

**TOWN OF NAGS HEAD  
NORTH CAROLINA**

**ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED JUNE 30, 2015**

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

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



**TOWN OF NAGS HEAD, NORTH CAROLINA**  
**ANNUAL FINANCIAL REPORT**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Bob Edwards, Mayor  
Susie Walters, Mayor Pro-Tem  
Renée Cahoon, Commissioner  
Marvin Demers, Commissioner  
John Ratzenberger, Commissioner

Cliff Ogburn, Town Manager  
Kim Blankenburg, Asst. Finance Officer  
John Leidy, Town Attorney



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**June 30, 2015**

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

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

## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Nags Head, North Carolina, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

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13 South Center Street ♦ Taylorsville, North Carolina 28681 ♦ Phone 828-632-9025 ♦ Fax 828-632-9085  
Toll Free Both Locations 1-800-948-0585 ♦ Website: [www.martinstarnes.com](http://www.martinstarnes.com)

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Nags Head, North Carolina, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Law Enforcement Officers' Special Separation Allowance's and the Other Postemployment Benefits' Schedules of Funding Progress and Schedules of Employer Contributions, and the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Asset and Contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economical, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide assurance.

### *Other Information*

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

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

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2015 on our consideration of the Town of Nags Head, North Carolina's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Nags Head's internal control over financial reporting and compliance.

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

Martin Starnes & Associates, CPAs, P.A.  
Hickory, NC  
November 6, 2015

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## **Management Discussion and Analysis Town of Nags Head**

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### **Management's Discussion and Analysis**

As management of the Town of Nags Head, we offer readers of the Town of Nags Head's financial statements this narrative overview and analysis of the financial activities of the Town of Nags Head for the fiscal year ended June 30, 2015. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town of Nags Head's financial statements, which follow this narrative.

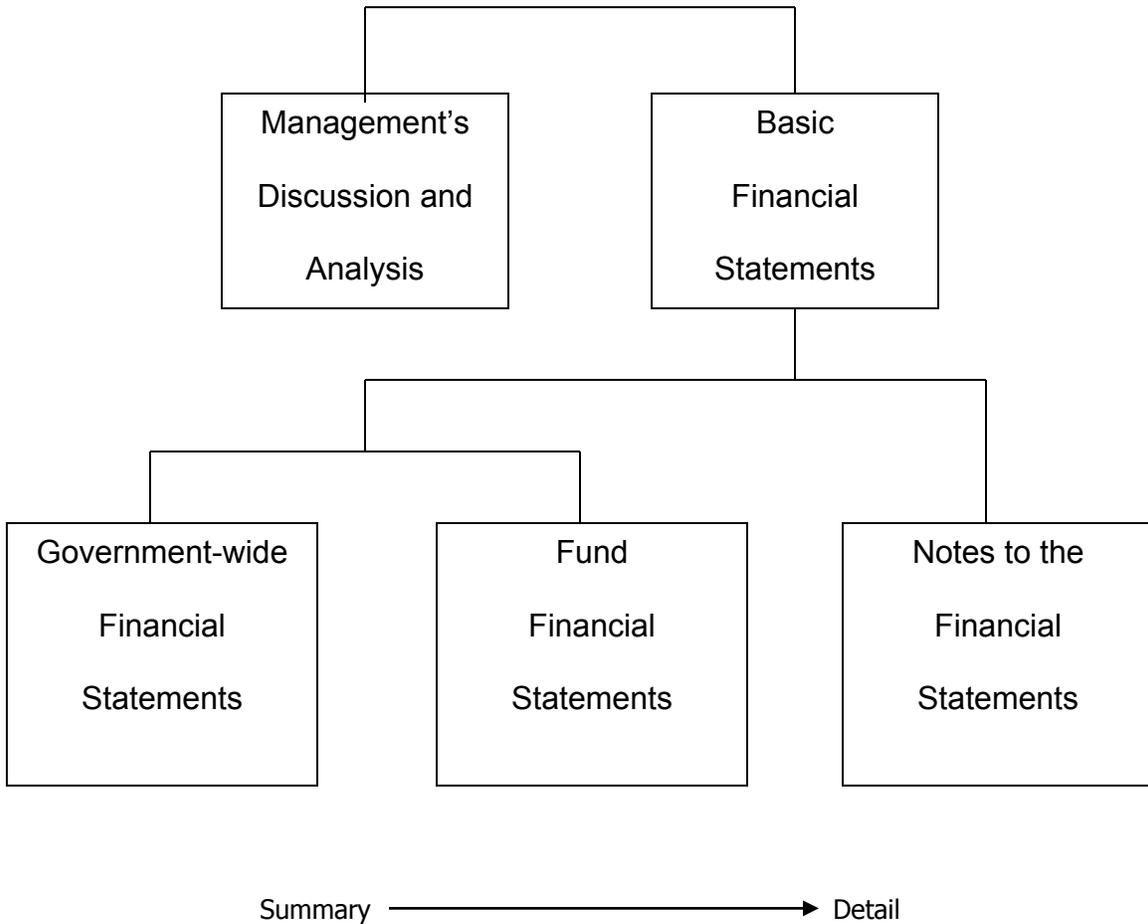
### **Financial Highlights**

- The assets and deferred outflows of resources of the Town of Nags Head exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$ 52,105,371 (*net position*).
- The Town's total net position decreased by \$ 2,236,923. This includes a decrease in the governmental activities of \$ 2,427,438 and a increase in the business-type activities of \$ 190,515.
- As of the close of the current fiscal year, the Town of Nags Head's governmental funds reported combined ending fund balances of \$ 12,936,315, an increase of \$ 237,980 over the prior year. Approximately 53% of this total amount, or \$ 6,868,661, is non-spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$ 5,738,240, or 33% of total general fund expenditures for the fiscal year. This is a \$ 915,547 decrease over the prior year of \$ 6,653,787, which is primarily a result of a legal settlement.
- The Town's total governmental debt for financing contracts, capital leases and bonded debt decreased \$ 3,701,583 primarily as a result of the third year's payment of special bond obligation debt of \$ 3,600,000 plus interest with one annual payment remaining to be paid in the June 30, 2016 fiscal year.
- The General Fund budget for the fiscal year June 30, 2015 was adopted with a tax rate of 26.7 cents per \$ 100 of assessed valuation reflecting a 1.0 cent increase over the prior year. 2.7 cents of this town-wide tax rate is designated by the Board for beach nourishment and 1.0 cent is designated by the Board for parks and paths.
- The General Fund budget also includes 23 cents per \$ 100 of assessed valuation for property located in the municipal service district designated for beach nourishment.
- The total overall assessed property valuation including property and registered motor vehicles increased \$ 4,187,504 from \$ 2,328,518,697 in fiscal year 2014 to \$ 2,332,706,201 in the current fiscal year. There was an increase in the property valuation offset by a decrease in the motor vehicle valuation.

### **Overview of the Financial Statements**

This discussion and analysis are intended to serve as an introduction to the Town of Nags Head's basic financial statements. The town's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the town through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the Town of Nags Head.

**Required Components of Annual Financial Report (Figure 1)**



**Basic Financial Statements**

The first two statements (Exhibits 1 and 2) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the town's financial status.

The next statements (Exhibits 3 through 10) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the town's government. These statements provide more detail than the government-wide statements. There are four parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; 3) the proprietary fund statements; and 4) fiduciary fund statements.

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

## Management Discussion and Analysis Town of Nags Head

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### Government-wide Financial Statements

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

The two government-wide statements report the town's net position and how they have changed. Net position is the difference between the town's total assets and total liabilities and deferred inflows of resources. Measuring net position is one way to gauge the town's financial condition.

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

The government-wide financial statements are on Exhibits 1 and 2 of this report.

### Fund Financial Statements

The fund financial statements (see Figure 1) provide a more detailed look at the town's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The town, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the town budget ordinance. All of the funds of the Town of Nags Head can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

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

The Town of Nags Head adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the town, the management of the town, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the town to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the town complied with the budget ordinance and whether or not the town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is

## Management Discussion and Analysis

### Town of Nags Head

presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the board; 2) the final budget as amended by the board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges. To account for the difference between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reported activities is shown at the end of the budgetary statement.

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

**Fiduciary Funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The Town has one fiduciary fund for its Law Enforcement Officers’ Special Separation Allowance.

**Notes to the Financial Statements** – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 25-58 of this report.

**Other Information** – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the town’s progress in funding its obligation to provide pension benefits and retiree health benefits to its employees. Required supplementary information can be found on pages 59-64 of this report.

### Government-Wide Financial Analysis

#### Town of Nags Head Net Position June 30, 2015

	<u>Governmental</u> <u>Activities</u>		<u>Business-Type</u> <u>Activities</u>		<u>Totals</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Current and other assets	\$ 14,417,313	\$ 13,542,723	\$ 4,418,650	\$ 4,533,312	\$ 18,835,963	\$ 18,076,035
Capital assets	36,455,582	42,979,792	7,305,522	7,146,969	43,491,177	50,126,761
Deferred outflows of resources	352,832	-	31,265	-	384,097	-
Total assets	51,225,727	56,522,515	11,755,437	11,680,281	62,711,237	68,202,796
Long-term liabilities	7,271,615	10,815,338	509,046	617,631	7,780,661	11,432,969
Other liabilities	841,731	774,665	539,543	592,178	1,381,274	1,366,843
Deferred inflows of resources	1,453,100	578	260,758	140,000	1,713,858	140,578
Total liabilities and deferred inflows of resources	9,566,446	11,590,581	1,309,347	1,349,809	10,875,793	12,940,390
Net position:						
Net investment in capital assets	31,135,962	33,903,387	6,893,822	6,615,501	38,029,784	40,518,888
Restricted	6,624,621	5,228,502	-	-	6,624,621	5,228,502
Unrestricted	3,898,698	5,800,045	3,552,268	3,714,971	7,450,966	9,515,016
Total net position	\$ 41,659,281	\$44,931,934	\$10,446,090	\$10,330,472	\$ 52,105,731	\$ 55,262,406

## Management Discussion and Analysis

### Town of Nags Head

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets of the Town of Nags Head exceeded liabilities by \$ 52,105,371 as of June 30, 2015. The largest portion of net position, \$ 38,029,784 (73%) reflects the town's investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt still outstanding that was issued to acquire those items. The Town of Nags Head uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Nags Head's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities.

An additional portion of the Town's net position, \$ 6,624,621 represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$ 7,450,966 is unrestricted.

Also, the Town of Nags Head implemented GASB Statement 68 this year. With the new reporting change, the Town is allocated its proportionate share of the Local Government Employees' Retirement System's net pension asset, deferred outflows of resources, deferred inflows of resources, and pension expense. A restatement to record the effects of the new reporting guidance decreased beginning net position by \$ 920,112. Decisions regarding the allocations are made by the administrators of the pension plan, not by the Town of Nags Head's management. The 2014 comparative statement of net position and changes in net position have not been restated due to the unavailability of the information needed for restatement.

#### Town of Nags Head Changes in Net Position June 30, 2015

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Revenues:						
Program revenues:						
Charges for services	\$ 474,070	\$ 428,409	\$ 2,778,776	\$ 2,423,729	\$ 3,252,846	\$ 2,852,138
Operating grants and contributions	129,890	163,142	-	-	129,890	163,142
Capital grants and contributions	2,253,784	1,818,600	162,500	95,500	2,416,284	1,914,100
General revenues:						
Property taxes	8,072,173	7,800,334	-	-	8,072,173	7,800,334
Other taxes	5,714,342	5,304,438	-	-	5,714,342	5,304,438
Other unrestricted intergovernmental	841,649	699,313	-	-	841,649	699,313
Investment income	75,122	80,246	21,810	24,968	96,932	105,214
Other	188,115	142,818	19,211	1,764	207,326	144,582
Total Revenues	17,749,145	16,437,300	2,982,297	2,545,961	20,731,442	18,983,261
Expenses:						
General government	10,812,062	9,408,905	-	-	10,812,062	9,408,905
Public safety	5,274,035	5,251,148	-	-	5,274,035	5,251,148
Public Works/Transportation	2,137,237	2,158,516	-	-	2,137,237	2,158,516
Environment Protection	1,726,901	1,744,024	-	-	1,726,901	1,744,024
Interest on long-term debt	226,348	319,462	-	-	226,348	319,462
Water Utility	-	-	2,791,782	2,675,920	2,791,782	2,675,920
Total Expenses	20,176,583	18,882,055	3,061,709	2,675,920	22,968,365	21,557,975
(Decrease) in Net Position	(2,427,438)	(2,444,755)	190,515	(129,959)	(2,236,923)	(2,574,714)
Net position – July 1 (previously reported)	44,931,934	47,376,689	10,330,472	10,460,431	55,262,406	57,837,120
Restatement due to GASB 68 implementation	(845,215)	-	(74,897)	-	(920,112)	-
Net position – July 1 (restated)	44,086,719	47,376,689	10,255,575	10,460,431	54,342,294	57,837,120
Net position – June 30	\$ 41,659,281	\$ 44,931,934	\$ 10,446,090	\$ 10,330,472	\$ 52,105,371	\$ 55,262,406

## Management Discussion and Analysis Town of Nags Head

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**Governmental activities.** Governmental activities decreased the town's net assets by \$ 2,427,438. Property taxes increased \$ 271,839 due to a penny increase in the tax rate. Other taxes increased \$ 409,904 due to overall increased collections in occupancy, land transfer and sales taxes. Other unrestricted intergovernmental revenues increased \$ 142,336 due primarily to a new allocation method for utilities sales tax. General government expenses increased \$ 1,403,157 due primarily to a \$ 1,702,182 legal settlement. All other governmental expense categories remained consistent with the prior year.

**Business-type activities.** Business-type activities increased the town's net assets by \$ 190,515. This includes an increase of \$ 143,974 in the water fund and an increase of \$ 46,541 in the storm water fund.

The increase in net assets of \$ 143,974 in the water fund compares to a decrease in the prior year of \$ 204,236. This is a result of an increase in water rates during the current fiscal year along with an expansion in usage tiers along with an increase in gallons sold, which increased operating income by \$ 356,851 or 15% over the prior year. Operating expenses including depreciation increased \$ 89,179 or 3.4%

The increase in net assets of \$ 46,541 in the storm water fund compares to an increase in the prior year of \$ 74,680. This is primarily a result of increased depreciation expense of \$ 29,525 for storm water infrastructure placed in service and depreciated for a full year. Capital expenses include \$ 125,000 paid to the North Carolina Department of Transportation (NCDOT) and \$ 46,427 for related materials for the State owned Red Drum ocean outfall. The Town shared in the cost of this project with NCDOT since some of the Town's street right of ways flow through this outfall. This cost was treated as an intangible asset and will be amortized over the estimated life of the improvements.

### Financial Analysis of the Town of Nags Head's Funds

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

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

The general fund is the chief operating fund of the Town of Nags Head. At the end of the current fiscal year, unassigned fund balance of the general fund was \$ 5,738,240, while total fund balance reached \$ 12,623,245. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents 33% of total general fund expenditures for the 14-15 fiscal year.

At June 30, 2015, the governmental funds of Town of Nags Head reported a combined fund balance of \$ 12,936,315, a 1.87% increase over last year. Included in this change in fund balance is an increase in the general fund and a decrease in the beach nourishment fund.

**General Fund Budgetary Highlights:** During the fiscal year, the Town revised the budget on several occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding

## Management Discussion and Analysis Town of Nags Head

amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services. The primary changes to the adopted budget were to appropriate lease purchase funds for budgeted capital purchases, and to appropriate unassigned fund balance for legal costs and settlements related to beach nourishment.

### Capital Asset and Debt Administration

**Capital assets.** The Town of Nags Head's investment in capital assets for its governmental and business-type activities as of June 30, 2015, totals \$ 43,761,104 (net of accumulated depreciation). These assets include land, construction in process, buildings, other improvements, equipment, vehicles and intangible assets in the water fund.

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

- A residential garbage truck costing \$ 287,512 (a dumpster truck costing \$ 183,855 was ordered during the fiscal year but was not received at year-end)
- A truck for the fire department costing \$ 44,425
- Five police vehicles and related equipment costing \$ 198,185 (one of these vehicles was a replacement for a damaged vehicle during the year)
- A bobcat costing \$ 55,840
- Beach nourishment costs of \$ 221,493
- West side multi-use path costing \$ 265,080
- Street improvements costing \$ 183,829
- 8<sup>th</sup> street water tower mixer costing \$ 47,100 and repainting water tower costing \$ 98,500
- Waterline tie in between North Ridge and Villa Dunes costing \$ 142,141
- Storm water improvements to Red Drum state owned ocean outfall costing \$ 171,427

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

	<u>Governmental</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>Activities</u>		<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
	<u>2015</u>	<u>2014</u>				
Land	\$ 10,262,546	\$ 9,980,338	\$ 1,853,473	\$ 1,853,473	\$ 12,116,019	\$ 11,833,811
Construction in progress	49,596	11,728	10,320	82,781	59,916	94,509
Buildings/Plant	6,502,302	6,766,656	3,387,892	3,201,069	9,890,194	9,967,725
Other improvements	16,664,419	23,202,669	-	-	16,664,419	23,202,669
Equipment	778,818	863,682	271,355	104,978	1,050,173	968,660
Vehicles	2,197,901	2,154,719	59,398	247,921	2,257,299	2,402,640
Intangibles	-	-	1,723,084	1,656,747	1,723,084	1,656,747
Total	\$ 36,455,582	\$ 42,979,792	\$ 7,305,522	\$ 7,146,969	\$ 43,761,104	\$ 50,126,761

Additional information on the town's capital assets can be found on pages 36-37 in the notes to the financial statements.

**Long-term Debt.** As of June 30, 2015 the town had long-term debt totaling \$ 7,780,661. \$ 7,271,615 of this amount is reported in the governmental activities and \$ 509,046 is reported in the business-type activities. This total includes \$ 3,600,000 in bonded debt secured by the pledge of annual occupancy taxes and this balance will be paid in full in the June 30, 2016 fiscal year. New debt during the year consisted of \$ 753,132 for capital purchases. The Town implemented GASB Statement 68 which requires the Town to recognize its proportionate share of

## Management Discussion and Analysis Town of Nags Head

the Local Government Employees' Retirement System's net pension asset or liability. The Town's proportionate share of this liability was \$ 1,317,485 at June 30, 2014 which became a net pension asset of \$ 632,268 at June 30, 2015.

### Town of Nags Head Outstanding Debt

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Finance contract	\$ 838,184	\$ 1,085,230	\$ 341,002	\$ 418,847	\$ 1,179,186	\$ 1,504,077
Capital leases	1,423,623	1,278,160	70,698	112,620	1,494,321	1,390,780
Bonded debt (beach nourishment)	3,600,000	7,200,000	-	-	3,600,000	7,200,000
Post-employment benefits	904,660	740,734	63,199	60,383	967,859	801,117
Net pension obligation (LEO)	10,507	32,850	-	-	10,507	32,850
Net pension liability (LGERS)	-	1,210,242	-	107,243	-	1,317,485
Compensated absences	494,641	478,364	34,147	25,781	528,788	504,145
Total	\$ 7,271,615	\$ 12,025,580	\$ 509,046	\$ 724,874	\$ 7,780,661	\$ 12,750,454

Additional information in the Town's debt can be found on pages 49-52 in the notes to the financial statements.

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the Town of Nags Head is \$ 180,754,689.

### Economic Factors and Next Year's Budgets and Rates

- Building permit fees increased \$ 43,506 or 24% and facility fees increased \$ 18,268 or 63% indicating a strengthening building economy.
- Overall land transfer tax collections increased 21% indicating an increase in real estate sales. The Town's portion of land transfer tax revenues increased \$ 131,919 or 25%.
- Travel and tourism has remained constant in Dare County, and Nags Head realized increases in sales and occupancy taxes due in part to growth and changes in proportionate levies among the Towns. The Town's portion of occupancy tax revenues increased \$ 145,405 or 5.8%. The Town's portion of sales tax revenues increased \$ 110,376 or 4.9%.

### Budget Highlights for the Fiscal Year Ending June 30, 2016

- The adopted budget for the June 30, 2016 fiscal year maintains the same tax rate of 26.7 cents per \$ 100 of assessed valuation. 2.7 cents of this total is designated by the Board for beach nourishment and 1.0 cent is designated by the Board for parks and paths. An additional tax of 23 cents per \$ 100 of valuation is maintained for property located within the municipal service district for beach nourishment.
- There are no rate increases included in the water fund budget as these rates were increased in the June 30, 2015 fiscal year and covered normal operating expenses including depreciation.
- A 1.5% cost of living adjustment is included in the budget for all employees and a pay and class study is planned.

## **Management Discussion and Analysis**

### **Town of Nags Head**

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- The adopted budget includes a 25% increase in health insurance premiums and employees will absorb 6% of the increase in family premiums.
- The adopted budget includes a \$ 25 business registration fee so all businesses can be tracked for zoning and fire inspection compliance.
- The budget includes the first year of implementation of a town-wide mandatory residential recycling program whereby the Town will use its own forces to service west side residential properties once a week by substituting a day of traditional trash service for recycling. East side properties will receive this same service for the months of October through April with expanded service during the busy tourist season.
- Capital projects included in the general fund budget are:
  - \$ 600,000 for Dowdy Park (to be funded by a combination of grant funding and parks and paths tax funds)
  - \$ 102,000 for purchase of Causeway lot (to be funded with \$ 51,000 recreation facility fees and a \$ 51,000 Clean Water Trust Fund grant)
  - \$ 90,000 for police station renovations (to be funded with police facility fees)
  - \$ 21,000 for skate park improvements
  - \$ 40,500 for multi-use path repairs (to be funded from parks and paths tax funds)
  - \$ 60,000 for access walkways
  - Scheduled vehicle and equipment replacements to be financed include a planning vehicle, a public works vehicle and dingo, 3 police vehicles, a fire vehicle, an ocean rescue vehicle, town-wide recycling carts and a residential trash truck, all costing an estimated \$ 770,000
- Capital projects included in the water fund budget are:
  - \$ 310,000 for a waterline extension from Baltic to north of Bonnett
  - Scheduled vehicle replacements include a truck for septic health and water operations costing an estimated total of \$ 51,000
- Capital projects included in the storm water fund budget are:
  - \$ 125,000 for the second payment to the North Carolina Department of Transportation for the Red Drum ocean outfall project
  - \$ 65,000 for other storm water improvements

### **Requests for Information**

This report is designed to provide an overview of the town's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Finance Director, Town of Nags Head, P.O. Box 99, Nags Head, North Carolina 27959.

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**Town of Nags Head, North Carolina**  
**Statement of Net Position**  
**June 30, 2015**

Exhibit 1

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 2,176,467	\$ 3,432,705	\$ 5,609,172
Investments	4,878,686	-	4,878,686
Taxes receivable (net)	13,274	-	13,274
Accounts receivable (net)	52,508	481,227	533,735
Accrued interest receivable	125,781	-	125,781
Due from other governments	1,475,888	-	1,475,888
Inventories	60,168	54,246	114,414
Prepaid items	11,265	-	11,265
Restricted cash and cash equivalents	5,042,475	399,005	5,441,480
Total current assets	<u>13,836,512</u>	<u>4,367,183</u>	<u>18,203,695</u>
Non-current assets:			
Net pension asset	580,801	51,467	632,268
Capital Assets:			
Land, non-depreciable improvements and construction in progress	10,312,142	1,863,793	12,175,935
Other capital assets, net of depreciation	26,143,440	5,441,729	31,585,169
Total capital assets	<u>36,455,582</u>	<u>7,305,522</u>	<u>43,761,104</u>
Total assets	<u>50,872,895</u>	<u>11,724,172</u>	<u>62,597,067</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Contributions to pension plan in current fiscal year	352,832	31,265	384,097
Total deferred outflows of resources	<u>352,832</u>	<u>31,265</u>	<u>384,097</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	251,582	114,587	366,169
Salaries and benefits	529,950	25,951	555,901
Due to other governments	36	-	36
Current portion of long-term liabilities	4,607,941	142,631	4,750,572
Liabilities to be paid from restricted assets	60,163	399,005	459,168
Long-term liabilities:			
Due in more than one year	2,663,674	366,415	3,030,089
Total liabilities	<u>8,113,346</u>	<u>1,048,589</u>	<u>9,161,935</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Pension deferrals	1,453,035	128,758	1,581,793
Prepaid taxes	65	-	65
Prepaid water impact fees	-	132,000	132,000
Total deferred inflows of resources	<u>1,453,100</u>	<u>260,758</u>	<u>1,713,858</u>
<b>NET POSITION</b>			
Net investment in capital assets	31,135,962	6,893,822	38,029,784
Restricted for:			
Stabilization by state statute	2,139,103	-	2,139,103
Streets	10,713	-	10,713
Public safety	28,465	-	28,465
Capital reserve fund	4,446,340	-	4,446,340
Unrestricted	3,898,698	3,552,268	7,450,966
Total net position	<u>\$ 41,659,281</u>	<u>\$ 10,446,090</u>	<u>\$ 52,105,371</u>

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

**Town of Nags Head, North Carolina**  
**Statement of Activities**  
**For the Year Ended June 30, 2015**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government:</b>				
Governmental Activities				
General Government	\$ 10,812,062	\$ 470,792	\$ 32,057	\$ 2,000,000
Public Safety	5,274,035	3,278	73,833	-
Public Works/Transportation	2,137,237	-	24,000	253,784
Environmental Protection	1,726,901	-	-	-
Interest on long-term debt	226,348	-	-	-
Total governmental activities (See Note 1)	20,176,583	474,070	129,890	2,253,784
Business-type activities:				
Water	2,721,655	2,662,592	-	162,500
Storm Water	70,127	116,184	-	-
Total business-type activities	2,791,782	2,778,776	-	162,500
Total primary government	22,968,365	3,252,846	129,890	2,416,284

General revenues:

Taxes:

- Property taxes levied for general purpose
- Municipal service district taxes
- Occupancy tax
- Land transfer taxes
- Sales taxes
- Other taxes and licenses
- Other unrestricted intergovernmental revenues
- Unrestricted investment earnings
- Miscellaneous
- Total general revenues

Total change in net position

Net position - beginning, previously reported

Restatement

Net position - beginning, restated

Net position - ending

Exhibit 2

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (8,309,213)	\$ -	\$ (8,309,213)
(5,196,924)	-	(5,196,924)
(1,859,453)	-	(1,859,453)
(1,726,901)	-	(1,726,901)
(226,348)	-	(226,348)
(17,318,839)	-	(17,318,839)
-	103,437	103,437
-	46,057	46,057
	149,494	149,494
(17,318,839)	149,494	(17,169,345)
6,245,990	-	6,245,990
1,826,183	-	1,826,183
2,637,450	-	2,637,450
664,756	-	664,756
2,343,993	-	2,343,993
68,143	-	68,143
841,649	-	841,649
75,122	21,810	96,932
188,115	19,211	207,326
14,891,401	41,021	14,932,422
(2,427,438)	190,515	(2,236,923)
44,931,934	10,330,472	55,262,406
(845,215)	(74,897)	(920,112)
44,086,719	10,255,575	54,342,294
\$ 41,659,281	\$ 10,446,090	\$ 52,105,371

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

**Town of Nags Head, North Carolina**  
**Governmental Funds**  
**Balance Sheet**  
**June 30, 2015**

Exhibit 3

	Major Funds		
	General	Beach Nourishment	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 2,164,553	\$ 11,914	\$ 2,176,467
Investments	4,878,686	-	4,878,686
Restricted cash	4,695,926	346,549	5,042,475
Taxes receivable (net)	13,274	-	13,274
Accounts receivable (net)	52,508	-	52,508
Accrued interest receivable	125,781	-	125,781
Due from other governments	1,475,888	-	1,475,888
Inventories	60,168	-	60,168
Prepaid items	11,265	-	11,265
Total assets	<u>13,478,049</u>	<u>358,463</u>	<u>13,836,512</u>
<b>LIABILITIES</b>			
Accounts payable	251,582	-	251,582
Salaries and benefits	529,950	-	529,950
Due to other governments	36	-	36
Liabilities payable from restricted assets:			
Bonds and deposits	14,770	-	14,770
Accounts payable	-	45,393	45,393
Total liabilities	<u>796,338</u>	<u>45,393</u>	<u>841,731</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Prepaid taxes	65	-	65
Property taxes receivable	13,274	-	13,274
Miscellaneous receivables	45,127	-	45,127
Total deferred inflows of resources	<u>58,466</u>	<u>-</u>	<u>58,466</u>
<b>FUND BALANCES:</b>			
Nonspendable:			
Inventories	60,168	-	60,168
Prepays	11,265	-	11,265
Restricted:			
Restricted for Stabilization by State statute	2,010,554	128,549	2,139,103
Restricted for Streets	10,713	-	10,713
Restricted for Public Safety	28,465	-	28,465
Restricted for Capital Reserve Fund	4,446,340	-	4,446,340
Restricted for Debt Proceeds	-	172,607	172,607
Committed:			
Capital projects	-	11,914	11,914
Assigned:			
Subsequent year's expenditures	317,500	-	317,500
Unassigned	5,738,240	-	5,738,240
Total fund balances	<u>12,623,245</u>	<u>313,070</u>	<u>12,936,315</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 13,478,049</u>	<u>\$ 358,463</u>	

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	36,455,582
Net pension asset	580,801
Contributions to pension plan in the current fiscal year are deferred outflows of resources on Statement of Financial Position	352,832
Liabilities for earned revenues considered deferred inflows of resources in fund statements:	
Deferred taxes receivable	13,274
Deferred miscellaneous receivable	45,127
Long-term liabilities used in governmental activities are not financial uses and therefore are not reported in the funds	(7,271,615)
Pension related deferrals	(1,453,035)
Net position of governmental activities (Exhibit 1)	<u>\$ 41,659,281</u>

**Town of Nags Head, North Carolina**  
**Governmental Funds**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**For the Fiscal Year Ended June 30, 2015**

**Exhibit 4**

	Major Funds		
	General Fund	Beach Nourishment	Total
<b>REVENUES</b>			
Ad valorem taxes	\$ 8,073,532	\$ -	\$ 8,073,532
Other taxes and licenses	5,723,727	-	5,723,727
Unrestricted intergovernmental	841,649	-	841,649
Restricted intergovernmental	2,366,589	-	2,366,589
Permits and fees	307,544	-	307,544
Sales and services	3,278	-	3,278
Investment earnings	72,586	2,536	75,122
Miscellaneous	368,451	-	368,451
Total revenues	17,757,356	2,536	17,759,892
<b>EXPENDITURES</b>			
Current:			
General Government	3,835,487	-	3,835,487
Public Safety	4,951,779	-	4,951,779
Environmental Protection	1,463,177	-	1,463,177
Public Works/Transportation	1,605,570	-	1,605,570
Debt service:			
Principal	4,454,715	-	4,454,715
Interest and other charges	226,348	-	226,348
Capital outlay	1,516,474	221,494	1,737,968
Total expenditures	18,053,550	221,494	18,275,044
Deficiency of revenues over expenditures	(296,194)	(218,958)	(515,152)
<b>OTHER FINANCING SOURCES</b>			
Capital lease obligations issued	753,132	-	753,132
Total other financing sources	753,132	-	753,132
Net change in fund balance	456,938	(218,958)	237,980
Fund balances - beginning	12,166,307	532,028	12,698,335
Fund balances - ending	\$ 12,623,245	\$ 313,070	\$ 12,936,315

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

**Town of Nags Head, North Carolina**  
**Governmental Funds**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**For the Fiscal Year Ended June 30, 2015**

**Exhibit 4**  
**(Continued)**

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

Net changes in fund balances - total governmental funds \$ 237,980

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

Capital Outlay	1,737,968	
Depreciation	<u>(8,262,178)</u>	(6,524,210)

Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities 352,832

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

Change in unavailable revenue for tax and misc revenues (10,745)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Debt Issued	(753,132)	
Increase in compensated absences	(16,276)	
Decrease in net pension obligation	22,343	
Pension expense	(27,019)	
Increase in other post employment benefits	(163,926)	
Principal repayments	<u>4,454,715</u>	3,516,705

Total change in net position of governmental activities \$ (2,427,438)

## General Fund

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

For the Fiscal Year Ended June 30, 2015

	General Fund			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
<b>Revenues:</b>				
Ad valorem taxes	\$ 7,973,154	\$ 7,973,154	\$ 8,073,532	\$ 100,378
Other taxes and licenses	5,385,170	5,448,418	5,723,727	275,309
Unrestricted intergovernmental	618,000	618,000	841,649	223,649
Restricted intergovernmental	2,348,540	2,384,087	2,366,589	(17,498)
Permits and fees	277,000	277,000	307,544	30,544
Sales and services	3,000	3,000	3,278	278
Investment earnings	75,000	75,000	54,379	(20,621)
Miscellaneous	259,800	292,658	368,451	75,793
Total revenues	<u>16,939,664</u>	<u>17,071,317</u>	<u>17,739,149</u>	<u>667,832</u>
<b>Expenditure:</b>				
<b>Current:</b>				
General Government	3,200,733	4,595,188	4,227,069	368,119
Public Safety	4,910,489	5,316,830	5,218,876	97,954
Environmental Protection	1,637,630	2,000,231	1,750,689	249,542
Public Works/Transportation	2,398,102	2,350,393	2,175,853	174,540
<b>Debt service:</b>				
Principal	4,264,065	4,481,342	4,454,715	26,627
Interest and other charges	228,085	228,085	226,348	1,737
Contingency	139,431	15,657	-	15,657
Total expenditures	<u>16,778,535</u>	<u>18,987,726</u>	<u>18,053,550</u>	<u>934,176</u>
Revenues over (under) expenditures	<u>161,129</u>	<u>(1,916,409)</u>	<u>(314,401)</u>	<u>1,602,008</u>
<b>Other financing sources (uses):</b>				
Transfers from other funds	891,383	376,383	297,286	(79,097)
Transfers to other funds	(1,451,512)	(1,451,512)	(1,494,450)	(42,938)
Installment purchase obligations issued	-	753,240	753,132	(108)
Appropriated Fund Balance	399,000	2,238,298	-	(2,238,298)
Total other financing sources (uses)	<u>(161,129)</u>	<u>1,916,409</u>	<u>(444,032)</u>	<u>(2,360,441)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>(758,433)</u>	<u>\$ (758,433)</u>
Fund balances, beginning of year			<u>8,850,309</u>	
Fund balances, end of year			<u>\$ 8,091,876</u>	
A legally budgeted Capital Reserve Fund is consolidated into the General Fund for reporting purposes:				
Interest Income			\$ 18,207	
Transfer to/from general fund			1,197,164	
Fund balance, beginning of the year			<u>3,315,998</u>	
Fund balance, end of year			<u>\$ 12,623,245</u>	

**Town of Nags Head, North Carolina**  
**Proprietary Funds**  
**Statement of Fund Net Position**  
**June 30, 2015**

**Exhibit 6**

	Enterprise Funds			Total
	Major Funds		Non-Major	
	Water Fund	Storm Water Fund	Nags Head Leasing	
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 3,369,896	\$ 62,709	\$ 100	\$ 3,432,705
Accounts receivable trade (net)	436,450	5,987	-	442,437
Accounts receivable other (net)	38,790	-	-	38,790
Inventories	54,246	-	-	54,246
Restricted cash and cash equivalents	399,005	-	-	399,005
Total current assets	4,298,387	68,696	100	4,367,183
Noncurrent assets:				
Net pension asset	51,467	-	-	51,467
Capital assets:				
Land, non-depreciable improvements and construction in progress	1,863,793	-	-	1,863,793
Other capital assets, net of depreciation	4,695,946	745,783	-	5,441,729
Total capital assets (net)	6,559,739	745,783	-	7,305,522
Total noncurrent assets	6,611,206	745,783	-	7,356,989
Total assets	10,909,593	814,479	100	11,724,172
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Contribution to pension plan	31,265	-	-	31,265
Total deferred outflows of resources	31,265	-	-	31,265
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	114,135	452	-	114,587
Salaries and benefits	25,951	-	-	25,951
Compensated absences - current	20,000	-	-	20,000
Capital leases payable - current	122,631	-	-	122,631
Total current liabilities	282,717	452	-	283,169
Noncurrent liabilities:				
Liabilities payable from restricted assets:				
Customer Deposits	399,005	-	-	399,005
Other post employment benefits	63,199	-	-	63,199
Compensated absences - non current	14,147	-	-	14,147
Capital leases payable - non current	289,069	-	-	289,069
Total noncurrent liabilities	765,420	-	-	765,420
Total liabilities	1,048,137	452	-	1,048,589
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Pension deferrals	128,758	-	-	128,758
Prepaid impact fees	132,000	-	-	132,000
Total deferred inflows of resources	260,758	-	-	260,758
<b>NET POSITION</b>				
Net investment in capital assets	6,148,039	745,783	-	6,893,822
Unrestricted	3,483,924	68,244	100	3,552,268
Net Position	\$ 9,631,963	\$ 814,027	\$ 100	\$ 10,446,090

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

Town of Nags Head, North Carolina  
Proprietary Funds  
Statement of Revenues, Expenses and Changes in Fund Net Position  
For the Fiscal Year Ended June 30, 2015

Exhibit 7

	Enterprise Funds			Total
	Water Fund	Storm Water Fund	Nags Head Leasing	
<b>OPERATING REVENUES</b>				
Charges for services	\$ 2,608,587	\$ 116,184	\$ -	\$ 2,724,771
Tap and connection fees	15,255	-	-	15,255
Late payment penalties	31,650	-	-	31,650
Water tag fees	7,100	-	-	7,100
Miscellaneous	4,388	-	-	4,388
<b>Total operating revenues</b>	<b>2,666,980</b>	<b>116,184</b>	<b>-</b>	<b>2,783,164</b>
<b>OPERATING EXPENSES</b>				
Administration	135,234	-	-	135,234
Septic Health	183,838	-	-	183,838
Operations	1,645,671	-	-	1,645,671
Distribution	451,983	-	-	451,983
Storm Water	-	8,379	-	8,379
Depreciation and amortization	287,647	61,748	-	349,395
<b>Total operating expenses</b>	<b>2,704,373</b>	<b>70,127</b>	<b>-</b>	<b>2,774,500</b>
<b>Total operating (loss)</b>	<b>(37,393)</b>	<b>46,057</b>	<b>-</b>	<b>8,664</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Special assessment	14,823	-	-	14,823
Investment earnings	21,326	484	-	21,810
Interest expense	(17,282)	-	-	(17,282)
<b>Total nonoperating revenue (expenses)</b>	<b>18,867</b>	<b>484</b>	<b>-</b>	<b>19,351</b>
<b>(Loss) Before Contributions and Transfers</b>	<b>(18,526)</b>	<b>46,541</b>	<b>-</b>	<b>28,015</b>
Capital contributions from impact fees	162,500	-	-	162,500
<b>Change in net position</b>	<b>143,974</b>	<b>46,541</b>	<b>-</b>	<b>190,515</b>
<b>Total net position, beginning - previously reported</b>	<b>9,562,886</b>	<b>767,486</b>	<b>100</b>	<b>10,330,472</b>
<b>Restatement</b>	<b>(74,897)</b>	<b>-</b>	<b>-</b>	<b>(74,897)</b>
<b>Total net position, beginning - restated</b>	<b>9,487,989</b>	<b>767,486</b>	<b>100</b>	<b>10,255,575</b>
<b>Total net position- ending</b>	<b>\$ 9,631,963</b>	<b>\$ 814,027</b>	<b>\$ 100</b>	<b>\$ 10,446,090</b>

**Town of Nags Head, North Carolina**  
**Proprietary Funds**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2015**

**Exhibit 8**

	Business-Type Activities Enterprise Funds			
	Water Fund	Storm Water	Nags Head Leasing	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash received from customers	\$ 2,636,198	\$ 116,928	\$ -	\$ 2,753,126
Cash paid for goods and services	(1,773,109)	(8,119)	-	(1,781,228)
Cash paid to or on behalf of employees for services	(710,978)	-	-	(710,978)
Customer deposits received	24,200	-	-	24,200
Customer deposits returned	(23,962)	-	-	(23,962)
Other operating revenues	4,388	-	-	4,388
Net cash provided (used) by operating activities	156,737	108,809	-	265,546
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Initial impact fees received	154,500	-	-	154,500
Interest paid on debt financing	(17,282)	-	-	(17,282)
Septic Loans issued	(24,190)	-	-	(24,190)
Repayment of septic loans	14,324	-	-	14,324
Special assessments collected	9,112	-	-	9,112
Principal paid on debt financing	(119,767)	-	-	(119,767)
Acquisition of capital assets	(318,471)	(189,477)	-	(507,948)
Net cash provided (used) by capital and related financing activities	(301,774)	(189,477)	-	(491,251)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest income	21,326	484	-	21,810
Net (decrease) in cash and cash equivalents	(123,711)	(80,184)	-	(203,895)
Cash balances - beginning of the year	3,892,612	142,893	100	4,035,605
Cash balances - end of the year	\$ 3,768,901	\$ 62,709	\$ 100	\$ 3,831,710
Reconciliation of operating (loss) to net cash provided by operating activities				
Operating (loss)	\$ (37,393)	\$ 46,057	\$ -	\$ 8,664
Adjustments to reconcile operating (loss) to net cash provided by operating activities:				
Depreciation and amortization	287,647	61,748	-	349,395
Pension expense	2,394	-	-	2,394
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable	(26,394)	744	-	(25,650)
(Increase) decrease in inventories	3,391	-	-	3,391
(Increase) decrease in prepaids	71	-	-	71
(Increase) decrease in deferred outflows of resources for pension	(31,265)	-	-	(31,265)
Increase (decrease) in accounts payable	(35,703)	260	-	(35,443)
Increase (decrease) in accrued liabilities	(9,064)	-	-	(9,064)
Increase (decrease) in customer deposits	237	-	-	237
Increase (decrease) in accrued OPEB liability	2,816	-	-	2,816
Total adjustments	194,130	62,752	-	256,882
Net cash provided (used) by operating activities	\$ 156,737	\$ 108,809	\$ -	\$ 265,546

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

**Town of Nags Head, North Carolina  
Fiduciary Fund  
Statement of Fiduciary Net Position  
June 30, 2015**

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**Exhibit 9**

	<u>Pension Trust</u>
	<u>Special Separation Allowance</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 192,818
Total Assets	<u>192,818</u>
<b>NET POSITION</b>	
Held in trust for pension benefits and other purposes	<u>\$ 192,818</u>

**Town of Nags Head, North Carolina**  
**Fiduciary Fund**  
**Statement of Changes in Fiduciary Net Position**  
**For the Fiscal Year Ended June 30, 2015**

Exhibit 10

	Pension Trust Special Separation Allowance
<b>Additions</b>	
Employer Contributions	\$ 75,000
Investment Earnings	916
Total investment earnings	916
Total additions	75,916
<b>Deductions</b>	
Expenditures	
Benefits	56,115
Total deductions	56,115
Change in net position	19,801
Net position - beginning of the year	173,017
Net position - end of the year	\$ 192,818

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2015**

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

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

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

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

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2015**

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The Town reports the following major governmental funds:

**General Fund.** The General Fund is the general operating fund of the Town. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund. The primary revenue sources are ad valorem taxes, grants, and various other taxes and licenses. The primary expenditures are for general government services, public safety, public works/transportation, and environmental protection services. Additionally, the Town has legally adopted a **Capital Reserve Fund**, a fund that is designated for future capital projects, and is consolidated in the General Fund.

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

The Town reports the following major enterprise funds:

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

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

The Town reports the following non-major enterprise funds:

**Nags Head Leasing.** This is a Blended Component Unit.

The Town reports the following fiduciary fund types:

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

### **C. Measurement Focus and Basis of Accounting**

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

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

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

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2015**

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

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

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

Sales taxes collected and held by the State at year-end on behalf of the Town are recognized as revenue. Sales taxes are considered a shared revenue for the Town of Nags Head because the tax is levied by Dare County and then remitted to and distributed by the State. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Grant revenues which are unearned at year-end are recorded as unearned revenues. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, and then by general revenues.

#### **D. Budgetary Data**

##### **1. Budget**

As required by the North Carolina General Statutes, the governing board must adopt by July 1 an annual balanced budget ordinance for all funds except for those funds that operate under project ordinances. All annual appropriations lapse at fiscal year-end. The annual budget is prepared on the modified accrual basis of accounting to be compatible with the accounting system used in recording transactions. A project

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2015**

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ordinance has been adopted for the Beach Nourishment Capital Project Fund which is a general governmental fund capital project.

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

## 2. Encumbrances

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

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

### 1. Deposits and Investments

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

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

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

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.

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2015**

**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, Water Fund and Beach Nourishment Capital Project Fund are classified as restricted assets because their use is completely restricted to the purpose for which the debt was originally issued. Powell Bill funds are also classified as restricted cash because it can be expended only for the purposes of maintaining, repairing, construction, reconstructing or widening of local streets per G.S. 136-41.1 through 136.41.4. Money in the Capital Reserve Fund is also classified as restricted as its use is restricted to the Capital Reserve Fund per NC G. S. Chapter 159, Article 3, Part 2. North Carolina controlled substance excise taxes are classified as restricted assets since they may only be used for law enforcement purposes. Customer deposits held by the Town for the duration of the customer's water service until such time as water service is discontinued at which point they are returned to the customer in part or in full after satisfying any outstanding balance are reported as restricted assets.

**Town of Nags Head Restricted Cash:**

**Governmental Activities:**

General Fund	Streets	\$ 10,713
	Controlled substance	28,465
	Capital reserve fund	4,446,340
	Bonds and deposits	14,770
	Unexpended lease proceeds	195,638
Beach Nourishment Project Fund	Unexpended bond proceeds	<u>346,549</u>
<b>Total governmental activities</b>		<b><u>\$ 5,042,475</u></b>
<b>Business-type Activities:</b>		
Water Fund	Customer deposits	<u>\$ 399,005</u>
<b>Total business-type activities</b>		<b><u>399,005</u></b>
<b>Total Restricted Cash</b>		<b><u>\$ 5,441,480</u></b>

**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, 2014.

**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.

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2015**

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**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	5 to 30
Buildings	40
Improvements	25
Vehicles	5 to 10
Furniture and equipment	5 to 20

**8. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town has one item that meets this criterion, contributions made to the pension plan in the 2015 fiscal year.

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2015**

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

#### 9. Long-Term Obligations

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

#### 10. Compensated Absences

The vacation policy of the Town provides for the accumulation of up to thirty-six days earned vacation leave with such leave being fully vested when earned. For the Town's government-wide and proprietary funds, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned. The Town has assumed a first-in, first-out method of using accumulated compensated time. The portion of that time that is estimated to be used in the next fiscal year has been designated as a current liability in the government-wide financial statements.

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

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

#### 11. Net Position/Fund Balances

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

In the governmental fund financial statements, fund balance is composed of five classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent.

The governmental fund types classify fund balances as follows:

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

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

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2015**

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

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

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

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

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

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

Restricted For Debt Proceeds – portion of fund balance that represents unspent debt proceeds. The unspent debt proceeds in the general fund are included in Restricted for Stabilization by State Statute as these amounts are included in encumbrances at June 30, 2015. A portion of the unspent debt proceeds in the capital project fund are included in Restricted for Stabilization by State Statute as these amounts are included in encumbrances at June 30, 2015.

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

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

Assigned fund balance - portion of fund balance that the Town of Nags Head intends to use for specific purposes.

Subsequent year's expenditures - portion of fund balance that is appropriated in the next year's budget that is not already classified in restricted or committed. The governing body approves the appropriation; however the budget ordinance authorizes the manager to modify the appropriation within funds up to 10% of the appropriated monies for the department whose allocation is reduced.

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

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2015**

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

## 12. Pensions

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

## F. Use of Estimates

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

## **II. Detail Notes on All Funds**

### **A. Assets**

#### 1. Deposits

All the deposits of the Town are either insured or collateralized by using the Pooling Method. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town, these deposits are considered to be held by the Town's agents in its name. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town has no policy regarding custodial risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Town complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2015, the Town's deposits had a carrying amount of \$11,242,470 and a bank balance of \$11,351,687. Of the bank balance, \$4,054,791 was covered by federal depository insurance and the

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2015**

remainder was covered by collateral held under the pooling method. At June 30, 2015, the Town's petty cash fund totaled \$1,000.

2. Investments

At June 30, 2015, the Town's investments were as follows:

Investment Type	Fair Value	< 1 Year	1-3 Years	3-10 Years	More than 10 Years
FNMA	\$ 971,292	-	\$ 349,487	\$ 621,805	-
FHL Banks	1,304,528	-	253,735	1,050,793	-
GNMA Mortgage Backed Securities	315,326		6,890	168,364	\$ 140,072
NC Capital Management Trust-Term Portfolio*	2,003,323	\$ 2,003,323	-	-	-
NC Capital Management Trust-Cash Portfolio*	284,217	284,217	-	-	-
<b>Total</b>	<b>\$ 4,878,686</b>	<b>\$ 2,287,540</b>	<b>\$ 610,112</b>	<b>\$ 1,840,962</b>	<b>\$ 140,072</b>

\* Because the NC Capital Management Trust Term Portfolio had duration of 0.19 years, it was presented as an investment with a maturity of less than one year.

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

*Credit Risk.* The Town has no formal policy regarding credit risk, but has internal management procedures that limits the Town's investments to the provisions of G.S. 159-30 and restricts the purchase of securities to the highest possible ratings whenever particular types of securities are rated. The Town's investment in all Government Obligations and Agencies are rated AAA by Standard & Poor's as of June 30, 2015. The Town's investment in NC Capital Management Trust Cash Portfolio carried a credit rating of AAAM by Standard & Poor's as of June 30, 2015. The Town's investment in the NC Capital Management Trust Term Portfolio is unrated. The Term Portfolio is authorized to invest in obligations of the U.S. government and agencies, and in high grade money market instruments as permitted under North Carolina General Statutes 159-30 as amended.

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

**Town of Nags Head, North Carolina**  
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**3. Receivables**

The receivables shown in Exhibit 1 at June 30, 2015 were

	Accounts	Taxes	Due from other Governments	Interest Receivable	Total
<b>Governmental Activities:</b>					
General	\$ 52,508	\$ 23,274	\$ 1,475,888	\$ 125,781	\$ 1,677,451
Allowance for doubtful accounts	-	(10,000)	-	-	(10,000)
Total governmental activities	<u>\$ 52,508</u>	<u>\$ 13,274</u>	<u>\$ 1,475,888</u>	<u>\$ 125,781</u>	<u>\$ 1,667,451</u>
<b>Business-type Activities:</b>					
Water	\$ 494,946	\$ -	\$ -	\$ -	\$ 494,946
Stormwater	5,987	-	-	-	5,987
Allowance for doubtful accounts	(19,706)	-	-	-	(19,706)
Total business type activities	<u>\$ 481,227</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 481,227</u>

Due from other governments consisted of the following:

Occupancy tax	\$ 673,767
Land transfer tax	197,450
Sales taxes	386,156
Sales tax reimbursement	69,993
CAMA grant	14,145
Outer Banks Visitors Bureau	120,000
Other	14,377
Total	<u>\$ 1,475,888</u>

**Town of Nags Head, North Carolina**  
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**4. Capital Assets**

Capital asset activity for the Primary Government for the year ended June 30, 2015, was as follows:

	<b>Beginning Balances</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balances</b>
<b>Governmental Activities:</b>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 9,980,338	\$ 282,208	\$ -	\$ 10,262,546
Construction in progress	11,728	720,689	682,821	49,596
Total capital assets not being depreciated	<u>9,992,066</u>	<u>1,002,897</u>	<u>682,821</u>	<u>10,312,142</u>
<b>Capital assets being depreciated:</b>				
Buildings	10,076,943	-	-	10,076,943
Other improvements	38,092,675	732,971	-	38,825,646
Equipment	2,403,446	154,800	63,348	2,494,898
Vehicles and motorized equipment	6,959,193	530,121	141,027	7,348,287
Total capital assets being depreciated	<u>57,532,257</u>	<u>1,417,892</u>	<u>204,375</u>	<u>58,745,774</u>
<b>Less accumulated depreciation for:</b>				
Buildings	3,310,287	264,354	-	3,574,641
Other improvements	14,890,006	7,271,221	-	22,161,227
Equipment	1,539,764	239,664	63,348	1,716,080
Vehicles and motorized equipment	4,804,474	486,939	141,027	5,150,386
Total accumulated depreciation	<u>24,544,531</u>	<u>\$ 8,262,178</u>	<u>\$ 204,375</u>	<u>32,602,334</u>
Total capital assets being depreciated, net	<u>32,987,726</u>			<u>26,143,440</u>
<b>Governmental activity capital assets, net</b>	<u>\$ 42,979,792</u>			<u>\$ 36,455,582</u>

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

General Government	\$ 7,014,828
Public Safety	408,969
Public Works/Transportation	560,708
Environmental Protection	277,673
Total Depreciation Expense	<u>\$ 8,262,178</u>

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Capital asset activities for the Business-type activities for the year ended June 30, 2015 are as follows:

	Beginning Balances	Increases	Decreases (Transfers)	Ending Balances
<b>Business-Type Activities:</b>				
<b>Water Fund</b>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 1,853,473	\$ -	\$ -	\$ 1,853,473
Construction in progress	43,908	207,376	240,964	10,320
Total capital assets not being depreciated	<u>1,897,381</u>	<u>207,376</u>	<u>240,964</u>	<u>1,863,793</u>
<b>Capital assets being depreciated:</b>				
Plant	5,630,774	292,364	(9,858)	5,932,996
Equipment	751,741	59,695	(161,694)	973,130
Vehicles	355,482	-	193,724	161,758
Intangibles	4,203,619	-	-	4,203,619
Total capital assets being depreciated	<u>10,941,616</u>	<u>352,059</u>	<u>22,172</u>	<u>11,271,503</u>
<b>Less accumulated depreciation for:</b>				
Plant	2,982,891	119,239	-	3,102,130
Equipment	672,758	46,347	-	719,105
Vehicles	107,561	16,971	22,172	102,360
Intangibles	2,546,872	105,090	-	2,651,962
Total accumulated depreciation	<u>6,310,082</u>	<u>\$ 287,647</u>	<u>\$ 22,172</u>	<u>6,575,557</u>
Total capital assets being depreciated, net	<u>4,631,534</u>			<u>4,695,946</u>
<b>Water Fund capital assets, net</b>	<u>\$ 6,528,915</u>			<u>\$ 6,559,739</u>
	<b>Beginning Balances</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balances</b>
<b>Business-Type Activities:</b>				
<b>Storm Water Fund</b>				
<b>Capital assets not being depreciated:</b>				
Construction in progress	\$ 38,873	\$ 18,050	\$ 56,923	\$ -
Total capital assets not being depreciated	<u>38,873</u>	<u>18,050</u>	<u>56,923</u>	<u>-</u>
<b>Capital assets being depreciated:</b>				
Plant	593,738	56,923	-	650,661
Equipment	44,803	-	-	44,803
Intangibles	-	171,427	-	171,427
Total capital assets being depreciated	<u>638,541</u>	<u>228,350</u>	<u>-</u>	<u>866,891</u>
<b>Less accumulated depreciation for:</b>				
Plant	40,552	53,083	-	93,635
Equipment	18,808	8,665	-	27,473
Total accumulated depreciation	<u>59,360</u>	<u>\$ 61,748</u>	<u>\$ -</u>	<u>121,108</u>
Total capital assets being depreciated, net	<u>579,181</u>			<u>745,783</u>
<b>Storm Water Fund capital assets, net</b>	<u>\$ 618,054</u>			<u>\$ 745,783</u>
<b>Business-Type activities capital assets, net</b>	<u>\$ 7,146,969</u>			<u>\$ 7,305,522</u>

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

**Town of Nags Head, North Carolina**  
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The government has active construction projects as of June 30, 2015. At year-end, the government's estimated commitments to projects ongoing are as follows:

<b>Project</b>	<b>Spent-to-date</b>	<b>Remaining Commitment</b>
Beach nourishment	\$ 34,734,509	\$ 128,549

**B. Liabilities**

1. Pension Plan and Post-Employment Obligations

a. Local Governmental Employees' Retirement System

*Plan Description*

The Town of Nags Head is a participating employer in the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS membership is comprised of general employees and local law enforcement officers (LEOs) of participating local government entities. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 707-0500 or at [www.osc.nc.gov](http://www.osc.nc.gov).

**Town of Nags Head, North Carolina**  
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*Benefits Provided*

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

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

*Contributions.* Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. The Town of Nags Head's employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town of Nags Head's contractually required contribution rate for the year ended June 30, 2015, was 7.41% of compensation for law enforcement officers and 7.07% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town of Nags Head were \$ 384,097 for the year ended June 30, 2015.

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

**Town of Nags Head, North Carolina**  
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***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

At June 30, 2015, the Town reported an asset of \$632,268 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2014. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2013. The total pension liability was then rolled forward to the measurement date of June 30, 2014 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension asset was based on a projection of the Town's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2014, the Town's proportion was 0.11%, which was a decrease of 0.002% from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the Town recognized pension expense of \$29,413. At June 30, 2015, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 69,086
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	1,471,903
Changes in proportion and differences between Town contributions and proportionate share of contributions	-	40,804
Town contributions subsequent to the measurement date	384,097	-
Total	<u>\$ 384,097</u>	<u>\$ 1,581,793</u>

\$384,097 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as an increase of the net pension asset in the year ended June 30, 2016. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year ended June 30:</b>	
2016	\$ (395,517)
2017	(395,517)
2018	(395,517)
2019	(395,242)
2020	-
Thereafter	-

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*Actuarial Assumptions.* The total pension liability in the December 31, 2013 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

The actuarial assumptions used in the December 31, 2013 valuation were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

Future ad hoc COLA amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2014 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	36.0%	2.5%
Global Equity	40.5%	6.1%
Real Estate	8.0%	5.7%
Alternatives	6.5%	10.5%
Credit	4.5%	6.8%
Inflation Protection	4.5%	3.7%
Total	100%	

The information above is based on 30 year expectations developed with the consulting actuary for the 2013 asset liability and investment policy study for the North Carolina Retirement Systems, including LRS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized

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figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.19%. All rates of return and inflation are annualized.

A new asset allocation policy was finalized during the fiscal year ended June 30, 2014 to be effective July 1, 2014. The new asset allocation policy utilizes different asset classes, changes in the structure of certain asset classes, and adopts new benchmarks. Using the asset class categories in the preceding table, the new long-term expected arithmetic real rates of return are: Fixed Income 2.2%, Global Equity 5.8%, Real Estate 5.2%, Alternatives 9.8%, Credit 6.8% and Inflation Protection 3.4%.

*Discount rate.* The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

	<b>1% Decrease (6.25%)</b>	<b>Discount Rate (7.25%)</b>	<b>1% Increase (8.25%)</b>
Town's proportionate share of the net pension liability (asset)	\$ 2,146,187	\$ (632,268)	\$ (2,971,636)

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

**b. Law Enforcement Officers Special Separation Allowance**

*Plan Description*

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

All full time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2014 the Separation Allowance's membership consisted of:

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Retirees receiving benefits	3
Terminated plan members entitled to but not yet receiving benefits	0
Active plan members	<u>23</u>
Total	<u><u>26</u></u>

A separate report was not issued for the plan. The Separation Allowance is reported in the Town's report as a pension trust fund, however since this trust does not meet all of the following criteria outlined in GASB 67 and 68 it will be combined with the general fund in the subsequent year:

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

*Summary of Significant Accounting Policies*

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

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

*Contributions*

The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned by making contributions based on actuarial valuations through appropriations made in the General Fund operating budget. For the current year the Town contributed \$75,000 or 5.91% of annual covered payroll. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. There were no contributions made by employees.

The annual required contribution for the current year was determined as part of the December 31, 2013 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 5.00% investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 4.25% to 7.85% per year. Item (b) included an inflation component of 3.00%. The assumptions did not include post-employment benefit increases. The actuarial value of assets was determined using the market value of investments. The unfunded actuarial accrued liabilities are being amortized as a level dollar amount on a closed basis. The remaining amortization period at December 31, 2013 was 17 years.

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*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	\$ 53,790
Interest on net pension obligation	1,642
Adjustment to annual required contribution	<u>(2,775)</u>
Annual pension cost	52,657
Contributions made	<u>(75,000)</u>
Increase (decrease) in net pension obligation	(22,343)
Net pension obligation beginning of year	<u>32,850</u>
Net pension obligation end of year	<u><u>\$ 10,507</u></u>

3 Year Trend Information				
For Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation	
2013	\$ 45,898	217.9%	\$ 17,101	
2014	\$ 45,749	65.6%	\$ 32,850	
2015	\$ 52,657	142.4%	\$ 10,507	

As of December 31, 2014, the most recent actuarial valuation date, the plan was 37.06 percent funded. The actuarial accrued liability for benefits was \$596,447 and the actual value of assets was \$221,065, resulting in an unfunded actuarial accrued liability (UAAL) of \$375,382. The covered payroll (annual payroll of active employees covered by the plan) was \$1,268,715 and the ratio of the UAAL to the covered payroll was 29.59 percent.

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

**c. Supplemental Retirement Income Plan for Law Enforcement Officers**

*Plan Description*

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

**Town of Nags Head, North Carolina**  
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*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, 2015 were \$74,429, which consisted of \$58,169 from the Town and \$16,260 from the law enforcement officers.

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

*Plan Description*

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

*Funding Policy*

The Town contributes a matching amount up to two percent of each employee's salary (excluding law enforcement officers), and all amounts contributed are vested immediately. Employees may also make voluntary contributions to the plan. Total contributions for the year ended June 30, 2015 were \$201,635, which consisted of \$68,265 from the Town and \$133,370 from employees.

e. 457 Deferred Compensation

*Plan Description*

The Town adopted a Supplemental Retirement Income Plan, a defined contribution plan, for regular employees and law enforcement employees beginning April 7, 2010.

*Funding Policy*

The Town does not match contributions to the 457 deferred compensation plan. Total contributions for the year ended June 30, 2015 were \$53,217, which consisted of \$49,280 from regular employees and \$3,937 from law enforcement employees.

f. Other Post-employment Benefits

Healthcare Benefits:

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

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Retired members	9
Active members:	
General Employees	63
Firefighters	25
Law Enforcement	23
Total	120

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

The current ARC rate is 4.66% of annual covered payroll. For the current year, the Town contributed \$107,431 or 1.79% of annual covered payroll. The Town obtains healthcare coverage through private insurers. The Town has purchased specific stop-loss coverage for any claim that exceeds \$100,000. There were no contributions made by employees, except for dependent coverage of \$29,049 for the year ended June 30, 2015.

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

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

Annual required contribution	\$ 272,741
Interest on net OPEB obligation	32,045
Adjustment to annual required contribution	(30,613)
Annual OPEB cost (expense)	274,173
Contributions made	(107,431)
Increase (decrease) in net OPEB obligation	166,742
Net OPEB obligation, beginning of year	801,117
Net OPEB obligation, end of year	\$ 967,859

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<u>For Year</u> <u>Ended June 30</u>	<b>3 Year Trend Information</b>		
	<u>OPEB</u> <u>Cost</u>	<u>Annual OPEB</u> <u>Cost Contributed</u>	<u>OPEB</u> <u>Obligation</u>
2013	\$ 259,449	28.00%	\$ 617,374
2014	\$ 260,474	29.46%	\$ 801,117
2015	\$ 274,173	39.18%	\$ 967,859

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

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

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

## 2. Other Employment Benefit

The Town has also elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$50,000 or be less

**Town of Nags Head, North Carolina**  
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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, 2015 the Town made no contributions to the State for death benefits of \$ 0. The Town's required contributions for employees not engaged in law enforcement and for law enforcement officers represented .0% and .0% of covered payroll, respectively. Due to a surplus in the death benefit, a decision was made by the State to temporarily stop employer contributions to the LGERS Death Benefit Plan beginning July 1, 2012. A temporary relief based on the number of years the employer has contributed as of December 31, 2010 was established. The period of reprieve is determined separately for law enforcement officers. The Town will have a three year reprieve because it has been contributing for more than 20 years. Contributions will resume in the fiscal year beginning July 1, 2015. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount.

3. Payables

Payables at Exhibit 1 at June 30, 2015 were as follows:

	Vendors	Salaries and Benefits	Customer Deposits	Total
<b>Governmental Activities</b>				
General	\$ 251,582	\$ 529,950	\$ 14,770	\$ 796,302
Beach Nourishment Fund	45,393	-	-	45,393
Total Governmental activities	<u>\$ 296,975</u>	<u>\$ 529,950</u>	<u>\$ 14,770</u>	<u>\$ 841,695</u>
<b>Business-type Activities</b>				
Water	\$ 114,135	\$ 25,951	\$ 399,005	\$ 539,091
Stormwater	452	-	-	452
Total Business-type activities	<u>\$ 114,587</u>	<u>\$ 25,951</u>	<u>\$ 399,005</u>	<u>\$ 539,543</u>

4. Deferred Outflows and Inflows of Resources

Deferred outflows of resources is comprised of the following:

<u>Source</u>	<u>Amount</u>
Contributions to pension plan in current fiscal year	\$ 384,097

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

Prepaid taxes and business licenses (General Fund)	\$ 65
Taxes receivable (General Fund)	13,274
Business licenses and special assessments receivable (General Fund)	45,127
Prepaid impact fees (Water Fund)	132,000
Pension deferrals	1,581,793

**Town of Nags Head, North Carolina**  
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**5. Risk Management**

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in three self-funded risk-financing pools administered by the North Carolina League of Municipalities. Through these pools, the Town obtains general liability and auto liability coverage of \$2 million per occurrence, property coverage up to the total insurance values of the property policy, and workers' compensation coverage up to statutory limits, and employee health coverage. The liability and property exposures are reinsured through commercial carriers for claims in excess of retentions as selected by the Board of Trustees each year. Stop loss insurance is purchased by the Board of Trustees to protect against large medical claims that exceed certain dollar cost levels. Specific information on the limits of the reinsurance, excess and stop loss policies purchased by the Board of Trustees can be obtained by contacting Risk Management Services Department of the NC League of Municipalities. The pools are audited annually by certified public accountants, and the audited financial statements are available to the Town upon request.

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

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

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

**6. Claims and Judgments**

At June 30, 2015 the Town was a defendant to various lawsuits related to beach nourishment. In the opinion of the Town's management and the Town attorney, the ultimate effect of these legal matters will not have a material adverse effect on the Town's financial position. However, it is not practical to estimate any potential losses.

**7. Long-Term Debt**

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

The Town entered into a fifteen year installment financing contract in 2005 with RBC Centura for the construction of the fire facility in south Nags Head. The amount borrowed was \$1,600,000 at an interest rate of 3.82% and is secured by the property. Originally, payments were due in annual installments of \$106,667 plus accrued interest with final payment due on May 30, 2019. The Town prepaid \$125,068 during the fiscal year ending June 30, 2006 from unused escrow funds and the remaining principal was reamortized with payments due in annual installments of \$97,046 plus accrued interest through May 17, 2019. The outstanding balance at June 30, 2015 is \$388,184.

**Town of Nags Head, North Carolina**  
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The Town entered into a fifteen year installment financing contract in 2005 with RBC Centura for the construction of an above ground water storage tank and waterline extension located adjacent to the Public Works facility. The amount borrowed was \$1,200,000 at an interest rate of 3.85% and is secured by the property. Originally payments were due in annual installments of \$102,841 including accrued interest with final payment due on May 30, 2019. The Town prepaid \$85,871 during the fiscal year ending June 30, 2006 from unused escrow funds and the remaining principal was reamortized with payments due in annual installments of \$93,875 including accrued interest through May 17, 2019. The outstanding balance at June 30, 2015 is \$341,002.

The town entered into a ten year installment financing contract in 2008 with BB&T for the acquisition of real property. The amount borrowed was \$500,000 at an interest rate of 3.77% and is secured by the property. Payments are due annually in the amount of \$50,000 in principal plus accrued interest through November 15, 2017. The outstanding balance at June 30, 2015 is \$150,000.

The town issued special obligation bonds under a five year installment financing contract in 2011 with RBC Bank for funding approximately half the costs of beach nourishment. The amount borrowed was \$18,000,000 at an interest rate of 2.48% which is secured by the pledge of occupancy tax revenues. Payments are due semiannually with interest only due in each October and interest plus principal of \$3,600,000 due each April through 2016. The outstanding balance at June 30, 2015 is \$3,600,000.

The town entered into a five year installment financing contract in 2014 with Southern Bank for the acquisition of real property. The amount borrowed was \$500,000 at an interest rate of 1.18% and is secured by the property. Payments are due annually in the amount of \$100,000 in principal plus accrued interest through May 1, 2018. The outstanding balance at June 30, 2015 is \$300,000.

The Town currently has seven leases outstanding for various vehicles and equipment. The amount borrowed on these leases was \$ 2,483,943. Annual payments range from \$15,304 to \$139,771. Expiration dates range from July 2015 to May 2019. Interest rates vary from 1.040% to 1.60%. The total outstanding at June 30, 2015 is \$1,494,321. The gross value of all assets recorded under capital leases and installment finance contracts is \$23,936,144. The following is an analysis of the assets recorded under capital leases and installment finance contracts in the Town's governmental funds at June 30, 2015:

<b>Classes of Property</b>	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Net Book Value</b>
Buildings	\$ 1,699,316	\$ 382,346	\$ 1,316,970
Land	1,000,000	-	1,000,000
Vehicles and equipment	2,331,043	328,022	2,003,021
Other/infrastructure	18,905,785	10,890,868	8,014,917
<b>Total</b>	<b>\$ 23,936,144</b>	<b>\$ 11,601,236</b>	<b>\$ 12,334,908</b>

**Town of Nags Head, North Carolina**  
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A summary of changes in the Governmental long-term debt follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion of Balance
Finance contract	\$ 1,085,230	\$ -	\$ 247,046	\$ 838,184	\$ 247,046
Capital leases	1,278,160	753,132	607,669	1,423,623	450,445
Bonded debt	7,200,000	-	3,600,000	3,600,000	3,600,000
Post-employment benefits	740,734	163,926	-	904,660	-
Net pension obligation (LEO)	32,850	52,657	75,000	10,507	-
Net pension liability (LGERS)	1,210,242	-	1,210,242	-	-
Compensated absences	478,364	324,372	308,095	494,641	310,000
Governmental activities long-term liabilities	<u>\$ 12,025,580</u>	<u>\$ 1,294,087</u>	<u>\$ 6,048,052</u>	<u>\$ 7,271,615</u>	<u>\$ 4,607,941</u>

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

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion of Balance
Finance contract	\$ 418,847	\$ -	\$ 77,845	\$ 341,002	\$ 80,709
Capital leases	112,620	-	41,922	70,698	41,922
Post-employment benefits	60,383	2,816	-	63,199	-
Net pension liability (LGERS)	107,243	-	107,243	-	-
Compensated absences	25,781	28,125	19,759	34,147	20,000
Business-type activities long-term liabilities	<u>\$ 724,874</u>	<u>\$ 30,941</u>	<u>\$ 246,769</u>	<u>\$ 509,046</u>	<u>\$ 142,631</u>

The LGERS plan had a net pension asset of June 30, 2015; however, the plan had a net pension liability at the beginning of the fiscal year.

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

Year Ending June 30	Principal	Interest
2016	\$ 4,297,491	\$ 132,925
2017	609,316	31,184
2018	462,579	19,685
2019	267,219	9,848
2020	73,879	3,603
2021-2022	151,323	3,641
<b>Total</b>	<u>\$ 5,861,807</u>	<u>\$ 200,886</u>

**Town of Nags Head, North Carolina**  
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A summary of Business-type debt service obligations is as follows:

Year Ending June 30	Principal	Interest
2016	\$ 122,631	\$ 13,961
2017	98,204	10,398
2018	101,432	7,001
2019	89,433	3,480
2020	-	-
<b>Total</b>	<b>\$ 411,700</b>	<b>\$ 34,840</b>

At June 30, 2015, the Town had a legal debt margin of \$ 180,754,689.

#### 8. Operating Leases

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

As of June 30, 2015 there were no future lease payments due on this lease. During the year ended June 30, 2015, the total amount expended by the Town under the above operating lease was \$6,956 including both minimum monthly rentals and per copy charges.

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

Total minimum lease payments for the remaining term of the contract at June 30, 2015, are as follows:

2016	\$2,904
2017	\$2,904
2018	<u>\$2,662</u>
Total	<u>\$8,470</u>

During the year ended June 30, 2015, the total amount expended by the Town under the above operating lease was \$5,048, including both minimum monthly rentals and average per copy charges.

The Town leased office and clinic space to North Carolina Shellfish and Outer Banks Community Care Clinic. The amounts earned under these leases as of June 30, 2015 were \$2,917 and \$6,300, respectively.

The Town leases space on the cell tower at Town Hall. Under a construction services and structure license agreement with AT&T dated February 6, 2008, AT&T agreed to construct a cell tower at their cost to be transferred to the Town of Nags Head upon completion in exchange for reduced monthly rentals for leased space on the tower for the length of time needed to abate the full cost of construction. The costs to construct the tower, to which the Town took ownership in the year ended June 30, 2009, were \$279,577. The amount earned for the year ended June 30, 2015 was \$8,143, with rent abatement in the amount of \$23,274. The total amount of rental abatement to date is \$154,610 and the current lease goes through February 2018. Additional space was rented on this cell tower to Verizon in the amount of \$ 40,496 and NTelos in the amount of \$ 32,415.

The Town also leased space on the water tower in South Nags Head to AT&T in the amount of \$ 30,402 for the year ended June 30, 2015.

**Town of Nags Head, North Carolina**  
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**For the Fiscal Year Ended June 30, 2015**

During the year ending June 30, 2012 the Town entered into lease with Tar River LTC Group for Colony Ridge nursing home (formerly Britthaven) effective October 1, 2011, for a period of ten years which may be extended for two additional periods of fifteen years each subject to legislative authority to do so. Under the terms of the lease, the lessee agrees to pay rent in the amount of \$10 per month in exchange for operating the facility and to make \$1.5 million dollars of capital improvements to the property.

**9. Water Impact Fees**

The Town entered into a letter of understanding with the Ammons-Dare Corporation (its successors and assigns) for the provision of water to the Village of Nags Head Development. The Town guarantees 1,000 water consumption units (WCU) will be available for the development. Ammons-Dare Corporation has agreed to pay an impact fee of \$2,000 per WCU in advance in the form of an irrevocable letter of credit in the amount of \$2,000,000. As of June 30, 2015, 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 717 WCU's which are guaranteed by the Town and are valued at \$1,434,000.

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

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

The remaining 66 WCU's in the amount of \$132,000 represent the balance due under the letter of understanding and are included in the Water Fund balance sheet as unearned revenue. Should any of the remaining WCU's be unused, the Town agrees to reimburse Ammons-Dare Corporation, its successors and assigns, at any time after September 4, 1991.

**C. Interfund Balances and Activity**

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

**Town of Nags Head, North Carolina**  
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Transfers to/from other funds for the year ended June 30, 2015 consisted of the following:

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

Excess beach nourishment taxes designated for future beach nourishment	\$ 673,117
Restricted sales tax designated for future beach nourishment	541,921
Facility fees (including interest)	47,270
Penny of tax rate designated for parks and paths	232,142
	\$ 1,494,450

Transfers from capital reserve fund to general fund for parks and paths	\$ 297,286
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**D. Net Investment in Capital Assets**

	Governmental	Business-type
Capital assets	\$ 36,455,582	\$ 7,305,522
Less: long term debt	(5,861,807)	(411,700)
Add: unexpended debt proceeds	542,187	-
	\$ 31,135,962	\$ 6,893,822

**E. Fund Balance**

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

Total Fund Balance - General Fund		\$ 12,623,245
Less:		
Nonspendable		(71,433)
Stabilization by State Statute		(2,010,554)
Restricted for Streets		(10,713)
Restricted for Public Safety		(28,465)
Restricted for capital reserve fund		(4,446,340)
Restricted for 2015-2016 budget		(317,500)
Fund Balance Policy		(\$ 5,738,240)
Fund Balance Remaining		\$ -

The Town of Nags Head has adopted a minimum fund balance policy for the general fund which instructs management to strive to maintain an unassigned general fund balance of 50% of expenditures less bond debt, but not less than \$ 5 million as per audited financial statements at the end of each fiscal year. The \$ 5,738,240 reported above is less than the 50% of expenditures calculation of \$ 6,859,554, but more than the \$ 5,000,000 minimum required.

**Town of Nags Head, North Carolina  
Notes to the Financial Statements  
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At June 30, 2015, the following amounts represent open purchase orders and contracts outstanding at June 30, 2015. These encumbrances outstanding will be re-appropriated in the subsequent year's budget.

General Fund	\$ 401,504
Capital Project Fund (beach nourishment)	128,549
Water Fund	2,128
Storm Water Fund	12,600
Total	\$ 544,781

**F. Facility Fees**

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

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, 2015, the facility fees were transferred to the Capital Reserve Fund where they will remain until funds are needed for appropriate capital expenditures.

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

	Admin.	Fire	Police	Sanitation	Recreation	Total
Beginning of year balance	\$ 30,694	\$ 9,727	\$ 83,162	\$ 6,228	\$ 47,167	\$ 176,978
Current year additions (including interest)	14,991	8,114	9,974	3,250	10,941	47,270
Current year expenses	-	-	-	-	-	-
End of year balance	\$ 45,685	\$ 17,841	\$ 93,136	\$ 9,478	\$ 58,108	\$ 224,248

**G. Beach Nourishment**

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

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

The terms of the special obligation bond debt requires annual repayment of principal in the amount of \$3,600,000 and semi-annual payment of interest for five years with the final payment scheduled for the

**Town of Nags Head, North Carolina**  
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June 30, 2016 fiscal year. Repayment of the bond proceeds and interest is provided by both a town wide tax and additional taxes on the properties located in the municipal service districts. The Town also received funding through an inter-local agreement with Dare County providing an additional \$ 2,000,000 annually for five years to be used towards the repayment of debt.

Funds received from the town wide tax and municipal service district tax in excess of the amount needed for debt costs in the amount of \$ 673,117 were transferred from the General Fund to the Capital Reserve Fund and are restricted for future beach nourishment. Additionally, sales tax revenues derived from the municipal service district levy during the year totaling \$ 541,920 were transferred to the Capital Reserve Fund to be used in the future for beach nourishment. The amount in the capital reserve fund restricted for future beach nourishment at June 30, 2015 total \$ 4,061,320 as shown below:

	<b>Beach nourishment taxes (MSD and town-wide) received in excess of debt repayment</b>	<b>Restricted sales taxes from municipal service district tax</b>	<b>Total</b>
Beginning of year balance	\$ 1,762,631	\$ 1,083,652	\$ 2,846,283
Current year additions	673,117	541,920	1,215,037
Current year uses	-	-	-
End of year balance	<u>\$ 2,435,748</u>	<u>\$ 1,625,572</u>	<u>\$ 4,061,320</u>

**H. Tax Funds Designated for Parks and Paths**

Beginning in the June 30, 2014 fiscal year the Town designated one penny of its tax rate for parks and paths. Any amounts not spent during the fiscal year are transferred to the capital reserve fund for use in a subsequent year. During the current fiscal year ending June 30, 2015, \$ 232,142 was the amount designated for parks and paths and the balance at June 30, 2015 included in the capital reserve fund for this purpose is:

	<b>Parks and Paths</b>
Beginning of year balance	\$ 130,954
Current year additions	232,142
Current year uses	(297,286)
End of year balance	<u>\$ 65,810</u>

**I. Volunteer Incentive Pay Agreement**

The Board of Commissioners maintains an agreement for volunteer firefighter pay that calls for incentive pay based on an individual members qualifications, training, and call response. The method of calculation of incentive pay was amended administratively by the Board of Commissioners during the fiscal year ending June 30, 2006 as was the twelve month period for calculation to coincide with the Town's fiscal year from July through June. Beginning in FY 08-09 incentive pay was changed from annual payments to monthly. The amount expended under this agreement for the full year ending June 30, 2015 was \$3,025 plus an additional \$231 in related FICA.

**Town of Nags Head, North Carolina**  
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**For the Fiscal Year Ended June 30, 2015**

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### **III. Joint Ventures**

The Town and the members of the Town's fire department each appoint two members to the five-member local board of trustees for the Firefighter's Relief Fund. The State Insurance Commissioner appoints one additional member to the local board of trustees. The Firefighter's Relief Fund is funded by a portion of the fire and lightning insurance premiums that insurers remit to the State. The State passes these moneys to the local board of the Firefighter's Relief Fund. The funds are used to assist fire fighters in various ways. The participating governments do not have any equity interest in the joint venture, so no equity has been reflected in the financial statements at June 30, 2015. The Firefighter's Relief Fund does not issue separate audited financial statements. Instead, the local board of trustees files an annual financial report with the State Firefighter's Association. This report can be obtained from the Association at 323 West Jones Street, Suite 401, Raleigh, North Carolina, 27603.

On April 20, 2007, the Town acquired a 34.783% interest in property jointly owned with the Outer Banks Visitors Bureau acquiring the remaining 65.217% interest. The total cost for the Town's share was \$1,623,174. The Town's share of the amount donated by the seller was an additional \$626,094. The funding for this purchase came from the Town's Water Fund. Transfer and payment for the purchase by the General Fund began in the year ending June 30, 2013, in the amount of \$300,000, and will continue each year as determined by the Board of Commissioners until the Water Fund has been fully reimbursed and the property fully transferred to the Town's General Fund. The General Fund purchased an additional \$300,000 in the June 30, 2014 fiscal year for a total transferred of \$600,000 as of June 30, 2015. On November 14, 2008, the Town acquired a 17.949% interest in property owned jointly with the Outer Banks Visitors Bureau acquiring the remaining 82.051% interest. The total cost for the Town's share was \$712,933. The Town's share of the amount donated by the seller was an additional \$251,286.

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

### **IV. Summary Disclosure of Significant Contingencies**

#### **A. Federal and State Assisted Programs**

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

#### **B. Municipal Waste Management Agreement**

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

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2015**

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On December 3, 2008, the Town approved a Municipal Waste Management Agreement with Dare County, a member of the Albemarle Regional Solid Waste Authority, for disposal of solid waste as contracted through Republic Services. The contract extends for 26 years and became effective when signed by all parties to the agreement as of May 1, 2009. Charges are based on the Town's actual tonnage of solid waste; the rate in effect in the 2014-15 year was \$73.15 per ton.

**C. Intangible Water Rights**

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

The intangible water rights are being amortized over 40 years. This time period corresponds to the estimated useful life of the R.O. water desalination plant. At June 30, 2015, accumulated amortization totaled \$2,651,962.

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

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

**V. Subsequent Events**

On August 1, 2015, Peak Resources was assigned the operating lease from Tar River LTC Group for operation of the Town owned nursing home. The terms and conditions of the lease remained unchanged and Peak's initial ten year term will expire September 30, 2021 and may be extended for two additional periods of fifteen years. Peak agreed to pay rent in the amount of \$10 per month in exchange for operating the facility and to make \$1.5 million dollars of capital improvements to the property. On October 7, 2015 the Nags Head Board approved Peak's plans for capital improvements which met the terms of the lease.

**VI. Change in Accounting Principles/Restatement**

The Town implemented Governmental Accounting Standards Board (GASB) Statement 68, *Accounting and Financial Reporting for Pensions (and amendment of GASB Statement No. 27)*, in the fiscal year ended June 30, 2015. The implementation of the statement required the Town to record beginning net pension liability and the effects on net position of contributions made by the Town during the measurement period (fiscal year ending June 30, 2014). As a result, net pension for the governmental and business-type activities decreased by \$ 845,215 and \$ 74,897, respectively.

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

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Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Projected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll [(b-a)/c]
12/31/1998	\$62,331	\$83,495	\$21,164	74.65%	\$656,523	3.22%
12/31/1999	71,819	81,751	9,932	87.85%	579,505	1.71%
* 12/31/2000	88,268	145,789	57,521	60.55%	673,137	8.55%
12/31/2001	90,229	178,317	88,088	50.60%	771,135	11.42%
12/31/2002	90,891	182,538	91,647	49.79%	815,534	11.24%
12/31/2003	151,541	212,074	60,533	71.46%	915,380	6.61%
12/31/2004	184,675	250,217	65,542	73.81%	1,026,938	6.38%
12/31/2005	217,715	241,698	23,983	90.08%	1,021,727	2.35%
12/31/2006	256,998	301,636	44,638	85.20%	1,058,590	4.22%
12/31/2007	241,424	357,343	115,919	67.56%	1,091,569	10.62%
12/31/2008	245,508	367,986	122,478	66.72%	1,167,081	10.49%
12/31/2009	224,884	370,148	145,264	60.76%	956,725	15.18%
12/31/2010	186,034	463,119	277,085	40.17%	1,037,526	26.71%
12/31/2011	147,106	491,134	344,028	29.95%	1,100,552	31.26%
12/31/2012	208,694	507,378	298,684	41.13%	1,125,261	26.54%
12/31/2013	199,688	509,170	309,482	39.22%	1,124,779	27.51%
12/31/2014	221,065	596,447	375,382	37.06%	1,268,715	29.59%

\* 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**

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<u>Year Ended</u> <u>June 30</u>	<u>Annual Required</u> <u>Contribution</u>	<u>Percentage</u> <u>Contributed</u>
1999	8,503	74.46%
2000	10,300	74.65%
2001	8,148	87.85%
2002	15,773	60.55%
2003	18,854	50.60%
2004	19,026	157.68%
2005	18,650	169.69%
2006	20,819	138.75%
2007	16,393	223.61%
2008	16,335	0.00%
2009	23,846	125.81%
2010	25,855	0.00%
2011	31,062	0.00%
2012	39,494	0.00%
2013	46,769	217.87%
2014	46,287	65.58%
2015	53,790	139.43%

**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	12/31/2014
Actuarial cost method	Projected unit credit
Amortization method	Level dollar closed
Remaining amortization period	16 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	5.00%
Projected salary increases *	4.25 - 7.85%
* Includes inflation at	3.00%
Cost-of-living adjustments	N/A

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

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

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

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Year Ended <u>June 30</u>	Annual Required <u>Contribution</u>	Percentage <u>Contributed</u>
2010	193,043	26.20%
2011	193,043	29.33%
2012	207,793	28.12%
2013	257,085	28.26%
2014	257,085	29.85%
2015	272,741	39.39%

**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	12/31/2014
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay, open
Remaining amortization period	30
Asset valuation method	Market value of assets
Actuarial assumptions:	
Investment rate of return *	4.00%
Medical cost trend rate	7.50 - 5.00%
Year of Ultimate trend rate	2020
 * Includes inflation at	 3.00%

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

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

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

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

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

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

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

**Schedule 1**

**Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual  
For the Year Ended June 30, 2015**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
<b>REVENUES</b>			
Ad Valorem Taxes:			
Current year		\$ 6,139,249	
Municipal service district		1,826,094	
Prior year		3,461	
DMV current year		90,331	
DMV prior year		1,576	
Penalties and interest		12,821	
Total	\$ 7,973,154	8,073,532	\$ 100,378
<b>Other Taxes and Licenses:</b>			
Occupancy tax		2,637,450	
Land Transfer tax		664,756	
Local governmental sales tax		1,318,344	
1/2% sales tax revenue		1,025,649	
Special assessments		8,457	
Special assessment interest		1,241	
Privilege licenses		25,544	
Mixed beverage tax		41,059	
Privilege license penalties		1,227	
Total	5,448,418	5,723,727	275,309
<b>Intergovernmental Revenues:</b>			
Unrestricted:			
Utility Franchise tax		575,446	
Telecommunications tax		49,337	
Natural Gas Franchise fee		3,705	
Solid Waste Disposal fees		1,834	
Video programming tax		126,800	
Cable Franchise - PEG fund fees		58,452	
Beer and wine		13,836	
ABC revenue		12,239	
Total	618,000	841,649	223,649
<b>Restricted:</b>			
Federal:			
Drug Enforcement Overtime Grant		5,460	
Controlled substance excise tax		5,510	
Correction of over accrual in prior year		(7,500)	
State:			
State Street Aid allocation-Powell Bill		120,712	
State DPI Grant		41,718	
Governor's Crime Commission		5,319	
DOT Grant		4,340	
DCM Grant		14,145	
CAMA Reimbursement		3,325	
Controlled substance excise tax		6,241	
Miscellaneous		2,495	

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

**Schedule 1**

**Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual  
For the Year Ended June 30, 2015**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Local:			
Contributions from Dare County		2,024,000	
Government Access Channel Grant		8,792	
Outer Banks Visitor Bureau grant		128,732	
Miscellaneous		3,300	
Total	<u>2,384,087</u>	<u>2,366,589</u>	<u>(17,498)</u>
Total Intergovernmental Revenues	<u>3,002,087</u>	<u>3,208,238</u>	<u>206,151</u>
Permits and Fees:			
Building permits		221,100	
Facility fees		47,270	
Inspection and review fees		12,538	
Beach driving permits		20,706	
CAMA permits		5,300	
Motor vehicle licenses		630	
Total	<u>277,000</u>	<u>307,544</u>	<u>30,544</u>
Sales and Services:			
Court costs and fees	<u>3,000</u>	<u>3,278</u>	
Total	<u>3,000</u>	<u>3,278</u>	<u>278</u>
Investment Earnings	<u>75,000</u>	<u>54,379</u>	<u>(20,621)</u>
Other Revenues:			
Other rents		129,578	
Cable franchise fees		37,036	
Sale of materials		52,810	
Miscellaneous		50,330	
Sale of assets		10,849	
Damage recovery		37,093	
Civil Penalties		3,000	
Cart rollback		30,670	
Contributions to Police, Fire & Rescue Benevolent Fund		17,085	
Total	<u>292,658</u>	<u>368,451</u>	<u>75,793</u>
Total Revenues	<u>17,071,317</u>	<u>17,739,149</u>	<u>667,832</u>
EXPENDITURES			
General Government:			
Governing Body:			
Fees paid to elected officials		34,114	
FICA expense		2,610	
Contracted services		42,650	
Department supplies and materials		5,910	
Special events		1,190	

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

**Schedule 1**

**Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual  
For the Year Ended June 30, 2015**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Dues and subscriptions		6,959	
Printing		2,500	
Travel		5,911	
Training		2,888	
Equipment rental		184	
Employee incentive		250	
GAC Grant		2,026	
Contribution to Nags Head Woods		10,000	
Contribution to Government Access Channel		59,452	
Contributions, miscellaneous		4,300	
Capital Outlay, equipment		9,533	
Reimbursement from Water Fund		(13,607)	
Total	201,762	176,870	(24,892)
Special Obligation Bonds:			
Debt service, bond principal		3,600,000	
Debt service, interest		176,948	
Total	3,778,560	3,776,948	(1,612)
Administration:			
Salaries and wages		423,550	
FICA expense		30,986	
Group insurance		78,689	
Group insurance - retiree		12,149	
Retirement		29,484	
401(k) account		6,641	
Contracted services		6,993	
Travel		4,774	
Advertising		3,775	
Departmental supplies		10,038	
Dues and subscriptions		2,373	
Equipment rental		4,847	
Telephone		4,348	
Employee training		16,392	
Postage		1,067	
Automotive Supplies		398	
Reimbursement from Water Fund		(70,821)	
Total	578,905	565,683	(13,222)
Administrative Services:			
Salaries and wages		312,435	
FICA expense		22,747	
Group insurance expense		54,494	
Retirement		21,104	
401(k) account		4,960	
Unemployment expense		18,702	
Insurance		303,944	

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

**Schedule 1**

**Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual  
For the Year Ended June 30, 2015**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Contracted services		4,737	
Employee training		3,495	
Professional services		32,953	
Fines and forfeitures		4,426	
Departmental supplies and materials		7,357	
Postage		5,752	
Telephone		2,881	
Travel		4,776	
Equipment rental		4,835	
Repairs and maintenance, equipment		120	
Wellness program		6,077	
Personnel Committee		528	
Special contracted services		3,572	
Dues and subscriptions		900	
Purchases for resale		1,546	
Advertising		714	
Repairs and maintenance, vehicles		1,581	
Automotive supplies		1,035	
Reimbursement from Water Fund		(70,331)	
Debt service, capital lease		7,331	
Debt service, interest		152	
Total	<u>818,528</u>	<u>762,823</u>	<u>(55,705)</u>
Information Technology:			
Salaries and wages		120,149	
FICA expense		9,194	
Group insurance		13,932	
Retirement		8,477	
401(k) account		1,690	
Contracted services		4,351	
Contracted services, GIS		1,462	
Contracted services, website		1,440	
Contracted services, annual contracts		20,893	
Employee training		4,625	
Travel		402	
Professional services		72	
Departmental supplies		3,351	
Telephone		6,306	
Postage		132	
Advertising		94	
Repairs and maintenance, equipment		8,851	
Other supplies		20,462	
Internet costs		9,052	
Equipment rental		11,131	
Dues and subscriptions		150	
Capital outlay, other		22,750	
Capital outlay, equipment		20,602	
Reimbursement from Water Fund		(31,116)	
Debt service, capital lease		18,867	

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

**Schedule 1**

**Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual  
For the Year Ended June 30, 2015**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Debt service, interest		382	
Total	303,132	277,701	(25,431)
Planning and Development:			
Salaries and wages		422,580	
FICA expense		31,266	
Group insurance		68,410	
Retirement		29,625	
401(k) account		6,762	
Planning board, board of adjustment		8,290	
Uniforms		501	
Professional services		4,563	
Departmental supplies		18,002	
Travel		540	
Advertising		1,013	
Telephone		5,426	
Postage		446	
Repairs and maintenance, vehicles		1,481	
Printing		668	
Contracted services		17,701	
Other supplies		1,518	
Automotive supplies		2,692	
Employee training		2,240	
Equipment rental		1,619	
Dues and subscriptions		1,191	
Capital outlay, other		69,848	
Reimbursement from Water Fund		(96,979)	
Total	811,234	599,403	(211,831)
Legal Services:			
Professional services		194,027	
Legal settlement		1,702,182	
Reimbursement from Water Fund		(24,888)	
Total	1,908,360	1,871,321	(37,039)
Total General Government	8,400,481	8,030,749	(369,732)
Public Safety:			
Police Department:			
Salaries and wages		1,322,771	
FICA expense		96,045	
Group insurance		293,668	
Group insurance - retiree		24,297	
Retirement		97,322	
401(k) account		62,936	
Separation Allowance		75,000	
Automotive supplies		64,395	

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

**Schedule 1**

**Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual  
For the Year Ended June 30, 2015**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Departmental supplies		47,870	
Repairs and maintenance, vehicles		15,578	
Repairs and maintenance, equipment		27,315	
Telephone		17,052	
Other supplies		4,272	
Uniforms		14,661	
Equipment rental		7,467	
Travel		7,005	
Professional services		11,439	
Employee training		4,669	
Postage		964	
Dues and subscriptions		1,404	
Advertising		145	
Printing		164	
Contracted services		514	
Special investigations		2,000	
Capital outlay, equipment		198,185	
Capital outlay, equipment Governors grant		7,092	
Debt service, capital lease		149,201	
Debt service, interest		1,832	
<b>Total</b>	<b>2,609,272</b>	<b>2,555,263</b>	<b>(54,009)</b>
Drug Forfeiture:			
Department supplies		6,311	
Telephone		452	
<b>Total</b>	<b>10,810</b>	<b>6,763</b>	<b>(4,047)</b>
Fire Department:			
Salaries and wages		1,416,651	
FICA expense		101,760	
Group insurance		321,402	
Group insurance, retiree		7,133	
Retirement expense		102,266	
401(k) account		25,705	
Incentive pay		3,435	
Departmental supplies		69,325	
Repairs and maintenance, vehicles		20,862	
Uniforms		20,212	
Repairs and maintenance, equipment		5,888	
Automotive supplies		20,317	
Telephone		7,673	
Employee training		5,076	
OSHA Compliance		3,710	
Travel		9,504	
Safety training		4,946	
Other supplies		3,678	
Equipment rental		2,320	
Dues and subscriptions		2,627	
Professional services		15,234	
Advertising		36	

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

**Schedule 1**

**Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual  
For the Year Ended June 30, 2015**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Postage		426	
Contracted Services		11,674	
Printing		597	
Capital outlay, equipment		61,820	
Debt service, capital lease		186,567	
Debt service, interest		27,787	
<b>Total</b>	<b>2,495,546</b>	<b>2,458,631</b>	<b>(36,915)</b>
Ocean Rescue:			
Salaries and wages		441,314	
FICA expense		28,383	
Group insurance		11,296	
Retirement expense		3,637	
401(k) account		1,038	
Departmental supplies		33,707	
Uniforms		12,936	
Automotive supplies		10,799	
Repairs and maintenance, equipment		3,463	
Travel		5,214	
Repairs and maintenance, vehicles		1,735	
Professional fees		4,912	
Telephone		973	
Employee training		1,441	
Printing		1,074	
Dues and subscriptions		1,630	
Postage		54	
Debt service, capital lease		27,930	
Debt service, interest		485	
<b>Total</b>	<b>596,969</b>	<b>592,021</b>	<b>(4,948)</b>
<b>Total Public Safety</b>	<b>5,712,597</b>	<b>5,612,678</b>	<b>(99,919)</b>
Environmental Protection:			
Sanitation:			
Salaries and wages		353,052	
FICA expense		24,993	
Group insurance		91,366	
Group insurance - retiree		12,149	
Retirement		23,149	
401(k) account		1,789	
Repairs and maintenance, vehicles		130,837	
Automotive supplies		99,982	
Department supplies		14,721	
Uniforms		5,347	
Contracted services		14,840	
Recycling		39,419	
Repairs and maintenance, equipment		1,242	
Telephone		2,817	

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

**Schedule 1**

**Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual  
For the Year Ended June 30, 2015**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Advertising		107	
Capital outlay, equipment		287,512	
Debt service, capital lease		231,670	
Debt service, interest		3,945	
		<hr/>	
Total	1,611,765	1,338,937	(272,828)
		<hr/>	
Solid Waste:			
Tipping fees		647,367	
		<hr/>	
Total	648,300	647,367	(933)
		<hr/>	
Total Environmental Protection	2,260,065	1,986,304	(273,761)
		<hr/>	
Public Works:			
Administration:			
Salaries and wages		286,884	
FICA expense		20,797	
Group insurance		59,329	
Group insurance - retiree		12,143	
Retirement		20,294	
401(k) account		5,218	
Contracted services		5,432	
Purchase for resale		51,222	
Telephone		2,921	
Departmental supplies		11,742	
Advertising		358	
Equipment rental		202	
Automotive supplies		3,801	
Employee training		250	
Dues and subscriptions		948	
Postage		156	
Repairs and maintenance, vehicles		584	
Uniforms		887	
Professional fees		803	
Reimbursement from Water Fund		(55,141)	
		<hr/>	
Total	440,337	428,830	(11,507)
		<hr/>	
Public Facilities Maintenance:			
Salaries and wages		379,877	
FICA expense		28,081	
Group insurance		88,976	
Group insurance, retiree		3,115	
Retirement		26,123	
401(k) account		6,553	
Repairs and maintenance, facilities		78,301	
Utilities		168,773	
Contracted services		100,299	
Department supplies		21,426	

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

**Schedule 1**

**Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual  
For the Year Ended June 30, 2015**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Repairs and maintenance, equipment		28,508	
Signs		12,581	
Automotive supplies		21,470	
Repairs and maintenance, other		7,287	
Other supplies		18,974	
Professional services		270	
Uniforms		3,521	
Repairs and maintenance, vehicles		8,797	
Employee training		775	
Travel		396	
Telephone		1,915	
Special Projects, sandfencing		24,080	
Street supplies, Powell Bill		15,836	
Dues and subscriptions		50	
Reimbursement from Water Fund		(114,233)	
Capital outlay, multi use path grant		265,080	
Capital outlay, whalebone park		19,500	
Capital outlay, other		11,089	
Capital outlay, equipment		69,509	
Capital outlay, other Powell Bill		183,829	
Capital outlay, land		13,358	
Debt service, capital lease		233,149	
Debt service, interest		14,817	
Total	1,890,542	1,742,082	(148,460)
Maintenance Garage:			
Salaries and wages		171,695	
FICA account		12,405	
Group insurance		42,305	
Group insurance, retiree		12,149	
Retirement		12,111	
401(k) account		1,983	
Other supplies		9,728	
Departmental supplies		14,137	
Uniforms		1,373	
Contracted services		1,396	
Professional services		50	
Automotive supplies		939	
Repairs and maintenance, vehicles		775	
Employee training		215	
Repairs and maintenance, equipment		1,612	
Capital outlay, equipment		7,918	
Reimbursement from Water Fund		(37,884)	
Total	268,047	252,907	(15,140)
Total Public Works	2,598,926	2,423,819	(175,107)
Contingency	15,657	-	(15,657)

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

**Schedule 1**

**Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual  
For the Year Ended June 30, 2015**

---

	<u>Budget</u>	<u>Actual</u>	Variance Over (Under)
Total Expenditures	<u>18,987,726</u>	<u>18,053,550</u>	(934,176)
Revenues Over (Under) Expenditures	(1,916,409)	(314,401)	1,602,008
Other Financing Sources (Uses):			
Capital lease issued	753,240	753,132	(108)
Transfers to/from Capital Reserve Funds (Net)	(1,075,129)	(1,197,164)	(122,035)
Appropriated Fund Balance	<u>2,238,298</u>	-	(2,238,298)
Other financing sources (uses), net	<u>1,916,409</u>	<u>(444,032)</u>	<u>(2,360,441)</u>
Net change in fund balance	<u>\$ -</u>	(758,433)	<u>\$ (758,433)</u>
FUND BALANCE, beginning		<u>8,850,309</u>	
FUND BALANCE, ending		<u>\$ 8,091,876</u>	

Town of Nags Head, North Carolina  
 Capital Reserve Fund

Schedule 2

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

	Budget	Actual Amounts	Variance Over (Under)
Revenues:			
Investment earnings	\$ -	\$ 18,207	18,207
Total revenues	-	18,207	18,207
Other financing sources (uses):			
Transfers from other funds	1,451,512	1,494,450	42,938
Transfers to other funds	(376,383)	(297,286)	79,097
Appropriated Fund Balance	(1,075,129)	-	1,075,129
Total other financing sources (uses)	-	1,197,164	1,197,164
Net change in fund balance	\$ -	1,215,371	\$ 1,215,371
Fund balances, beginning of year		3,315,998	
Fund balances, end of year		\$ 4,531,369	

**Town of Nags Head, North Carolina**  
**Beach Nourishment Capital Project Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual**  
**From Inception and for the Fiscal Year Ended June 30, 2015**

**Schedule 3**

	Project Authorization	Prior Years	Actual Current Year	Total to Date	Variance Over (Under)
<b>Revenues</b>					
Investment Earnings	\$ -	\$ 42,114	\$ 2,536	\$ 44,650	\$ 44,650
Restricted intergovernmental Donations	18,000,000	18,000,000	-	18,000,000	-
	-	2,929	-	2,929	2,929
<b>Total revenues</b>	<b>18,000,000</b>	<b>18,045,043</b>	<b>2,536</b>	<b>18,047,579</b>	<b>47,579</b>
<b>Expenditures</b>					
Professional Fees	330,713	354,093	126,357	480,450	149,737
Capital Construction Oversight	1,762,125	1,762,122	-	1,762,122	(3)
Pumping Costs	25,528,000	25,530,000	-	25,530,000	2,000
Mobilization	4,656,000	4,654,000	-	4,654,000	(2,000)
Contingency	312,290	-	-	-	(312,290)
Monitoring	839,710	642,492	76,041	718,533	(121,177)
Other Costs	1,571,162	1,570,308	19,096	1,589,404	18,242
<b>Total Expenditures</b>	<b>35,000,000</b>	<b>34,513,015</b>	<b>221,494</b>	<b>34,734,509</b>	<b>(265,491)</b>
<b>Revenues over (under) expenditures</b>	<b>(17,000,000)</b>	<b>(16,467,972)</b>	<b>(218,958)</b>	<b>(16,686,930)</b>	<b>313,070</b>
<b>Other financing sources (uses):</b>					
Bonds issued	18,000,000	18,000,000	-	18,000,000	-
Transfers to other funds	(2,027,251)	(2,027,251)	-	(2,027,251)	-
Transfers from other funds	1,027,251	1,027,251	-	1,027,251	-
<b>Total other financing sources (uses)</b>	<b>17,000,000</b>	<b>17,000,000</b>	<b>-</b>	<b>17,000,000</b>	<b>-</b>
<b>Net change in fund balance</b>	<b>\$ -</b>	<b>\$ 532,028</b>	<b>(218,958)</b>	<b>\$ 313,070</b>	<b>\$ 313,070</b>
Fund balance, beginning of year			532,028		
Fund balance, end of year			<u>\$ 313,070</u>		

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

**Schedule 4**

**Schedule of Revenues and Expenditures-Budget and Actual (Non GAAP)  
For the Fiscal Year Ended June 30, 2015**

	<u>Budget</u>	<u>Actual</u>	Variance Over (Under)
<b>REVENUES</b>			
Operating Revenues:			
Water sales	\$ -	\$ 2,608,587	\$ -
Tap and connection fees		15,255	
Late payment penalties and interest		31,650	
Water cutoff tag fees		7,100	
Miscellaneous		4,388	
	<hr/>		
Total	2,650,901	2,666,980	16,079
<hr/>			
Non-Operating Revenues:			
Interest earned on investments		21,325	
Special Assessment		14,823	
Impact fees		154,500	
Ammons Dare impact fees		8,000	
	<hr/>		
Total	15,000	198,648	183,648
<hr/>			
Total Revenues	2,665,901	2,865,628	199,727
<hr/>			
<b>EXPENDITURES</b>			
Administration:			
Salaries and wages		60,223	
FICA expense		4,018	
Group insurance		16,950	
Retirement expense		3,977	
401(k) account		140	
Reimburse General Fund administrative expenses		29,280	
Contracted services		4,618	
Postage		10,047	
Employee training		150	
Travel		185	
Supplies and materials		4,849	
Repairs and maintenance, equipment		797	
Bad debt		-	
	<hr/>		
Total Administration	156,279	135,234	(21,045)
<hr/>			

Town of Nags Head, North Carolina  
 Water Fund

Schedule 4

Schedule of Revenues and Expenditures-Budget and Actual (Non GAAP)  
 For the Fiscal Year Ended June 30, 2015

	<u>Budget</u>	<u>Actual</u>	Variance Over <u>(Under)</u>
Septic Health:			
Salaries and wages		55,450	
FICA expense		3,781	
Group insurance		16,527	
Retirement		3,811	
401(k) account		1,078	
Reimburse General Fund administrative expenses		36,380	
Inspection rebates		8,213	
Pumping credits		1,320	
Postage		1,899	
Travel		397	
Water quality testing		50,734	
Telephone		597	
Printing		1,500	
Employee training		195	
Automotive supplies		899	
Repairs and maintenance, vehicles		41	
Departmental supplies		1,016	
	<hr/>		
Total Septic Health	186,661	183,838	(2,823)
<hr/>			
Operations:			
Salaries and wages		192,491	
FICA expense		13,817	
Group insurance		48,871	
Retirement		13,568	
401(k) account		2,035	
Purchases for resale		858,977	
Reimburse General Fund administrative expenses		337,097	
Insurance		49,762	
Utilities		45,462	
Contracted services		7,205	
Departmental supplies		27,096	
Professional fees		3,209	
Other supplies		11,578	
Repairs and maintenance, equipment		38,274	
Repairs and maintenance, buildings		1,372	
Postage		1,525	

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

**Schedule 4**

**Schedule of Revenues and Expenditures-Budget and Actual (Non GAAP)  
For the Fiscal Year Ended June 30, 2015**

	<u>Budget</u>	<u>Actual</u>	Variance Over (Under)
Telephone		3,970	
Uniforms		1,913	
Dues and subscriptions		2,092	
Equipment rental		669	
Printing		2,708	
Automotive supplies		5,805	
Employee training		1,048	
Travel		681	
Advertising		66	
Repairs and maintenance, vehicles		435	
<b>Total Operations</b>	<b>1,730,841</b>	<b>1,671,726</b>	<b>(59,115)</b>
Operations Distribution:			
Salaries and wages		150,633	
FICA expense		10,652	
Group insurance		40,256	
Group insurance, retiree		24,297	
Retirement		10,392	
401(k) account		2,892	
Reimburse General Fund administrative expenses		112,243	
Contracted services		4,766	
Other supplies		17,893	
Repairs and maintenance, other		33,274	
Insurance		6,111	
Automobile supplies		7,865	
Departmental supplies		13,997	
Postage		7	
Professional fees		245	
Uniforms		2,954	
Repairs and maintenance, vehicles		1,732	
Telephone		1,910	
Dues and subscriptions		1,489	
Repairs and maintenance, equipment		5,144	
Travel		1,352	
Employee training		1,879	
<b>Total Operations Distribution</b>	<b>468,690</b>	<b>451,983</b>	<b>(16,707)</b>

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

**Schedule 4**

**Schedule of Revenues and Expenditures-Budget and Actual (Non GAAP)  
For the Fiscal Year Ended June 30, 2015**

	<u>Budget</u>	<u>Actual</u>	Variance Over (Under)
Capital Outlay:			
Machinery and equipment		59,695	
Other		258,776	
	<hr/>		
Total Capital Outlay	340,740	318,471	(22,269)
	<hr/>		
TOTAL EXPENDITURES	2,883,211	2,761,252	(121,959)
	<hr/>		
REVENUES OVER (UNDER) EXPENDITURES	(217,310)	104,376	321,686
	<hr/>		
Other Sources and (Uses):			
Appropriated Retained Earnings	414,359	-	
Debt interest	(17,409)	(17,282)	
Debt principal	(119,640)	(119,767)	
Septic Health Loans provided to customers	(25,000)	(24,190)	
Principal repayments Septic Health Loans	15,000	14,324	
Sale of Capital Assets			
Contingency	(50,000)	-	
	<hr/>		
Total Other Sources and (Uses)	217,310	(146,915)	(364,225)
	<hr/>		
Revenues and Other Sources Over (under) Expenditures and Other Uses	-	(42,539)	(42,539)
	<hr/>		

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

Revenues under expenditures	(42,539)
Reconciling items:	
Septic Health Loans	24,191
Principal repayments Septic Health Loans	(14,324)
Payment of debt principal	119,767
Increase in accrued OPEB liability	(2,816)
Deferred outflows of resources for contributions made to pension plan in current fiscal year	31,265
Pension expense	(2,394)
Capital outlay	318,471
Depreciation and amortization	(287,647)
Change in net position	<u>\$ 143,974</u>

## Storm Water Fund

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

For the Fiscal Year Ended June 30, 2015

	<u>Budget</u>	<u>Actual</u>	Variance Over (Under)
REVENUES			
Operating Revenues:			
Storm Water Fees	\$ 114,384	\$ 116,184	\$ 1,800
Total	114,384	116,184	1,800
Nonoperating Revenues:			
Interest earned on investments	-	484	484
Total	-	484	484
Total Revenues	114,384	116,668	2,284
EXPENDITURES			
Utilities		1,355	
Automotive Supplies		2,698	
Water quality testing		960	
Department Supplies		760	
Repairs and maintenance, equipment		2,606	
Capital outlay other		153,377	
Total Expenditures	231,827	161,756	70,071
Revenues Over (Under) Expenditures	(117,443)	(45,088)	72,355
Other Financing Sources (Uses)			
Appropriated retained earnings	117,443	-	
Total Other Financing Sources (Uses)	117,443	-	(117,443)
Revenues and other financing sources over (under) expenditures and other uses	\$ -	(45,088)	\$ (45,088)

Storm Water Fund

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

For the Fiscal Year Ended June 30, 2015

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RECONCILIATION OF MODIFIED ACCRUAL BASIS  
TO FULL ACCRUAL BASIS

Revenues over (under) expenditures	(45,088)
Reconciling items:	
Capital Outlay	153,377
Depreciation	<u>(61,748)</u>
Change in net position	<u>\$ 46,541</u>

**TOWN OF NAGS HEAD, NORTH CAROLINA**  
**Schedule of Ad Valorem Taxes Receivable**  
**June 30, 2015**

Schedule 6

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2014</u>	<u>Additions</u>	<u>Collections And Credits</u>	<u>Adjustments</u>	<u>Uncollected Balance June 30, 2015</u>
2014-2015	\$ -	\$ 6,090,055	\$ 6,226,798	\$ 142,448	\$ 5,705
2014-2015 MSD	-	1,816,663	1,828,876	12,807	594
2013-2014	6,634	-	3,883	(105)	2,646
2013-2014 MSD	1,119	-	476	-	643
2012-2013	3,593	-	254	-	3,339
2012-2013 MSD	457	-	-	-	457
2011-2012	2,726	-	220	-	2,506
2011-2012 MSD	504	-	28	-	476
2010-2011	1,656	-	46	-	1,610
2009-2010	1,072	-	24	-	1,048
2008-2009	778	-	65	-	713
2007-2008	988	-	24	-	964
2006-2007	853	-	19	-	834
2005-2006	1,738	-	(1)	-	1,739
2004-2005	2,515	-	2,515	-	-
	<u>\$ 24,633</u>	<u>\$ 7,906,718</u>	<u>\$ 8,063,227</u>	<u>\$ 155,150</u>	<u>\$ 23,274</u>

Less allowance for uncollectible  
ad valorem taxes receivable

10,000

Ad Valorem Taxes Receivable, net

\$ 13,274

Reconciliation with revenues:

Taxes, ad valorem, General Fund

\$ 8,073,532

Amounts written off for tax year 2004-05

419

DMV written off

2,096

Amounts written off <\$1

1

Less penalties and interest

(12,821)

\$ 8,063,227

**Town of Nags Head, North Carolina**  
**Analysis of Current Tax Levy**  
**For the Fiscal Year Ended June 30, 2015**

**Schedule 7**

	<b>Town - Wide</b>		<b>Total Levy</b>		
			<b>Property Valuation</b>	<b>Rate</b>	<b>Total Levy</b>
Original levy:					
Property taxed at current year's rate	\$2,307,562,273	0.2670	\$6,161,194	\$6,087,556	\$ 73,638
Registered motor vehicles taxed at prior year's rate	5,397,276	0.2570	13,871	-	13,871
Registered motor vehicles taxed at prior year's rate	338,028	0.1775	600	-	600
Penalties	-		2,499	2,499	-
<b>Total</b>	<b>2,313,297,577</b>		<b>6,178,164</b>	<b>6,090,055</b>	<b>88,109</b>
Discoveries:					
Current year taxes	19,408,624		55,068	55,068	-
Penalties			341	341	-
<b>Total</b>	<b>19,408,624</b>		<b>55,409</b>	<b>55,409</b>	<b>-</b>
Releases:	-		(1,070)	(549)	(521)
<b>Total property valuation</b>	<b>\$ 2,332,706,201</b>				
Net levy			6,232,503	6,144,915	87,588
Uncollected taxes at June 30, 2015			5,705	5,666	39
Current year taxes collected			\$ 6,226,798	\$ 6,139,249	\$ 87,549
Current levy collection percentage			99.91%	99.91%	99.96%

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

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

## **Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards**

### **Independent Auditor's Report**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Nags Head, North Carolina, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated November 6, 2015.

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

In planning and performing our audit of the financial statements, we considered the Town of Nags Head's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Nags Head's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Nags Head's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies; and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Responses as 2015-001 that we consider to be a significant deficiency.

## **Compliance and Other Matters**

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

## **Town of Nags Head's Response to Finding**

The Town of Nags Head's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. The Town of Nags Head's response was not subjected to the auditing procedures applied in the audit of the financial statements; and accordingly, we express no opinion on it.

## **Purpose of this Report**

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

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

Martin Starnes & Associates, CPAs, P.A.  
Hickory, NC  
November 6, 2015

# TOWN OF NAGS HEAD, NORTH CAROLINA

## SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2015

### 1. Summary of Auditor's Results

#### Financial Statements

Type of auditor's report issued Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? No
- Significant deficiency identified that is not considered to be a material weakness? Yes

Non-compliance material to financial statements noted? No

# TOWN OF NAGS HEAD, NORTH CAROLINA

## SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2015

### 2. Financial Statements Findings

#### **Finding 2015-001:**

**Criteria:** Management should have a system in place to reduce the likelihood of errors in financial reporting.

**Condition:** There are inherent limitations to segregation of duties among Town personnel.

**Context:** The same individual has management overriding review authority and access to all functions of the accounting system. An error was detected as a result of the Finance Officer's payroll override by the Deputy Finance Officer and Town Manager.

**Effect:** Adjustments could be made without oversight.

**Cause:** There are a limited number of personnel for certain functions.

**Recommendation:** Access to the books and records of the Town should be separated from access to the assets of the Town as much as possible. To the extent possible, alternative controls should be used to compensate for any lack of segregation of duties. Town management should evaluate fraud risk, communicate with employees concerning potential areas where control weaknesses could occur and review interim financial reports and targets with an increased level of skepticism.

**Name of Contact Person:** Cliff Ogburn, Town Manager

**Management's Response and Corrective Action:** The Town has controls that are in place that encourage employees to report instances of management override or other problems. An instance was reported and swift and corrective action was taken immediately.

All management overrides must be accompanied by a second approval. Monthly reports detailing entries and adjustments will be provided to the Town Manager. Specific to payroll functions, the Human Resources Officer will act as the additional override.

**TOWN OF NAGS HEAD, NORTH CAROLINA**

**SUMMARY OF PRIOR YEAR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2015**

None

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