted services		33,523	
Department supplies		21,178	
Repairs and maintenance, equipment		24,884	
Signs		9,123	
Automotive supplies		17,857	
Repairs and maintenance, other		4,238	
Career development		2,423	
Other supplies		12,707	
Professional services		11,057	
Uniforms		5,613	
Repairs and maintenance, vehicles		2,640	
Employee training		1,240	
Travel		2,392	
Street supplies		14,982	
Advertising		49	
Dues and subscriptions		35	
Beach driving		389	
Reimbursement from Water Fund		(45,927)	
Capital outlay, Albatross grant		30,090	
Capital outlay, Barnes grant		25,360	
Capital outlay, land		17,809	
Capital outlay, building		1,204,375	
Capital outlay, OBMC building		-	
Capital outlay, other		57,017	
Capital outlay, equipment		126,164	
Capital outlay, other Powell Bill		259,301	
Debt service, capital lease		66,604	
Debt service, interest		<u>3,017</u>	
<b>Total</b>	<u><b>2,865,107</b></u>	<u><b>2,625,557</b></u>	<u><b>239,550</b></u>

**TOWN OF NAGS HEAD, NORTH CAROLINA**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual - General Fund For the Year Ended June 30, 2006**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Maintenance Garage:			
Salaries and wages		146,152	
FICA account		10,764	
Group insurance		35,619	
Group insurance, retiree		4,990	
Retirement		7,147	
401(k) account		4,385	
Other supplies		7,760	
Departmental supplies		11,696	
Uniforms		4,207	
Contracted services		550	
Automotive supplies		989	
Repairs and maintenance, vehicles		133	
Employee training		145	
Repairs and maintenance, equipment		184	
Travel		218	
Advertising		670	
Professional fees		250	
Reimbursement from Water Fund		<u>(8,484)</u>	
<b>Total</b>	<u>259,048</u>	<u>227,375</u>	<u>31,673</u>
<b>Total Public Works</b>	<b>3,425,555</b>	<b>3,082,631</b>	<b>342,924</b>
CIP	5,269	-	5,269
Contingency	<u>15,158</u>	<u>-</u>	<u>15,158</u>
<b>Total Expenditures</b>	<u>15,017,211</u>	<u>13,230,086</u>	<u>1,787,125</u>
<b>Revenues Over (Under) Expenditures</b>	<b>(1,282,755)</b>	<b>152,742</b>	<b>1,435,497</b>
Other Financing Sources (Uses):			
Proceeds from capital lease	864,273	864,273	-
Operating transfers to Capital Projects Funds (Net)	(433,068)	(424,865)	8,203
Operating transfer to Storm Water Fund	(100,000)	(100,000)	-
Appropriated Fund Balance	<u>951,550</u>	<u>-</u>	<u>(951,550)</u>
<b>Other financing sources (uses), net</b>	<u>1,282,755</u>	<u>339,408</u>	<u>(943,347)</u>
<b>Revenues and Other Financing Sources Over Expenditures and Other Financing Uses</b>	<b>\$ <u>-</u></b>	<b>492,150</b>	<b>\$ <u>492,150</u></b>
<b>FUND BALANCE, beginning</b>		<u>8,334,402</u>	
<b>FUND BALANCE, ending</b>		<u>\$ 8,826,552</u>	

**TOWN OF NAGS HEAD, NORTH CAROLINA**  
**Beach Nourishment Project Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual**  
**From Inception and for the Fiscal Year Ended June 30, 2006**

	<u>Project Authorization</u>	<u>Actual</u>		<u>Variance Over (Under)</u>	
		<u>Prior Years</u>	<u>Current Year</u>		<u>Total to Date</u>
Revenues					
Investment Earnings			\$ 1,478	\$ 1,478	\$ 1,478
Total revenues			<u>1,478</u>	<u>1,478</u>	<u>1,478</u>
Expenditures					
Capital Construction Oversight	1,592,500		200,347	200,347	1,392,153
Pumping Costs	23,000,000		-	-	23,000,000
Mobilization	1,500,000		-	-	1,500,000
Contingency	905,350		-	-	905,350
Other Costs	700,000		-	-	700,000
Total Expenditures	<u>27,697,850</u>		<u>200,347</u>	<u>200,347</u>	<u>27,497,503</u>
Revenues over (under) expenditures	<u>(27,697,850)</u>		<u>(198,869)</u>	<u>(198,869)</u>	<u>27,498,981</u>
Other financing sources (uses):					
Loan Proceeds	26,997,850		-	-	-
Transfers from other funds	700,000		700,000	700,000	-
Transfers to other funds	-		-	-	-
Appropriated fund balance	-		-	-	-
Total other financing sources (uses)	<u>27,697,850</u>		<u>700,000</u>	<u>700,000</u>	<u>(26,997,850)</u>
Revenues and other sources over expenditures	\$ <u>-</u>		501,131	\$ <u>501,131</u>	\$ <u>501,131</u>
Fund balance, beginning of year			-	-	-
Fund balance, end of year			<u>\$ 501,131</u>		

**Town of Nags Head, North Carolina**  
**Water Fund**  
**Schedule of Revenues and Expenditures**  
**Budget and Actual (Non-GAAP) For the Fiscal Year Ended June 30, 2006**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
<b>REVENUES</b>			
Operating Revenues:			
Water sales		\$ 2,076,403	
Contribution to Fresh Pond		250,287	
Charges to other governmental units, Dare County		73,876	
Rents		99,104	
FEMA		323	
Tap and connection fees		23,405	
Late payment penalties and interest		18,111	
Water cutoff tag fees		10,872	
Damage recovery		1,241	
DEHNR grant		300	
Miscellaneous		<u>2,388</u>	
Total	2,619,869	<u>2,556,310</u>	(63,559)
Non-Operating Revenues:			
Interest earned on investments		179,260	
Impact fees		287,000	
Decrease in prepaid impact fees		<u>(32,000)</u>	
Total	108,000	<u>434,260</u>	326,260
Total Revenues	2,727,869	<u>2,990,570</u>	262,701
<b>EXPENDITURES</b>			
Administration:			
Salaries and wages		46,543	
FICA expense		3,251	
Group insurance		15,307	
Group insurance - retirees		2,495	
Retirement expense		2,271	
401(k) account		1,394	
Reimburse General Fund administrative expenses		61,880	
Contracted services		3,875	
Postage		7,407	
Repairs and maintenance, equipment		-	
Supplies and materials		2,115	
Employee training		-	
Travel		<u>-</u>	
Total Administration	182,417	<u>146,538</u>	35,879
Septic Health:			
Salaries and wages		40,345	
FICA expense		2,903	
Group insurance		7,955	
Retirement		1,948	

**Town of Nags Head, North Carolina**  
**Water Fund**  
**Schedule of Revenues and Expenditures**  
**Budget and Actual (Non-GAAP) For the Fiscal Year Ended June 30, 2006**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
401(k) account		1,195	
Contracted services		117,820	
Reimburse General Fund administrative expenses		72,540	
Inspection rebates		16,668	
Pumping credits		1,200	
Professional fees		-	
Postage		1,589	
Travel		33	
Advertising		-	
Telephone		457	
Printing		4,237	
Employee training		514	
Automotive supplies		448	
Career Development		1,230	
Repairs and maintenance, vehicles		425	
Departmental supplies		501	
Dues and subscriptions		<u>210</u>	
<b>Total Septic Health</b>	<b>500,885</b>	<b><u>272,218</u></b>	<b>228,667</b>
<b>Operations:</b>			
Salaries and wages		158,414	
FICA expense		11,379	
Group insurance		43,701	
Retirement		7,830	
401(k) account		4,803	
Purchases for resale		665,092	
Reimburse General Fund administrative expenses		123,758	
Insurance		33,333	
Utilities		38,139	
Contracted services		7,562	
Departmental supplies		39,948	
Professional fees		27,726	
Other supplies		4,913	
Repairs and maintenance, equipment		13,135	
Postage		2,209	
Telephone		4,225	
Repairs and maintenance, buildings		126,198	
Uniforms		3,445	
Dues and subscriptions		1,456	
Equipment rental		1,281	
Printing		1,641	
Automotive supplies		4,293	
Employee training		600	
Travel		1,599	
Advertising		1,024	
Repairs and maintenance, vehicles		<u>1,169</u>	
<b>Total Operations</b>	<b>1,387,072</b>	<b><u>1,328,873</u></b>	<b>58,199</b>

**Town of Nags Head, North Carolina**  
**Water Fund**  
**Schedule of Revenues and Expenditures**  
**Budget and Actual (Non-GAAP) For the Fiscal Year Ended June 30, 2006**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Fresh Pond Operations:			
Salaries and wages		18,076	
FICA expense		1,298	
Group insurance		4,574	
Retirement		893	
401(k) account		548	
Reimburse General Fund administrative expenses		88,858	
Repairs and maintenance, equipment		38,257	
Other supplies and materials		44,698	
Insurance		6,191	
Contracted services		3,825	
Professional services		13,090	
Departmental supplies		12,248	
Utilities		4,284	
Repairs and maintenance, building		303	
Telephone		92	
Employee training		50	
Travel		196	
Printing		290	
Postage		194	
<b>Total Fresh Pond Operations</b>	<b>252,974</b>	<b>237,965</b>	<b>15,009</b>
Operations Distribution:			
Salaries and wages		209,794	
FICA expense		14,521	
Group insurance		59,247	
Retirement		10,098	
401(k) account		6,195	
Reimburse General Fund administrative expenses		127,964	
Contracted services		878	
Other supplies		20,214	
Repairs and maintenance, other		42,797	
Insurance		4,885	
Automobile supplies		8,590	
Departmental supplies		5,086	
Uniforms		3,580	
Repairs and maintenance, vehicles		1,797	
Telephone		1,533	
Dues and subscriptions		742	
Advertising		1,118	
Repairs and maintenance, equipment		4,300	
Travel		1,259	
Employee training		480	
Professional fees		275	
Building/equipment rental		477	
<b>Total Operations Distribution</b>	<b>590,347</b>	<b>525,830</b>	<b>64,517</b>

**Town of Nags Head, North Carolina**  
**Water Fund**  
**Schedule of Revenues and Expenditures**  
**Budget and Actual (Non-GAAP) For the Fiscal Year Ended June 30, 2006**

	<b>Budget</b>	<b>Actual</b>	<b>Variance Over (Under)</b>
Budgetary Appropriations:			
Appropriated Retained Earnings	(1,736,345)		
Debt issued	(21,868)	(21,868)	
Interest	49,644	49,644	
Debt principal	226,220	224,857	
Septic Health Loans	15,000	8,225	
Principal repayments Septic Health Loans	(20,000)	(16,670)	
Increase (decrease) in:			
Inventory		(246)	
(Increase) decrease in:			
Compensated absences		(1,992)	
Capital outlay:			
Buildings and improvements	-		
Machinery and equipment	59,791	44,196	
Other	1,231,646	1,231,645	
Contingency	9,500		
Capital Improvements Plan	586	-	
Total Budgetary Appropriations	(185,826)	1,517,791	(1,703,617)
Total Expenditures	2,727,869	4,029,215	(1,301,346)
Revenues Over Expenditures	-	(1,038,645)	1,038,645
RECONCILIATION OF MODIFIED ACCRUAL BASIS TO FULL ACCRUAL BASIS			
Revenues over expenditures	-	(1,038,645)	(1,325,645)
Reconciling items:			
Septic Health Loans		8,225	
Principal repayments Septic Health Loans		(16,670)	
Debt issued		(21,868)	
Payment of debt principal		224,857	
Decrease in inventory		(246)	
Capital outlay		1,275,841	
Depreciation and amortization		(268,809)	
Increase in accrued vacation and comp pay		(1,992)	
Decrease in prepaid impact fees		32,000	
Capital contributions		43,395	
Income Before Capital Contributions		\$ 236,088	
Change in Net Assets			

**Town of Nags Head, North Carolina**  
**Storm Water Fund**  
**Schedule of Revenues and Expenditures**  
**Budget and Actual (Non-GAAP) For the Fiscal Year Ended June 30, 2006**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
<b>REVENUES</b>			
Storm Water Fees		\$ 110,796	
Storm Water Grant		-	
<b>Total Revenues</b>	<u>139,560</u>	<u>110,796</u>	<u>(28,764)</u>
<b>EXPENDITURES</b>			
Postage		1,523	
Advertising		431	
Department Supplies		2,497	
Professional Fees		8,708	
Contracted Services		<u>87,554</u>	
<b>Total Expenditures</b>	<u>285,960</u>	<u>100,713</u>	<u>185,247</u>
<b>OTHER FINANCING SOURCES</b>			
Interest earned on investments	-	4,592	4,592
Transfer from General Fund	<u>100,000</u>	<u>100,000</u>	<u>-</u>
	<u>100,000</u>	<u>104,592</u>	<u>4,592</u>
Appropriated retained earnings	46,400	-	(46,400)
<b>Revenues and Other Financing Sources Over (Under) Expenditures</b>	<u>\$ -</u>	<u>\$ 114,675</u>	<u>\$ 114,675</u>

**RECONCILIATION OF MODIFIED ACCRUAL BASIS  
TO FULL ACCRUAL BASIS**

Revenues over (under) expenditures	114,675
Contributions to Water Fund	-
Sale of Fixed Assets	-
Depreciation	<u>-</u>
<b>(Loss) Before Operating Transfers</b>	<u>\$ 114,675</u>

**Town of Nags Head, North Carolina**  
**Nags Head Leasing**  
**Schedule of Revenues and Expenditures**  
**Budget and Actual (Non-GAAP) For the Fiscal Year Ended June 30, 2006**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
REVENUES			
Other revenues	-	-	-
EXPENDITURES			
Other expenditures	-	-	-
Total Expenditures	-	-	-
OTHER FINANCING SOURCES			
Interest earned on investments	-	12	12
Sale of Fixed Assets	-	-	-
	-	12	12
Appropriated retained earnings	-	-	-
Revenues and Other Financing Sources Over (Under) Expenditures	<u>\$ -</u>	<u>\$ 12</u>	<u>\$ 12</u>
RECONCILIATION OF MODIFIED ACCRUAL BASIS TO FULL ACCRUAL BASIS			
Revenues over (under) expenditures		12	
Contributions to Water Fund		-	
Sale of Fixed Assets		-	
Depreciation		-	
(Loss) Before Operating Transfers		<u>\$ 12</u>	

**TOWN OF NAGS HEAD, NORTH CAROLINA**  
**Schedule of Ad Valorem Taxes Receivable**  
**June 30, 2006**

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2005</u>	<u>Additions</u>	<u>Collection And Credits</u>	<u>Adjustments</u>	<u>Uncollected Balance June 30, 2006</u>
2005-2006	\$ -	\$ 4,318,840	\$ 4,430,887	\$ 113,195	\$ 1,148
2004-2005	1,639	-	(1,555)	(233)	2,961
2003-2004	3,515	-	519	-	2,996
2002-2003	1,786	-	113	-	1,673
2001-2002	2,318	-	140	-	2,178
2000-2001	2,389	-	449	-	1,940
1999-2000	3,982	-	1,229	-	2,753
1998-1999	1,702	-	4	-	1,698
1997-1998	1,539	-	11	-	1,528
1996-1997	1,340	-	234	-	1,106
1995-1996	1,627	-	1,627	-	-
1994-1995	10	-	10	-	-
1993-1994	9	-	9	-	-
	<u>\$ 21,856</u>	<u>\$ 4,318,840</u>	<u>\$ 4,433,677</u>	<u>\$ 112,962</u>	<u>19,981</u>

Less allowance for uncollectible  
ad valorem taxes receivable

10,000

Ad Valorem Taxes Receivable, net

\$ 9,981

Reconciliation with revenues:

Taxes, ad valorem, General Fund

\$ 4,440,726

Amounts written off for tax year 93-94

912

DMV written off

871

Amounts written off <\$1

1

Refunds paid on taxes

-

Less penalties and interest

(8,833)

\$ 4,433,677



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## Martin Starnes & Associates, CPAs, P.A.

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

### **Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance with *Government Auditing Standards***

Board of Commissioners  
Town of Nags Head  
Nags Head, North Carolina

We have audited the basic financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Town of Nags Head, North Carolina, as of and for the year ended June 30, 2006, and have issued our report thereon dated August 16, 2006. 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

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Town of Nags Head's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Town of Nags Head's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and 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*.

This report is intended solely for the information and use of the Board of Commissioners, members of management, others within the organization, and federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Martin Starnes & Associates, CPAs, P.A.*

Martin Starnes & Associates, CPAs, P.A.

August 16, 2006