

**TOWN OF NAGS HEAD, NORTH CAROLINA**  
**ANNUAL FINANCIAL REPORT**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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

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

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**June 30, 2014**

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# Dowdy & Osborne LLP

CERTIFIED PUBLIC ACCOUNTANTS

Jeff Dowdy, CPA • Teresa Osborne, CPA

## **INDEPENDENT AUDITOR'S REPORT**

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Nags Head, North Carolina, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

### **Opinions**

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Nags Head, North Carolina as of June 30, 2014, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

103 W. Woodhill Dr., Suite B • P.O. Box 9 • Nags Head, North Carolina 27959  
Telephone 252.449.4404 • Facsimile 252.449.6976

## **Other Matters**

### *Required Supplementary Information*

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

### *Supplementary and Other Information*

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2014 on our consideration of the Town of Nags Head's internal control over financial reporting and on our tests of its compliance with certain laws, regulations, contracts, and grant agreements, and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Nags Head's internal control over financial reporting and compliance.

### ***Dowdy & Osborne, LLP***

Dowdy & Osborne, LLP  
Certified Public Accountants

Nags Head, North Carolina

October 21, 2014

**Town of Nags Head  
Management Discussion and Analysis  
June 30, 2014**

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As management of the Town of Nags Head, we offer readers of our financial statements this narrative overview and analysis of the financial activities of the Town of Nags Head for the fiscal year ended June 30, 2014. The Management Discussion and Analysis (MD&A) section is designed to assist the reader in focusing on significant financial issues, provide an overview of the Town's financial activity, identify changes in the Town's financial condition, identify material deviations from the financial budget, and identify individual fund issues or concerns.

***FINANCIAL HIGHLIGHTS***

The assets of the Town of Nags Head exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$55,262,406 (net position).

The Town's net position decreased by \$2,574,714 over the prior year. The governmental net position decreased by \$2,444,755 (-5.16%). The business-type net position decreased by \$129,959 (-1.25%).

At the end of the current fiscal year, the Town of Nags Head's governmental funds reported combined ending fund balances of \$12,698,335 with a net decrease of \$1,358,935 in fund balances. Fund balances for the General Fund decreased by \$159,546 primarily due to an increase in restricted fund balances of \$1,179,774 offset by the use of fund balance during the year of \$1,000,000 for the purchase of the Dowdy property in addition to the completion of capital purchases from the prior fiscal year for which financing proceeds had been received in the amount of \$736,302 in the prior year. Fund balances in the Beach Nourishment Fund decreased by \$1,199,389 primarily due to the use of \$1,000,000 in project savings transferred to the General Fund for repayment of the special obligation bond debt.

At the end of the current fiscal year, unassigned fund balance for the General Fund was \$6,653,787, or 35.90 percent of total general fund expenditures for the year. This represents a decrease in unassigned fund balance from the prior year of \$1,253,141 and a decrease in percentage due to the combined decrease in unassigned fund balance and increase in general fund expenditures. The operating budget for FY 2013-2014 included the use of \$2,393,374 compared with actual used of \$1,848,185 which were primarily for the purchase of land and completion of prior year capital purchases as noted above.

The Town of Nags Head's total debt decreased by \$3,176,171 (-21.74%) during the current fiscal year, primarily as a result of the third year's payment of special bond obligation debt of \$3,600,000 with two annual payments remaining.

The General Fund budget for the fiscal year ended June 30, 2014 was adopted with a tax rate of \$.2570 per \$100 assessed valuation reflecting a 39.16% increase in tax rate from the prior year due to county-wide revaluation, with .027 designated by the Board for beach nourishment debt obligation repayment. The revenue neutral rate after revaluation was \$.24 and a penny was added specifically designated for parks and path projects. Total assessed valuation decreased from \$3,133,209,763 as of June 30, 2013 to \$2,328,518,697 as of June 30, 2014 a decrease of \$804,691,066 (-25.69%). The budget also included the second year of municipal service taxes with a levy of \$1,800,050, collections of \$1,798,931 (99.94%), and a remaining receivable balance of \$1,119. (.06%)

General Fund budget amendments during fiscal year 2013-14 increased the adopted budget by \$2,842,499 with individual increases (decreases) by functional area noted below:

**Town of Nags Head  
Management Discussion and Analysis  
June 30, 2014**

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- General Government decreased by \$356,340 primarily for the allocation of cost of living adjustment and pay for performance increases to all general fund departments. Adding to these decreases was reimbursements from the Water Fund for administrative oversight through the allocation of indirect costs.
- Public Safety increased by \$809,033 to fund capital purchases budgeted at the first year debt payment.
- Environmental Protection increased by \$178,828 for increased funding for capital purchases budgeted at the first year debt payment amount.
- Public Works increased by \$2,109,978 to fund capital purchases budgeted at the first year debt, land acquisition costs, and special assessment construction costs.
- The amount budgeted for Interfund transfers increased by \$201,000 to increase the amount transferred to the Capital Reserve fund for the excess of taxes collected for bond debt service over the amount needed for debt service due to a one time transfer of project fund savings used for debt repayment partially offset by the cost reimbursement of the General Fund by the Water Fund.
- The amount budgeted for Contingency decreased by \$100,000 for increased funding for legal expenditures.

Key Ratios

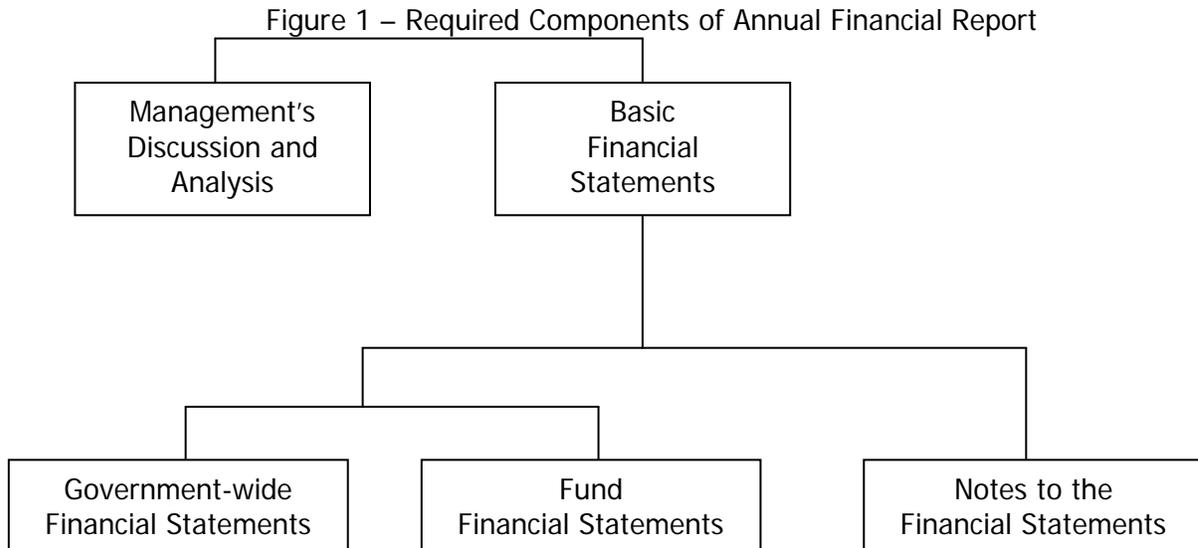
% Debt to General Governmental Expenses	57.28%
% Property Tax Collection	99.89%
% Increase in Assessed Property Valuation	-25.69%

***OVERVIEW OF THE FINANCIAL STATEMENTS***

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

**Town of Nags Head  
Management Discussion and Analysis  
June 30, 2014**

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**A. Government-Wide Financial Statements**

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

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

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

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

**B. Fund Financial Statements**

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

**Town of Nags Head  
Management Discussion and Analysis  
June 30, 2014**

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exhibit proper usage of certain taxes and grants. The Town of Nags Head, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes.

The Town has three types of funds:

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

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

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

**C. Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**D. Required Supplementary Information**

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

**E. Other Supplementary Information**

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

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Management Discussion and Analysis  
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**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net position may serve over time as a useful indicator of a government's financial position. In the case of the Town of Nags Head, assets exceeded liabilities by \$55,262,406 at the close of the fiscal year ended June 30, 2014. A large portion of the Town of Nags Head's net assets \$40,518,888 represents its investment in capital assets (e.g. land, building, machinery and equipment), less any related debt used to acquire those assets that is still outstanding plus any loan proceeds not yet expended at the end of the fiscal year. The resources to repay the debt must be provided from sources other than capital assets, since it cannot be used to liquidate the liabilities.

An additional portion of the Town of Nags Head's net position \$5,228,502 represents resources that are subject to restrictions on how they may be used primarily from unexpended debt and bond proceeds that can only be spent on the items being funded. The remainder of \$9,515,016 in unrestricted net position is the residual amount of assets that can be used without constraints established by debt covenants, enabling legislation, or other legal requirements. However, it should be noted that only a portion of this amount is available and unobligated to finance additional day-to-day governmental activities or unforeseen circumstances in the future.

	Town of Nags Head's Net Position					
	Governmental Activities		Business - Type Activities		Total	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Current and Other Assets	\$ 13,542,723	\$ 14,822,111	\$ 4,533,312	\$ 4,312,984	\$ 18,076,035	\$ 19,135,095
Capital Assets, Net	42,979,792	47,254,735	7,146,969	7,455,004	50,126,761	54,709,739
<b>Total Assets and Deferred</b>	<b>56,522,515</b>	<b>62,076,846</b>	<b>11,680,281</b>	<b>11,767,988</b>	<b>68,202,796</b>	<b>73,844,834</b>
<b>Outflows of Resources</b>						
Long-Term Debt Outstanding	10,815,338	14,008,662	617,631	600,479	11,432,969	14,609,141
Other Liabilities	774,665	631,337	592,178	521,078	1,366,843	1,152,415
Deferred Inflows of Resources	578	60,158	140,000	186,000	140,578	246,158
<b>Total Liabilities and Deferred</b>						
<b>Inflows of Resources</b>	<b>11,590,581</b>	<b>14,700,157</b>	<b>1,349,809</b>	<b>1,307,557</b>	<b>12,940,390</b>	<b>16,007,714</b>
Net position:						
Net investment in capital assets	33,903,387	36,870,772	6,615,501	6,956,945	40,518,888	43,827,717
Restricted	5,228,502	4,215,704	-	-	5,228,502	4,215,704
Unrestricted	5,800,045	6,290,213	3,714,971	3,503,486	9,515,016	9,793,699
<b>Total Net Position</b>	<b>\$ 44,931,934</b>	<b>\$ 47,376,689</b>	<b>\$ 10,330,472</b>	<b>\$ 10,460,431</b>	<b>\$ 55,262,406</b>	<b>\$ 57,837,120</b>

See Exhibit 1

**Town of Nags Head  
Management Discussion and Analysis  
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	Town of Nags Head's Changes in Net Position					
	Governmental Activities		Business - Type Activities		Total	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Revenues:						
Program Revenues:						
Charges for Services	\$ 428,409	\$ 383,544	\$ 2,423,729	\$ 2,434,054	\$ 2,852,138	\$ 2,817,598
Operating Grants	163,142	85,126	-	-	163,142	85,126
Capital Grants	1,818,600	2,329,639	95,500	91,500	1,914,100	2,421,139
General Revenues:						
Property Taxes	7,800,334	7,333,296	-	-	7,800,334	7,333,296
Other Taxes	5,304,438	5,331,340	-	-	5,304,438	5,331,340
Investment Income	80,246	35,785	24,968	7,378	105,214	43,163
Other	842,131	815,639	1,764	3,089	843,895	818,728
<b>Total Revenues</b>	<b>16,437,300</b>	<b>16,314,369</b>	<b>2,545,961</b>	<b>2,536,021</b>	<b>18,983,261</b>	<b>18,850,390</b>
Expenses:						
General Government	9,408,905	9,253,686	-	-	9,408,905	9,253,686
Public Safety	5,251,148	4,894,679	-	-	5,251,148	4,894,679
Public Works/Transportation	2,158,516	1,972,369	-	-	2,158,516	1,972,369
Environmental Protection	1,744,024	1,721,611	-	-	1,744,024	1,721,611
Interest on Long Term Debt	319,462	409,005	-	-	319,462	409,005
Water Utility	-	-	2,675,920	2,801,365	2,675,920	2,801,365
<b>Total Expenses</b>	<b>18,882,055</b>	<b>18,251,350</b>	<b>2,675,920</b>	<b>2,801,365</b>	<b>21,557,975</b>	<b>21,052,715</b>
Net Increase (Decrease) in Net Position	(2,444,755)	(1,936,981)	(129,959)	(265,344)	(2,574,714)	(2,202,325)
Net Position - July 1	47,376,689	49,313,670	10,460,431	10,725,775	57,837,120	60,039,445
Net Position - June 30	<u>\$ 44,931,934</u>	<u>\$ 47,376,689</u>	<u>\$ 10,330,472</u>	<u>\$ 10,460,431</u>	<u>\$ 55,262,406</u>	<u>\$ 57,837,120</u>

See Exhibit 2

**A. Governmental Activities**

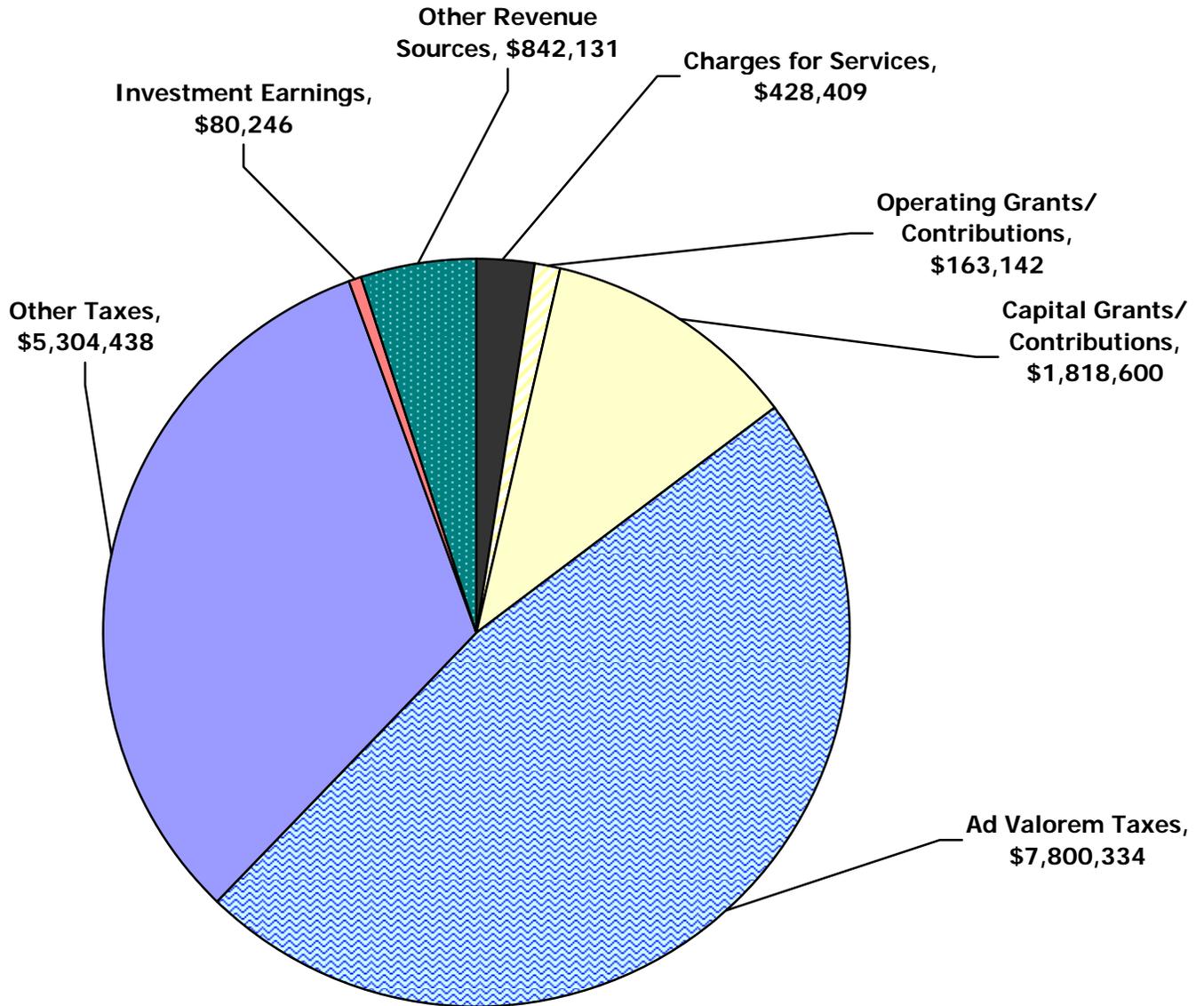
Governmental activities decreased the Town of Nags Head's net position by \$2,444,755. The governmental activities revenues increased by \$122,931, which included an increase in other revenues of \$26,492. Ad valorem tax revenue was up by \$467,038 as were charges for services by \$44,865. Other taxes decreased by \$26,902 as did revenues from capital grants which decreased by \$511,039. Operating grants increased by \$78,016. Investment earnings increased by \$44,461 due to increased diversification of the portfolio and an increase in term of investments for a higher yield.

During the year, the Town's governmental activities expenses were \$18,882,055 an increase of \$630,705 (+3.46%) over the prior fiscal year. The largest increase is a result of increases to salary

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and benefits from cost of living, performance incentives, the addition of three positions, the increased match for 401K, increased cost of health insurance, and increased cost of benefits as a percentage of increased salaries.



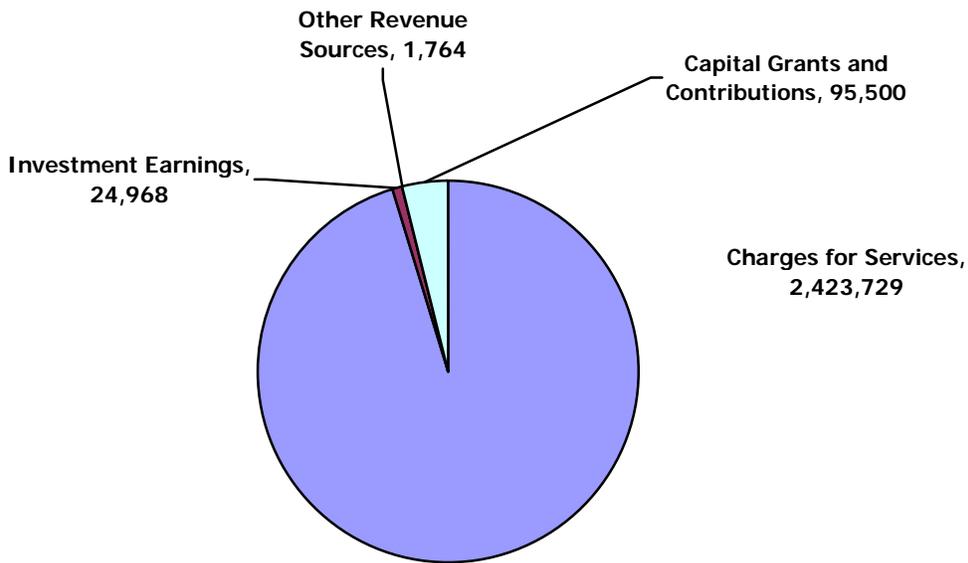
**Revenues by Source for Governmental Type Activities**

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Management Discussion and Analysis  
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**Business Type Activities**

Business type activities decreased the Town of Nags Head's net position by \$129,959. There are three separate and distinct operations accounted for in the Enterprise Funds: the Water Utility Operations, the Storm Water Fund, and Nags Head Leasing. Charges for service in the Water Fund decreased in the Water Operations Fund by \$11,117 and increased slightly in the Storm Water Fund by \$792 as compared to the preceding year. The Water Fund had an operating loss of \$305,065 for the year ended June 30, 2014 compared to an operating loss of \$427,753 for the prior fiscal year due to a decrease in tank repair costs. During the fiscal year cash and cash equivalents increased slightly in the Water Fund up by \$180,505 to \$3,892,612. Net position for the Water Fund decreased by \$204,236 to \$9,562,886 but Unrestricted net position increased during the same time by \$181,354 to \$3,565,438. This amount represents 135.36 percent of Water Fund expenses including interest.



**Revenues by Source for Business Type Activities**

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Management Discussion and Analysis  
June 30, 2014**

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***FINANCIAL ANALYSIS OF THE TOWN'S FUNDS***

**A. Governmental Funds**

As noted earlier, the Town of Nags Head uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the Town of Nags Head's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Town of Nags Head's financing requirements. Specifically, available fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the Town of Nags Head. At the end of the current fiscal year, fund balance available in the General Fund was \$10,396,478 up from \$10,053,601 as of June 30, 2013. Total fund balance for the General Fund decreased by \$159,546 from \$12,325,853 at June 30, 2013 to \$12,166,307 at June 30, 2014. As a measure of the general fund's liquidity, it may be useful to compare fund balance available for appropriation to total fund expenditures. Fund balance available for appropriation at 6/30/14 represents 56.10% of total General Fund expenditures compared with 64.37% for the prior year. The percentage decreased even though available fund balance increased due to the increase in expenditures for acquisition of land and completion of prior year capital purchases.

As of June 30, 2014, the governmental funds of the Town of Nags Head reported combined fund balance of \$12,698,335, a decrease of \$1,358,935 (-9.967%) over last year. This decrease was primarily the result of a one-time transfer of unspent project debt funds to be used for the repayment of special obligation bond debt in fiscal year 2013-2014 in addition to the completion of the prior year's capital purchases which had been funded by debt in the prior year.

**B. Proprietary Funds**

The Town of Nags Head's proprietary funds provide the same type of information found in the government-wide statement but in more detail. Unrestricted net position of the Water Fund at the end of the fiscal year amounted to \$3,565,438. This represents an increase of \$181,354 (+5.36%). Unrestricted net position in the Storm Water Fund also increased by \$30,533 to \$149,432.

**C. Capital Assets**

The Town of Nags Head's investment in capital assets for its governmental and business-type activities as of June 30, 2014 totals \$50,126,761 (net of accumulated depreciation) which represents a decrease of \$4,582,978. These assets include buildings, construction in progress, other improvements, land, intangibles, machinery and equipment and vehicles.

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

- The second year of depreciation for the Town's Beach Nourishment capital project during the year ended June 30, 2014 of \$6,820,330.

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- Transfer of the second portion of land purchased by the Water Fund in 2007 to the General Fund in the amount of \$300,000 for a total to date of \$600,000. These transfers will continue annually provided funds are available each year until land equal to the full purchase cost of \$1,623,174 has been transferred to and been repaid by the General Fund.

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

	<u>Governmental Activities</u>		<u>Business - Type Activities</u>		<u>Total</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Land	\$ 9,980,338	\$ 8,172,825	\$ 1,853,473	\$ 2,153,473	\$ 11,833,811	\$ 10,326,298
Construction in Progress	11,728	834,280	82,781	66,389	94,509	900,669
Buildings	6,766,656	6,982,957	3,201,069	3,230,716	9,967,725	10,213,673
Other Improvements	23,202,669	29,186,698	-	-	23,202,669	29,186,698
Equipment	863,682	645,267	104,978	242,587	968,660	887,854
Vehicles	2,154,719	1,432,708	247,921	-	2,402,640	1,432,708
Intangibles	-	-	1,656,747	1,761,839	1,656,747	1,761,839
<b>Total</b>	<b>\$ 42,979,792</b>	<b>\$ 47,254,735</b>	<b>\$ 7,146,969</b>	<b>\$ 7,455,004</b>	<b>\$ 50,126,761</b>	<b>\$ 54,709,739</b>

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

D. Long Term Debt

As of June 30, 2014, the Town of Nags Head had \$7,200,000 in bonded debt secured by the pledge of annual occupancy taxes. The Town's total debt decreased by \$3,176,171.

Town of Nags Head's Outstanding Debt

	<u>Governmental Activities</u>		<u>Business - Type Activities</u>		<u>Total</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Finance Contracts	\$ 8,285,230	\$ 11,632,276	\$ 418,847	\$ 493,795	\$ 8,704,077	\$ 12,126,071
Capital Leases	1,278,160	1,313,275	112,620	4,264	1,390,780	1,317,539
Other post employment benefits	740,734	555,021	60,383	62,353	801,117	617,374
Net pension obligation	32,850	17,101	-	-	32,850	17,101
Compensated Absences	478,364	490,989	25,781	40,067	504,145	531,056
<b>Total</b>	<b>\$ 10,815,338</b>	<b>\$ 14,008,662</b>	<b>\$ 617,631</b>	<b>\$ 600,479</b>	<b>\$ 11,432,969</b>	<b>\$ 14,609,141</b>

**Town of Nags Head  
Management Discussion and Analysis  
June 30, 2014**

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

The level of unemployment in Dare County ranged from 5.0% to 14.5% compared to the seasonally adjusted statewide average of 7.0% (down from 9.3% in the prior fiscal year).

Construction in fiscal year 2014 increased overall in the Town of Nags Head by \$1,178,677(+5.66%) from the previous year. Commercial construction increased by \$3,563,420, however, residential construction was down in single family construction by \$3,816,156 but up in miscellaneous residential by \$1,431,413. Both building permit and review fees increased from the prior year with building permit fees up by \$20,781 or 13.26% and review fees by \$2,209 or 11.18%. Facility fees also increased by \$2,405 or 9.05%.

The property tax base decreased by 25.69% to \$2,328,518,697 in the fiscal year ended June 30, 2014 due to county-wide revaluation. Occupancy tax decreased slightly with a decrease of \$57,035 or 2.24% above fiscal year 2012-2013 as a result of reduced share. Combined sales tax revenues were up from the prior year for a combined increase of \$36,064 or 1.65% for the fourth consecutive year. Land transfer tax revenues increased for the fifth consecutive year by \$7,523 or 1.44%. Investment earnings were also up town wide again by \$62,051 relative to the prior year due further diversification of the investment pool with increased term for higher rates and a smaller adjustment for cost to market valuation.

The Town's adopted budget for the fiscal year ending June 30, 2014 reflects an increase to the property tax rate of .257 per \$100 in assessed valuation compared to the previous year's rate of .1775 due to the decrease in values from county-wide revaluation. The Board designated two and seven-tenths cents of this tax rate to be used for beach nourishment debt repayment or renourishment in the future as needed up from two cents prior to revaluation.

Considering the above indicators when adopting the operating budget for the next fiscal year, the Town's adopted 2014-2015 budget decreased by \$96,966 (-.53%) over the 2013-2014 adopted budget and decreased by \$2,939,465 (-13.43%) over the amended budget for 2013-2014. The decrease was attributable to one-time costs included in the prior year's budget such as \$1.5 million for acquisition of property, the use of beach nourishment fund project savings for debt repayment which increased the excess of taxes which were transferred to the capital reserve fund for future nourishment use, and the completion of prior year capital purchases which had been funded by debt in the prior year. Additionally, funding was provided for one additional position.

***BUDGET HIGHLIGHTS FOR THE FISCAL YEAR ENDING June 30, 2015***

Governmental Activities: The adopted budget for fiscal year 2014-2015 is based on the estimated decreased property valuation of \$2,284,106,278 down \$40,239,090 (-1.74%) providing estimated revenues of \$6,083,318 based on a tax rate of \$.267 reflecting an increase of one cent over the prior year. The Board designated \$.027 of that tax rate to be used for current or future beach nourishment costs and debt service with no change from the prior year. The additional penny for parks and paths will be used towards the extension of the west side multi use path, debt on the Dowdy property acquisition, a plan for development of the park, and a disc golf course. The Town also continued the fourth year of an additional municipal service districts tax at the same rate as last year of \$.23/\$100 in both municipal service districts to provide an additional projected \$1,787,986 for funding debt service

**Town of Nags Head  
Management Discussion and Analysis  
June 30, 2014**

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costs on the bonds. The adopted budget reflects a decrease of \$96,966 from the prior years adopted budget. Budgeted expenditures in the General Fund are generally flat in all departments with the exception of those requiring either replacement capital items, new capital items, or a new position. Funding was included for a 1.5% cost of living increase and to address salary compression in Fire. A position was added in Administration with a reclassifications of position made in Fire and an increase to the hourly rate of part time positions in Public Works. A pilot mandatory recycling seasonal program was extended through September 2014 for those properties receiving cart roll back service. Increases in health insurance costs were partially absorbed by passing on a portion of those costs to employees beginning this fiscal year. Capital replacement was reduced to four police vehicles, replacement server, replacement of the dumpster truck and a residential trash truck, deputy chief vehicle in fire, flail mower, ventrac mower, tractor broom, diagnostic too, gate replacement at public works, Taser replacements,, two oxygen breathing tanks, elevated storage tank improvements, waterline installation, and line locator equipment. Funding was included for several new capital projects with extension of the multi-use path, Dowdy park design, multi-use path lighting pilot, disc golf, and a town ordinance update. The amount budgeted to be transferred to the Capital Reserve Fund for use in subsequent years also decreased primarily from one-time use of project fund savings for debt repayment in the prior year which increased the excess available for transfer to the Capital Reserve fund for use in the future.

**Business –Type Activities:** The adopted budget included an increase of \$176,344 (+5.95%) for fiscal year 2014-2015. This includes an increase in Water Fund revenues of \$180,394 and a decrease in Storm Water revenues of \$4,050. Water rates were increased an average of ten percent effective July 1, 2014 with the last increase in rates effective July 1, 2010. There was an increase to the minimum bimonthly charge, the addition of a new tier, and increases to all rates within the tiers in order to better match operating revenues to operating costs and reduce net operating losses. Projected revenue from water sales is increased by \$137,899 from \$2,401,191 to \$2,539,090 for FY 2014-2015 based on a projected decrease in volume of gallons sold but with increased rates for fiscal year 2014-2015. Appropriated retained earnings will be used to fund the debt service on the new water tank of \$93,875 and \$283,114 for funding capital equipment and projects for fiscal year 2014-2015. The adopted ordinance did not include funding for the third repayment of the Water Fund of \$300,000 to further complete the purchase of land by the General Fund from the Water Fund with the intent to continue this annually until the full amount of \$1,623,174 has been repaid pending the completion of the annual audit and the determination that sufficient fund balance was available for funding the third installment of this repayment.

### **Requests for Information**

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

**Town of Nags Head, North Carolina**  
**Statement of Net Position**  
**June 30, 2014**

Exhibit 1

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 2,242,081	\$ 3,636,838	\$ 5,878,919
Investments	5,738,921	-	5,738,921
Taxes receivable (net)	14,633	-	14,633
Accounts receivable (net)	77,499	440,000	517,499
Accrued interest receivable	96,597	-	96,597
Due from other governments	1,402,717	-	1,402,717
Inventories	72,187	57,637	129,824
Prepaid items	1,196	70	1,266
Total current assets	<u>9,645,831</u>	<u>4,134,545</u>	<u>13,780,376</u>
Restricted assets:			
Cash and cash equivalents	<u>3,896,892</u>	<u>398,767</u>	<u>4,295,659</u>
Capital Assets:			
Land, non-depreciable improvements and construction in progress	9,992,066	1,936,254	11,928,320
Other capital assets, net of depreciation	32,987,726	5,210,715	38,198,441
Total capital assets	<u>42,979,792</u>	<u>7,146,969</u>	<u>50,126,761</u>
Total assets	<u>56,522,515</u>	<u>11,680,281</u>	<u>68,202,796</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	207,444	150,030	357,474
Salaries and benefits	464,507	43,381	507,888
Bonds and deposits	19,195	-	19,195
Due to other governments	437	-	437
Prepaid rents	32,415	-	32,415
Liabilities to be paid from restricted assets	50,667	398,767	449,434
Long-term liabilities:			
Due within one year	4,609,404	145,421	4,754,825
Due in more than one year	6,205,934	472,210	6,678,144
Total liabilities	<u>11,590,003</u>	<u>1,209,809</u>	<u>12,799,812</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Prepaid taxes and business licenses	578		578
Prepaid water impact fees		140,000	140,000
Total deferred inflows of resources	<u>578</u>	<u>140,000</u>	<u>140,578</u>
<b>NET POSITION</b>			
Net investment in capital assets	33,903,387	6,615,501	40,518,888
Restricted for:			
Streets	89,644	-	89,644
Stabilization by state statute	1,884,811	-	1,884,811
Public safety	23,078	-	23,078
Capital reserve fund	3,230,969	-	3,230,969
Unrestricted	5,800,045	3,714,971	9,515,016
Total net position	<u>\$ 44,931,934</u>	<u>\$ 10,330,472</u>	<u>\$ 55,262,406</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, 2014**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government:</b>				
Governmental Activities				
General Government	\$ 9,408,905	\$ 426,391	\$ 27,570	\$ 1,525,325
Public Safety	5,251,148	2,018	111,572	83,843
Public Works/Transportation	2,158,516	-	24,000	209,432
Environmental Protection	1,744,024	-	-	-
Interest on long-term debt	319,462	-	-	-
Total governmental activities (See Note 1)	18,882,055	428,409	163,142	1,818,600
Business-type activities:				
Water	2,634,525	2,308,365	-	95,500
Storm Water	41,395	115,364	-	-
Total business-type activities	2,675,920	2,423,729	-	95,500
Total primary government	21,557,975	2,852,138	163,142	1,914,100

General revenues:

Taxes:

Property taxes levied for general purpose

Municipal service district taxes

Occupancy tax

Land transfer taxes

Sales taxes

Other taxes

Other unrestricted intergovernmental revenues

Unrestricted investment earnings

Miscellaneous

Capital contributions

Total general revenues

Total change in net position

Net position - beginning

Net position - ending

**Exhibit 2**

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (7,429,619)	\$ -	\$ (7,429,619)
(5,053,715)	-	(5,053,715)
(1,925,084)	-	(1,925,084)
(1,744,024)	-	(1,744,024)
(319,462)	-	(319,462)
(16,471,904)	-	(16,471,904)
-	(230,660)	(230,660)
-	73,969	73,969
	(156,691)	(156,691)
(16,471,904)	(156,691)	(16,628,595)
6,007,054	-	6,007,054
1,793,280	-	1,793,280
2,492,045	-	2,492,045
532,837	-	532,837
2,233,617	-	2,233,617
45,939	-	45,939
699,313	-	699,313
80,246	24,968	105,214
137,618	1,764	139,382
5,200	-	5,200
14,027,149	26,732	14,053,881
(2,444,755)	(129,959)	(2,574,714)
47,376,689	10,460,431	57,837,120
\$ 44,931,934	\$ 10,330,472	\$ 55,262,406

**Town of Nags Head, North Carolina**  
**Governmental Funds**  
**Balance Sheet**  
**June 30, 2014**

Exhibit 3

	Major Funds		
	General	Beach Nourishment	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 2,212,587	\$ 29,494	\$ 2,242,081
Investments	5,738,921	-	5,738,921
Taxes receivable (net)	14,633	-	14,633
Accounts receivable (net)	77,499	-	77,499
Accrued interest receivable	96,597	-	96,597
Due from other governments	1,402,717	-	1,402,717
Inventories	72,187	-	72,187
Prepaid items	1,196	-	1,196
Restricted assets:			
Cash and cash equivalents	3,343,691	553,201	3,896,892
Total assets	<u>12,960,028</u>	<u>582,695</u>	<u>13,542,723</u>
<b>LIABILITIES</b>			
Accounts payable	207,444	-	207,444
Salaries and benefits	464,507	-	464,507
Bonds and deposits	19,195	-	19,195
Prepaid rents	32,415	-	32,415
Deferred business licenses and miscellaneous	54,512	-	54,512
Due to other governments	437	-	437
Liabilities payable from restricted assets:			
Accounts payable	-	50,667	50,667
Total liabilities	<u>778,510</u>	<u>50,667</u>	<u>829,177</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Prepaid taxes and business licenses	578	-	578
Property taxes receivable	14,633	-	14,633
Total deferred inflows of resources	<u>15,211</u>	<u>-</u>	<u>15,211</u>
<b>FUND BALANCES:</b>			
Nonspendable:			
Inventories	72,187	-	72,187
Prepays	1,196	-	1,196
Restricted:			
Restricted for Stabilization by State statute	1,696,446	188,365	1,884,811
Restricted for Streets	89,644	-	89,644
Restricted for Public Safety	23,078	-	23,078
Restricted for Capital Reserve Fund	3,230,969	-	3,230,969
Committed:			
Committed for Capital Projects	-	343,663	343,663
Assigned:			
Subsequent year's expenditures	399,000	-	399,000
Unassigned	6,653,787	-	6,653,787
Total fund balances	<u>12,166,307</u>	<u>532,028</u>	<u>12,698,335</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 12,960,028</u>	<u>\$ 582,695</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	42,979,792
Liabilities for earned revenues considered deferred inflows of resources in fund statements:	
Deferred taxes receivable	14,633
Deferred miscellaneous receivable	54,512
Long-term liabilities used in governmental activities are not financial uses and therefore are not reported in the funds	(10,815,338)
Net position of governmental activities (Exhibit 1)	<u>\$ 44,931,934</u>

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, 2014**

**Exhibit 4**

	Major Funds		
	General Fund	Beach Nourishment	Total
<b>REVENUES</b>			
Ad valorem taxes	\$ 7,804,535	\$ -	\$ 7,804,535
Other taxes and licenses	5,360,806	-	5,360,806
Unrestricted intergovernmental	642,945	-	642,945
Restricted intergovernmental	1,971,466	-	1,971,466
Permits and fees	258,038	-	258,038
Sales and services	2,018	-	2,018
Investment earnings	78,907	1,339	80,246
Miscellaneous	316,247	-	316,247
Total revenues	<u>16,434,962</u>	<u>1,339</u>	<u>16,436,301</u>
<b>EXPENDITURES</b>			
Current:			
General Government	2,479,757	-	2,479,757
Public Safety	4,749,036	-	4,749,036
Environmental Protection	1,465,995	-	1,465,995
Public Works	1,637,644	-	1,637,644
Debt service:			
Principal	4,320,700	-	4,320,700
Interest and other charges	319,462	-	319,462
Capital outlay	3,560,453	200,728	3,761,181
Total expenditures	<u>18,533,047</u>	<u>200,728</u>	<u>18,733,775</u>
Excess (deficiency) of revenues over expenditures	(2,098,085)	(199,389)	(2,297,474)
<b>OTHER FINANCING SOURCES (USES)</b>			
Capital lease obligations issued	938,539	-	938,539
Transfer to other funds	-	(1,000,000)	(1,000,000)
Transfer from other funds	1,000,000	-	1,000,000
Total other financing sources	<u>1,938,539</u>	<u>(1,000,000)</u>	<u>938,539</u>
Net change in fund balance	(159,546)	(1,199,389)	(1,358,935)
Fund balances - beginning	<u>12,325,853</u>	<u>1,731,417</u>	<u>14,057,270</u>
Fund balances - ending	<u>\$ 12,166,307</u>	<u>\$ 532,028</u>	<u>\$ 12,698,335</u>

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, 2014**

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

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

Net changes in fund balances - total governmental funds \$ (1,358,935)

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.

Contributed Capital	5,200	
Capital Outlay	3,761,181	
Depreciation	<u>(8,041,324)</u>	(4,274,943)

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 (4,201)

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	(938,539)	
Decrease in compensated absences	12,625	
Increase in net pension obligation	(15,749)	
Increase in other post employment benefits	(185,713)	
Principal repayments	<u>4,320,700</u>	<u>3,193,324</u>

Total change in net position of governmental activities \$ (2,444,755)

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual  
For the Fiscal Year Ended June 30, 2014

	General Fund			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
<b>Revenues:</b>				
Ad valorem taxes	\$ 7,745,797	\$ 7,781,297	\$ 7,804,535	\$ 23,238
Other taxes and licenses	5,324,749	5,468,637	5,360,806	(107,831)
Unrestricted intergovernmental	579,000	625,000	642,945	17,945
Restricted intergovernmental	2,029,974	2,112,154	1,971,466	(140,688)
Permits and fees	243,000	268,700	258,038	(10,662)
Sales and services	4,000	4,000	2,018	(1,982)
Investment earnings	85,000	85,000	67,292	(17,708)
Miscellaneous	236,180	310,329	316,247	5,918
Total revenues	<u>16,247,700</u>	<u>16,655,117</u>	<u>16,423,347</u>	<u>(231,770)</u>
<b>Expenditure:</b>				
Current:				
General Government	3,110,058	2,746,131	2,524,972	221,159
Public Safety	4,837,137	5,591,198	5,476,165	115,033
Environmental Protection	1,675,012	1,832,441	1,722,831	109,610
Public Works	2,473,738	4,436,921	4,168,917	268,004
Debt service:				
Principal	4,097,990	4,334,993	4,320,700	14,293
Interest and other charges	338,143	331,893	319,462	12,431
Contingency	125,000	25,000	-	25,000
Total expenditures	<u>16,657,078</u>	<u>19,298,577</u>	<u>18,533,047</u>	<u>765,530</u>
Revenues over (under) expenditures	<u>(409,378)</u>	<u>(2,643,460)</u>	<u>(2,109,700)</u>	<u>533,760</u>
<b>Other financing sources (uses):</b>				
Transfers from other funds	1,601,463	1,181,902	1,181,902	-
Transfers to other funds	(1,669,935)	(1,870,935)	(1,858,926)	12,009
Installment purchase obligations issued	-	939,119	938,539	(580)
Appropriated Fund Balance	477,850	2,393,374	-	(2,393,374)
Total other financing sources (uses)	<u>409,378</u>	<u>2,643,460</u>	<u>261,515</u>	<u>(2,381,945)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>(1,848,185)</u>	<u>\$ (1,848,185)</u>
Fund balances, beginning of year			<u>10,698,494</u>	
Fund balances, end of year			<u><u>8,850,309</u></u>	
A legally budgeted Capital Reserve Fund is consolidated into the General Fund for reporting purposes:				
Interest Income			11,615	
Transfer to/from general fund			1,677,024	
Fund balance, beginning of the year			<u>1,627,359</u>	
Fund balance, end of year			<u><u>\$ 12,166,307</u></u>	

**Town of Nags Head, North Carolina**  
**Proprietary Funds**  
**Statement of Fund Net Position**  
**June 30, 2014**

**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	\$ 3,493,845	\$ 142,893	\$ 100	\$ 3,636,838
Accounts receivable trade (net)	410,056	6,731	-	416,787
Accounts receivable other (net)	23,213	-	-	23,213
Prepays	70	-	-	70
Inventories	57,637	-	-	57,637
Restricted cash and cash equivalents	398,767	-	-	398,767
Total current assets	4,383,588	149,624	100	4,533,312
Capital assets:				
Land, non-depreciable improvements and construction in progress	1,897,381	38,873	-	1,936,254
Other capital assets, net of depreciation	4,631,534	579,181	-	5,210,715
Total capital assets (net)	6,528,915	618,054	-	7,146,969
Total assets	10,912,503	767,678	100	11,680,281
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	149,838	192	-	150,030
Salaries and benefits	43,381	-	-	43,381
Compensated absences - current	25,781	-	-	25,781
Capital leases payable - current	119,640	-	-	119,640
Total current liabilities	338,640	192	-	338,832
Noncurrent liabilities:				
Liabilities payable from restricted assets:				
Customer Deposits	398,767	-	-	398,767
Other post employment benefits	60,383	-	-	60,383
Compensated absences - non current	-	-	-	-
Capital leases payable - non current	411,827	-	-	411,827
Total noncurrent liabilities	870,977	-	-	870,977
Total liabilities	1,209,617	192	-	1,209,809
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Prepaid impact fees	140,000	-	-	140,000
Total deferred inflows of resources	140,000	-	-	140,000
<b>NET POSITION</b>				
Net investment in capital assets	5,997,448	618,054	-	6,615,502
Unrestricted	3,565,438	149,432	100	3,714,970
Net Position of business-type activities	\$ 9,562,886	\$ 767,486	\$ 100	\$ 10,330,472

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, 2014**

**Exhibit 7**

	Enterprise Funds			Total
	Water Fund	Storm Water Fund	Nags Head Leasing	
<b>OPERATING REVENUES</b>				
Charges for services	\$ 2,262,835	\$ 115,364	\$ -	\$ 2,378,199
Tap and connection fees	10,990	-	-	10,990
Late payment penalties	25,590	-	-	25,590
Water tag fees	8,950	-	-	8,950
Miscellaneous	1,764	-	-	1,764
<b>Total operating revenues</b>	<b>2,310,129</b>	<b>115,364</b>	<b>-</b>	<b>2,425,493</b>
<b>OPERATING EXPENSES</b>				
Administration	183,572	-	405	183,977
Septic Health	235,314	-	-	235,314
Operations	1,450,965	-	-	1,450,965
Distribution	482,053	-	-	482,053
Storm Water		9,172	-	9,172
Depreciation and amortization	263,290	32,223	-	295,513
<b>Total operating expenses</b>	<b>2,615,194</b>	<b>41,395</b>	<b>405</b>	<b>2,656,994</b>
<b>Total operating income (loss)</b>	<b>(305,065)</b>	<b>73,969</b>	<b>(405)</b>	<b>(231,501)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Investment earnings	24,255	711	2	24,968
Interest expense	(18,926)	-	-	(18,926)
<b>Total nonoperating revenue (expenses)</b>	<b>5,329</b>	<b>711</b>	<b>2</b>	<b>6,042</b>
<b>Income (loss) before contributions and transfers</b>	<b>(299,736)</b>	<b>74,680</b>	<b>(403)</b>	<b>(225,459)</b>
Capital contributions from impact fees	95,500	-	-	95,500
<b>Change in net position</b>	<b>(204,236)</b>	<b>74,680</b>	<b>(403)</b>	<b>(129,959)</b>
<b>Total net position - beginning</b>	<b>9,767,122</b>	<b>692,806</b>	<b>503</b>	<b>10,460,431</b>
<b>Total net position- ending</b>	<b>\$ 9,562,886</b>	<b>\$ 767,486</b>	<b>\$ 100</b>	<b>\$ 10,330,472</b>

**Town of Nags Head, North Carolina**  
**Proprietary Funds**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2014**

**Exhibit 8**

	Business-Type Activities			Total
	Enterprise Funds			
	Water	Storm	Nags Head	
	Fund	Water	Leasing	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash received from customers	\$ 2,288,440	\$ 123,897	\$ -	\$ 2,412,337
Cash paid for goods and services	(1,666,861)	(9,789)	(405)	(1,677,055)
Cash paid to or on behalf of employees for services	(662,770)	-	-	(662,770)
Customer deposits received	10,589	-	-	10,589
Customer deposits returned	-	-	-	-
Other operating revenues	1,764	-	-	1,764
Net cash provided (used) by operating activities	<u>(28,838)</u>	<u>114,108</u>	<u>(405)</u>	<u>84,865</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Proceeds from financing capital assets	154,543	-	-	154,543
Initial impact fees received	91,500	-	-	91,500
Prepaid impact fees refunded	(42,000)	-	-	(42,000)
Interest paid on debt financing	(18,925)	-	-	(18,925)
Septic Loans issued	(10,395)	-	-	(10,395)
Repayment of septic loans	17,990	-	-	17,990
Principal paid on debt financing	(121,135)	-	-	(121,135)
Sale of capital asset	300,000	-	-	300,000
Acquisition of capital assets	(186,490)	(76,370)	-	(262,860)
Net cash provided (used) by capital and related financing activities	<u>185,088</u>	<u>(76,370)</u>	<u>-</u>	<u>108,718</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest	<u>24,255</u>	<u>711</u>	<u>2</u>	<u>24,968</u>
Net increase (decrease) in cash and cash equivalents	180,505	38,449	(403)	218,551
Cash balances - beginning of the year	<u>3,712,107</u>	<u>104,444</u>	<u>503</u>	<u>3,817,054</u>
Cash balances - end of the year	<u>\$ 3,892,612</u>	<u>\$ 142,893</u>	<u>\$ 100</u>	<u>\$ 4,035,605</u>
Reconciliation of operating income to net cash provided by operating activities				
Operating income	\$ (305,065)	\$ 73,969	\$ (405)	\$ (231,501)
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization	263,290	32,223	-	295,513
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable	(19,925)	8,533	-	(11,392)
(Increase) decrease in inventories	2,019	-	-	2,019
Increase (decrease) in accounts payable	12,599	(617)	-	11,982
Increase (decrease) in accrued liabilities	9,625	-	-	9,625
Increase (decrease) in customer deposits	10,589	-	-	10,589
Increase (decrease) in accrued OPEB liability	(1,970)	-	-	(1,970)
Total adjustments	<u>276,227</u>	<u>40,139</u>	<u>-</u>	<u>316,366</u>
Net cash provided (used) by operating activities	<u>\$ (28,838)</u>	<u>\$ 114,108</u>	<u>\$ (405)</u>	<u>\$ 84,865</u>

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

**Town of Nags Head, North Carolina  
Fiduciary Fund  
Statement of Fiduciary Net Assets  
June 30, 2014**

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**Exhibit 9**

	<u>Pension Trust</u>
	<u>Special Separation Allowance</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 173,017
Total Assets	<u>173,017</u>
<b>NET ASSETS</b>	
Held in trust for pension benefits and other purposes	<u>\$ 173,017</u>

**Town of Nags Head, North Carolina**  
**Fiduciary Fund**  
**Statement of Changes in Fiduciary Net Assets**  
**For the Fiscal Year Ended June 30, 2014**

Exhibit 10

	Pension Trust Special Separation Allowance
<b>Additions</b>	
Employer Contributions	\$ 30,000
Investment Earnings	1,051
Total investment earnings	<u>1,051</u>
Less investment expense	<u>-</u>
Total additions	31,051
<b>Deductions</b>	
Expenditures	
Benefits	45,634
Administrative expenses	<u>-</u>
Total deductions	<u>45,634</u>
Change in net assets	(14,583)
Net assets - beginning of the year	<u>187,600</u>
Net assets - end of the year	<u><u>\$ 173,017</u></u>

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2014**

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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, 2014**

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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, 2014**

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

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2014**

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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.

2. Cash and Cash Equivalents

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

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2014**

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	\$ 89,644
	Controlled substance	23,078
	Capital reserve fund	3,230,969
Beach Nourishment Project Fund	Unexpended bond proceeds	<u>553,201</u>
Total governmental activities		\$ 3,896,892
Business-type Activities:		
Water Fund	Customer deposits	<u>\$ 398,767</u>
Total business-type activities		398,767
Total Restricted Cash		<u>\$ 4,295,659</u>

4. Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2013.

5. Allowances for Doubtful Accounts

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

6. Inventory and Prepaid Items

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

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

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2014**

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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 no items that meet these criteria as of June 30, 2014.

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

#### 9. Long-Term Obligations

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

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2014**

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10. Compensated Absences

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

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

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

11. Net Position/Fund Balances

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

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

The governmental fund types classify fund balances as follows:

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

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

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

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

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

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

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2014**

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the balance of the total unexpended Powell Bill funds.

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

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

Committed Fund Balance - portion of fund balance that can be used for specific purposes imposed by majority vote by quorum of the Town of Nags Head's governing body (highest level of decision making authority). Any changes or removal of specific purpose requires majority action by the governing body.

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

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

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

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

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

#### **F. Use of Estimates**

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

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2014**

**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, 2014, the Town's deposits had a carrying amount of \$10,346,595 and a bank balance of \$10,439,623. Of the bank balance, \$4,299,481 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. At June 30, 2014, the Town's petty cash fund totaled \$1,000.

2. Investments

At June 30, 2014, the Town's investments were as follows:

<b>Investment Type</b>	<b>Fair Value</b>	<b>&lt; 1 Year</b>	<b>1-3 Years</b>	<b>3-10 Years</b>	<b>&gt; 10 Years</b>
FNMA	\$ 1,070,909			\$ 1,070,909	
FHL Banks	788,491			788,491	
	400,453		100,140	300,313	
GNMA Mortgage Backed Securities	428,023	-	-	237,530	190,493
NC Capital Management Trust - Term Portfolio*	2,501,463	2,501,463			
NC Capital Management Trust - Cash Portfolio*	549,582	549,582			
<b>Total:</b>	<b>\$ 5,738,921</b>	<b>\$ 3,051,045</b>	<b>\$ 100,140</b>	<b>\$ 2,397,243</b>	<b>\$ 190,493</b>

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

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*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, 2014. 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, 2014.

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

3. Receivables

The receivables shown in Exhibit 1 at June 30, 2014 were

	Accounts	Taxes	Due from other Governments	Interest Receivable	Total
<b>Governmental Activities:</b>					
General	\$ 77,499	\$ 24,633	\$ 1,402,717	\$ 96,597	\$ 1,601,446
Allowance for doubtful accounts	-	(10,000)	-	-	(10,000)
Total governmental activities	<u>\$ 77,499</u>	<u>\$ 14,633</u>	<u>\$ 1,402,717</u>	<u>\$ 96,597</u>	<u>\$ 1,591,446</u>
<b>Business-type Activities:</b>					
Water	\$ 453,151	\$ -	\$ -	\$ -	\$ 453,151
Stormwater	6,731	-	-	-	6,731
Allowance for doubtful accounts	(19,882)	-	-	-	(19,882)
Total business type activities	<u>\$ 440,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 440,000</u>

Due from other governments consisted of the following:

Occupancy tax	\$ 645,957
Land transfer tax	168,085
Sales taxes	358,710
Sales tax reimbursement	77,655
NC DOT Grant	19,660
Outer Banks Visitors Bureau	91,555
Other	41,095
Total	<u>\$ 1,402,717</u>

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
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4. Capital Assets

Capital asset activity for the Primary Government for the year ended June 30, 2014, was as follows:

	Beginning Balances	Increases	Decreases/ Transfers	Ending Balances
<b>Governmental activities:</b>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 8,172,825	\$ 1,807,513	\$ -	\$ 9,980,338
Construction in progress	834,280	790,170	(1,612,722)	11,728
Total capital assets not being depreciated	<u>9,007,105</u>	<u>2,597,683</u>	<u>(1,612,722)</u>	<u>9,992,066</u>
<b>Capital assets being depreciated:</b>				
Buildings	10,030,063	46,880		10,076,943
Other improvements	36,991,717	211,394	889,564	38,092,675
Equipment	2,121,502	762,468	(480,524)	2,403,446
Vehicles and motorized equipment	6,211,340	147,956	599,897	6,959,193
Total capital assets being depreciated	<u>55,354,622</u>	<u>1,168,698</u>	<u>1,008,937</u>	<u>57,532,257</u>
<b>Less accumulated depreciation for:</b>				
Buildings	3,047,106	263,181		3,310,287
Other improvements	7,805,019	7,084,987		14,890,006
Equipment	1,476,235	208,533	(145,004)	1,539,764
Vehicles and motorized equipment	4,778,632	484,623	(458,781)	4,804,474
Total accumulated depreciation	<u>17,106,992</u>	<u>\$ 8,041,324</u>	<u>\$ (603,785)</u>	<u>24,544,531</u>
Total capital assets being depreciated, net	<u>38,247,630</u>			<u>32,987,726</u>
<b>Governmental activity capital assets, net</b>	<u><u>\$ 47,254,735</u></u>			<u><u>\$ 42,979,792</u></u>

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

General Government	\$6,878,485
Public Safety	397,364
Public Works/Transportation	491,678
Environmental Protection	273,797
Total Deprecation expense	<u>\$8,041,324</u>

**Town of Nags Head, North Carolina**  
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Capital asset activities for the Business-type activities for the year ended June 30, 2014 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	\$ 2,153,473	\$ -	\$ (300,000)	\$ 1,853,473
Construction in Progress	14,661	29,698	(451)	43,908
Total capital assets not being depreciated	<u>2,168,134</u>	<u>29,698</u>	<u>(300,451)</u>	<u>1,897,381</u>
<b>Capital assets being depreciated:</b>				
Plant	5,615,565	-	15,209	5,630,774
Equipment	886,443	9,858	(144,560)	751,741
Vehicles	144,862	171,552	39,068	355,482
Intangibles	4,203,619	-	-	4,203,619
Total capital assets being depreciated	<u>10,850,489</u>	<u>181,410</u>	<u>(90,283)</u>	<u>10,941,616</u>
<b>Less accumulated depreciation for:</b>				
Plant	2,872,366	110,525	-	2,982,891
Equipment	678,517	39,188	(44,947)	672,758
Vehicles	144,862	8,485	(45,786)	107,561
Intangibles	2,441,780	105,092	-	2,546,872
Total accumulated depreciation	<u>6,137,525</u>	<u>\$ 263,290</u>	<u>\$ (90,733)</u>	<u>6,310,082</u>
Total capital assets being depreciated, net	<u>4,712,964</u>			<u>4,631,534</u>
<b>Water Fund capital assets, net</b>	<u>\$ 6,881,098</u>			<u>\$ 6,528,915</u>
<b>Storm Water Fund</b>				
<b>Capital assets not being depreciated:</b>				
Construction in Progress	\$ 51,728	\$ 70,020	\$ (82,875)	\$ 38,873
Total capital assets not being depreciated	<u>51,728</u>	<u>70,020</u>	<u>(82,875)</u>	<u>38,873</u>
<b>Capital assets being depreciated:</b>				
Plant	504,512	6,350	82,876	593,738
Equipment	112,472	-	(67,669)	44,803
Total capital assets being depreciated	<u>616,984</u>	<u>6,350</u>	<u>15,207</u>	<u>638,541</u>
<b>Less accumulated depreciation for:</b>				
Plant	16,995	23,557	-	40,552
Furniture and equipment	77,811	8,666	(67,669)	18,808
Total accumulated depreciation	<u>94,806</u>	<u>\$ 32,223</u>	<u>\$ (67,669)</u>	<u>59,360</u>
Total capital assets being depreciated, net	<u>522,178</u>			<u>579,181</u>
<b>Storm Water Fund capital assets, net</b>	<u>573,906</u>			<u>618,054</u>
<b>Business-type activities capital assets, net</b>	<u>\$ 7,455,004</u>			<u>\$ 7,146,969</u>

**Town of Nags Head, North Carolina**  
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The government has active construction projects as of June 30, 2014. At year-end, the government's estimated commitments to projects ongoing are as follows:

Project	Spent-to-date	Remaining Commitment
Beach Nourishment	\$ 34,513,015	\$ 188,365
Total	\$ 34,513,015	\$ 188,365

**B. Liabilities**

1. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

*Plan Description*

The Town of Nags Head contributes to the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS provides retirement and disability benefits to plan members and beneficiaries. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

*Funding Policy*

Plan members are required to contribute six percent of their annual covered salary. The Town is required to contribute at an actuarially determined rate. For the Town, the current rate for employees not engaged in law enforcement and for law enforcement officers is 6.74% and 6.77%, respectively, of annual covered payroll. The contribution requirements of members and of the Town of Nags Head are established and may be amended by the North Carolina General Assembly. The Town's contributions to LGERS for the years ended June 30, 2014, 2013, and 2012 were \$410,899, \$368,463, and \$368,378, respectively. The contributions made by the Town equaled the required contributions for each year.

b. Law Enforcement Officers Special Separation Allowance

*Plan Description*

The Town of Nags Head administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the Town's qualified sworn law enforcement officers. The Separation Allowance is equal to .85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be 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.

**Town of Nags Head, North Carolina**  
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All full time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2013 the Separation Allowance's membership consisted of:

Retirees receiving benefits	2
Terminated plan members entitled to but not yet receiving benefits	0
Active plan members	21
Total	23

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

*Summary of Significant Accounting Policies*

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

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

*Contributions*

The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned by making contributions based on actuarial valuations through appropriations made in the General Fund operating budget. For the current year the Town contributed \$30,000 or 2.70% 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, 2012 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, 2012 was 18 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	\$ 46,287
Interest on net pension obligation	855
Adjustment to annual required contribution	<u>(1,393)</u>
Annual pension cost	45,749
Contributions made	<u>(30,000)</u>
Increase (decrease) in net pension obligation	15,749
Net pension obligation beginning of year	<u>17,101</u>
Net pension obligation end of year	<u><u>\$ 32,850</u></u>

3 Year Trend Information			
For Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2012	\$ 39,185	0.0%	\$ 71,203
2013	\$ 45,898	217.9%	\$ 17,101
2014	\$ 45,749	65.6%	\$ 32,850

As of December 31, 2013, the most recent actuarial valuation date, the plan was 39.22 percent funded. The actuarial accrued liability for benefits was \$509,170 and the actual value of assets was \$199,688, resulting in an unfunded actuarial accrued liability (UAAL) of \$309,482. The covered payroll (annual payroll of active employees covered by the plan) was \$1,124,779 and the ratio of the UAAL to the covered payroll was 27.51 percent.

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

c. Supplemental Retirement Income Plan for Law Enforcement Officers

*Plan Description*

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

**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, 2014 were \$78,008, which consisted of \$58,492 from the Town and \$19,516 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, 2014 were \$197,579, which consisted of \$74,419 from the Town and \$123,160 from employees.

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

*Plan Description*

The State of North Carolina contributes, on behalf of the Town of Nags Head, to the Firefighter's and Rescue Squad Workers' Pension Fund (Fund), a cost-sharing multiple-employer defined benefit pension plan with a special funding situation administered by the State of North Carolina. The Fund provides pension benefits for eligible fire and rescue squad workers that have elected to become members of the fund. Article 86 of G.S. Chapter 58 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Firefighter's and Rescue Squad Workers' Pension Fund is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for the Fund. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

*Funding Policy*

Plan members are required to contribute \$10 per month to the Fund. The State, a non-employer contributor, funds the plan through appropriations. The Town contributes \$10 per month on behalf of each firefighter employed by the Town and each qualified member of the Nags Head Volunteer Fire Department. The Town's contributions for the three years ended June 30, 2014, 2013, and 2012, were \$3,270, \$3,690, and \$3,580, respectively.

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
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f. 457 Deferred Compensation

*Plan Description*

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

*Funding Policy*

The Town does not match contributions to the 457 deferred compensation plan. Total contributions for the year ended June 30, 2014 were \$66,649, which consisted of \$62,374 from regular employees and \$4,275 from law enforcement employees.

g. Other Post-employment Benefits

Healthcare Benefits:

Plan Description. According to a Town resolution, the Town administers a single-employer defined benefit health care plan. This plan provides health care benefits to retirees of the Town who participate in the North Carolina Local Governmental Employees' Retirement System (System). The Town pays the full cost of coverage for these benefits for retirees who began working for the Town on or before November 3, 1997. The Town pays 25% for retiree with 10 years or more of service, 50% for retirees with 15 years or more of service, 75% with 20 years or more of service, and 100% with 25 years. 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, 2011, the date of the latest actuarial valuation:

Retired members	7
Active members:	
General Employees	61
Firefighters	27
Law Enforcement	<u>21</u>
Total	<u><u>116</u></u>

Funding Policy. The Town pays the full cost of coverage for these benefits for retirees who began working for the Town on or before November 3, 1997 and a percentage of the premium cost based on years of service for employees hired after that date, as noted above. Also, the Town's retirees can purchase coverage for their dependents at the Town's group rates. The Town's members pay \$57 to \$963 per month, for dependent coverage. The Town has chosen to fund the healthcare benefits on a pay-as-you-go basis.

The current ARC rate is 4.89% of annual covered payroll. For the current year, the Town contributed \$76,731 or 1.37% 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 \$23,785 for the year ended June 30, 2014.

**Town of Nags Head, North Carolina**  
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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	\$ 257,085
Interest on net OPEB obligation	24,695
Adjustment to annual required contribution	<u>(21,306)</u>
Annual OPEB cost (expense)	260,474
Contributions made	<u>(76,731)</u>
Increase (decrease) in net OPEB obligation	183,743
Net OPEB obligation, beginning of year	<u>617,374</u>
Net OPEB obligation, end of year	<u><u>\$ 801,117</u></u>

<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>
2012	\$ 209,329	27.91%	\$ 430,575
2013	\$ 259,449	28.00%	\$ 617,374
2014	\$ 260,474	29.46%	\$ 801,117

Funded Status and Funding Progress. As of December 31, 2011, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and, thus, the unfunded actuarial accrued liability (UAAL) was \$2,362,760. The covered payroll (annual payroll of active employees covered by the plan) was \$5,262,661, and the ratio of the UAAL to the covered payroll was 44.90%. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members at that point. The actuarial methods and assumptions used

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
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include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value assets, consistent with the long-term perspective of the calculations.

In the December 31, 2011 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.00 percent investment rate of return (net of administrative expenses), which is the expected long-term investment returns on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual medical cost trend increase of 9.50 to 5.00 percent annually. Both rates included a 3.00 percent inflation assumption. The actuarial value of assets, if any was determined using techniques that spread the effects of short-term volatility in the market value of investments over a 5 year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2011, was 30 years.

## 2. Other Employment Benefit

The Town has also elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$50,000 or be less than \$25,000. All death benefit payments are made from the Death Benefit Plan. The Town has no liability beyond the payment of monthly contributions. Contributions are determined as a percentage of monthly payroll, based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. Because the benefit payments are made by the Death Benefit Plan and not by the Town, the Town does not determine the number of eligible participants. For the fiscal year ended June 30, 2014 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.

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

Payables at Exhibit 1 at June 30, 2014 were as follows:

	Vendors	Salaries and Benefits	Customer Deposits	Total
<b>Governmental Activities</b>				
General	\$ 207,444	\$ 464,507	\$ 19,195	\$ 691,146
Beach Nourishment Fund	50,667	-	-	50,667
Total Governmental activities	<u>\$ 258,111</u>	<u>\$ 464,507</u>	<u>\$ 19,195</u>	<u>\$ 741,813</u>
<b>Business-type Activities</b>				
Water	\$ 149,838	\$ 43,381	\$ 398,767	\$ 591,986
Stormwater	192	-	-	192
Total Business-type activities	<u>\$ 150,030</u>	<u>\$ 43,381</u>	<u>\$ 398,767</u>	<u>\$ 592,178</u>

4. Deferred Outflows and Inflows of Resources

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

	Unavailable Revenue	Unearned Revenue
Prepaid taxes and privilege licenses (General Fund)	\$ -	\$ 578
Taxes and receivable (General Fund)	14,633	-
Prepaid impact fees (Water Fund)	-	140,000
Total	<u>\$ 14,633</u>	<u>\$ 140,578</u>

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.

**Town of Nags Head, North Carolina**  
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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, 2014 the Town was a defendant to various lawsuits. In the opinion of the Town's management and the Town attorney, the ultimate effect of these legal matters will not have a material adverse effect on the Town's financial position.

#### 7. Long-Term Debt

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

The Town entered into a fifteen year installment financing contract in 2005 with RBC Centura for the construction of the fire/police facility in south Nags Head. The amount borrowed was \$1,600,000 at an interest rate of 3.82% and is secured by the property. Originally, payments were due in annual installments of \$106,666.67 plus accrued interest with final payment due on May 30, 2019. The Town prepaid \$125,068 during the fiscal year ending June 30, 2006 from unused escrow funds and the remaining principal was reamortized with payments due in annual installments of \$97,046 plus accrued interest through May 17, 2019. The outstanding balance at June 30, 2014 is \$582,276.

The Town entered into a fifteen year installment financing contract in 2005 with RBC Centura for the construction of an above ground water storage tank and waterline extension located adjacent to the Public Works facility. The amount borrowed was \$1,200,000 at an interest rate of 3.85% and is secured by the property. Originally payments were due in annual installments of \$102,840.98 including accrued interest with final payment due on May 30, 2019. The Town prepaid \$85,871 during the fiscal year ending June 30, 2006 from unused escrow funds and the remaining principal was reamortized with payments due in annual installments of \$93,875 including accrued interest through May 17, 2019. The outstanding balance at June 30, 2014 is \$418,847.

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, 2014 is \$200,000.

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, 2014 is \$7,200,000.

**Town of Nags Head, North Carolina**  
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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, 2014 is \$400,000.

The Town currently has seven leases outstanding for various vehicles and equipment. Annual payments range from \$15,304 to \$139,771. Expiration dates range from June 2015 to May 2019. Interest rates vary from 1.040% to 2.025%. The total outstanding at June 30, 2014 is \$1,278,160.

The gross value of all assets recorded under capital leases and installment finance contracts is \$22,456,296. 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, 2014:

Classes of Property	Cost
Building	\$ 1,600,000
Land	1,000,000
Vehicles and equipment	2,343,281
Other/infrastructure	17,513,015
Total	<u>\$ 22,456,296</u>

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

	General			General	
	Long-term Debt			Long-term Debt	Current
	June 30, 2013	Increases	Decreases	June 30, 2014	Portion
<b>BY TYPE OF DEBT</b>					
Finance Contract	\$ 11,632,276	\$ 500,000	\$ (3,847,046)	\$ 8,285,230	\$ 3,847,046
Capital Leases	1,313,275	438,539	(473,654)	\$ 1,278,160	417,019
Post employment benefits	555,021	185,713	-	\$ 740,734	-
Net pension obligation	17,101	45,749	(30,000)	\$ 32,850	-
Compensated Absences	490,989	345,339	(357,964)	\$ 478,364	345,339
	<u>\$ 14,008,662</u>	<u>\$ 1,515,340</u>	<u>\$ (4,708,664)</u>	<u>\$ 10,815,338</u>	<u>\$ 4,609,404</u>

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

	General			General	
	Long-term Debt			Long-term Debt	Current
	June 30, 2013	Increases	Decreases	June 30, 2014	Portion
<b>BY TYPE OF DEBT</b>					
Finance Contract	\$ 493,795	\$ -	\$ (74,948)	\$ 418,847	\$ 77,717
Capital Leases	4,264	154,543	(46,187)	112,620	41,923
Post employment benefits	62,353		(1,970)	60,383	-
Compensated Absences	40,067	33,433	(47,719)	25,781	25,781
	<u>\$ 600,479</u>	<u>\$ 187,976</u>	<u>\$ (170,824)</u>	<u>\$ 617,631</u>	<u>\$ 145,421</u>

**Town of Nags Head, North Carolina**  
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b. Changes in Long-Term Liabilities

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

	Balance June 30, 2013	Earned	Used	Balance June 30, 2014
<b>General Fund</b>				
General Government	\$ 108,587	\$ 82,573	\$ 76,007	\$ 115,153
Public Safety	290,571	186,330	194,285	282,616
Public Works/Transportation	70,817	55,030	62,794	63,053
Environmental Protection	21,014	21,406	24,878	17,542
	<u>\$ 490,989</u>	<u>\$ 345,339</u>	<u>\$ 357,964</u>	<u>\$ 478,364</u>
<b>Proprietary Fund</b>	<u>\$ 40,067</u>	<u>\$ 33,433</u>	<u>\$ 47,719</u>	<u>\$ 25,781</u>

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

	Year Ending June 30	Principal	Interest
2015		\$ 4,264,065	\$ 228,085
2016		4,114,174	125,589
2017		423,711	26,137
2018		366,477	16,956
2019		169,762	8,474
2020-2024		225,201	7,245
<b>Total</b>		<u>\$ 9,563,390</u>	<u>\$ 412,486</u>

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

	Year Ending June 30	Principal	Interest
2015		\$ 119,640	\$ 17,409
2016		122,632	13,961
2017		98,204	10,398
2018		101,429	7,001
2019		89,562	3,480
2020-2024		-	-
<b>Total</b>		<u>\$ 531,467</u>	<u>\$ 52,249</u>

Amortization of assets acquired under capital leases in Enterprise Funds is included in depreciation. At June 30, 2014 the Town of Nags Head, North Carolina, has a legal debt margin of \$176,185,804.

**Town of Nags Head, North Carolina**  
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8. Operating Leases

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

Total minimum lease payments for the remaining term of the contract at June 30, 2014, are as follows:

2015	<u>5,431</u>
Total	<u>\$ 5,431</u>

During the year ended June 30, 2014, the total amount expended by the Town under the above operating lease was \$5,721 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, 2014, are as follows:

2015	\$2,904
2016	\$2,904
2017	\$2,904
2018	<u>\$2,662</u>
Total	<u>\$11,374</u>

During the year ended June 30, 2014, the total amount expended by the Town under the above operating lease was \$4,227, including both minimum monthly rentals and overage per copy charges.

The Town leased office and laboratory space to North Carolina University Systems for a period of ten years beginning in May 2005 through December 2013 for an annual rental amount of \$35,000. The Town agreed to the early termination of this lease in September of 2012 with the completion of their new facilities. Subsequent to early termination of the lease the Town entered into month to month leases of this facility with North Carolina Shellfish and Outer Banks Community Care Clinic. The amounts earned under these leases as of June 30, 2014 were \$17,500 and \$3,150, respectively.

The Town leases space on the water tower in south Nags Head and the newly constructed cell tower at Town Hall. Under a construction services and structure license agreement with AT&T dated February 6, 2008, AT&T agreed to construct a cell tower at their cost to be transferred to the Town of Nags Head upon completion in exchange for reduced monthly rentals for leased space on the tower for the length of time needed to abate the full cost of construction. The costs to construct the tower, to which the Town took ownership in the year ended June 30, 2009, were \$279,577. The amount earned for the year ended June 30, 2014 was \$7,758, with rent abatement in the amount of \$23,274. The total amount of rental abatement to date is \$131,336 and the current lease goes through February 2018. AT&T also leases space on the water tower in south Nags Head which earned \$29,665 for the year ending June 30, 2014 and expires in May 2016. Additional space leased on the cell tower at town hall with Verizon through August 2014 and with Ntelos through June 2015 earned \$37,516 and \$31,471, respectively, for the year ended June 30, 2014.

**Town of Nags Head, North Carolina**  
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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. The Town is currently seeking proposals from other parties to assume or replace this lease.

**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.

Transfers to/from other funds for the year ended June 30, 2014 consisted of the following:

From the General Fund to the Capital Reserve Fund for future capital purchases	\$ 1,858,926
From the Capital Reserve Fund to the General Fund for current year capital purchases	\$ 181,902
From the Beach Nourishment Fund to the General Fund for the repayment of special obligation bond debt	\$ 1,000,000
From the General Fund to the Water Fund for the purchase of capital (land)	\$ 300,000

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

For the fiscal year ended June 30, 2014, the Town has recognized on-behalf payments for pension contributions made by the State as a revenue and an expenditure of \$4,650 for the 13 volunteer firefighters who perform fire fighting duties for the Town's fire department. The volunteers and employees elected to be members of the Firefighter and Rescue Squad Workers' Pension Fund, a cost-sharing, multiple-employer public employee retirement system established and administered by the State of North Carolina. The plan is funded by a \$10 monthly contribution paid by each member, investment income, and a State appropriation.

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E. Net Investment in Capital Assets

	Governmental	Business-type
Capital assets	\$ 42,979,792	\$ 7,146,969
Less: long term debt	9,563,390	531,468
Add: unexpended debt proceeds	486,985	
Net investment in capital assets	<u>\$ 33,903,387</u>	<u>\$ 6,615,501</u>

F. 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	\$12,166,307
Less:	
Nonspendable	(73,383)
Stabilization by State Statute	(1,696,446)
Restricted for Streets	(89,644)
Restricted for Public Safety	(23,078)
Restricted for capital reserve fund	(3,230,969)
Restricted for 2014-2015 budget	(399,000)
Fund Balance Policy	(\$ 5,000,000)
Fund Balance Remaining	\$ 1,653,787

The Town of Nags Head has adopted a minimum fund balance policy for the general fund which instructs management to strive to maintain an unreserved, undesignated general fund balance of five million dollars (\$ 5,000,000) or 50% of budgeted expenditures excluding bond debt requirements, as authorized by the governing body prior to the beginning of the upcoming fiscal year. The \$ 5,000,000 reported above as fund balance policy is the smaller of these two amounts.

At June 30, 2014, \$119,633 of open purchase orders and contracts were outstanding in the General Fund. These encumbrances outstanding will be re-appropriated in the subsequent year's budget. The Beach Nourishment Capital Project Fund had \$188,365 in outstanding encumbrances at June 30, 2014. The Water Fund had \$11,370 in encumbrances outstanding at June 30, 2014. There were no open purchase orders in any of the other Town funds.

### III. Joint Ventures

The Town and the members of the Town's fire department each appoint two members to the five-member local board of trustees for the 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

**Town of Nags Head, North Carolina**  
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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, 2014. 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 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 current fiscal year for a total transferred of \$600,000 as of June 30, 2014. On November 14, 2008, the Town acquired a 17.949% interest in property owned jointly with the Outer Banks Visitors Bureau acquiring the remaining 82.051% interest. The total cost for the Town's share was \$712,933. The Town's share of the amount donated by the seller was an additional \$251,286. On March 31, 2009, the parties entered into a lease agreement for a portion of the jointly owned property to be used for recreational activities for a period of three years in the amount of \$42,500 annually. These revenues will be used to cover the ongoing operating costs of the property with any extra reserved for future development. The funds are held in an enterprise fund by the Outer Banks Visitors Bureau. This lease agreement was not renewed at termination and the amount of funds held by the Outer Banks Visitors Bureau at June 30, 2014 was \$37,670. A memorandum of understanding formalizing the cost and revenue sharing for the property was signed during fiscal year 2011-2012. Costs incurred during the year ended June 30, 2014 for insurance, utilities, and maintenance were reimbursed under the terms of the memorandum of understanding from the rental revenues received for the property.

#### **IV. Summary Disclosure of Commitments and Contingencies**

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

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

##### **B. Jennette's Pier**

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

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**C. Municipal Waste Management Agreement**

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

On December 3, 2008, the Town approved a Municipal Waste Management Agreement with Dare County, a member of the Albemarle Regional Solid Waste Authority, for disposal of solid waste as contracted through Republic Services. The contract extends for 26 years and became effective when signed by all parties to the agreement as of May 1, 2009. Charges are based on the Town's actual tonnage of solid waste; the rate in effect in the 2013-14 year was \$72.19 per ton.

**D. 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, 2014 was \$3,940 plus an additional \$192 in related FICA.

**E. Intangible Water Rights**

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

The intangible water rights are being amortized over 40 years. This time period corresponds to the estimated useful life of the R.O. water desalination plant. At June 30, 2014, accumulated amortization totaled \$2,546,872.

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.

**Town of Nags Head, North Carolina**  
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**F. Water Impact Fees**

The Town entered into a letter of understanding with the Ammons-Dare Corporation (its successors and assigns) for the provision of water to the Village of Nags Head Development. The Town guarantees 1,000 water consumption units (WCU) will be available for the development. Ammons-Dare Corporation has agreed to pay an impact fee of \$2,000 per WCU in advance in the form of an irrevocable letter of credit in the amount of \$2,000,000. As of June 30, 2014, 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 713 WCU's which are guaranteed by the Town and are valued at \$1,426,000. The Town reimbursed Ammons-Dare Corporation for 100 unused WCU's in the amount of \$200,000 during the fiscal year ending June 30, 1992, 50 unused WCU's in the amount of \$100,000 during the fiscal year ending June 30, 1993, 15 units in the amount of \$30,000 during the fiscal year ending June 30, 1995, and 31 units in the amount of \$62,000 in the year ended June 30, 1996. The Town reimbursed Ammons-Dare Corporation assignees 24 unused units in the amount of \$42,000 during the fiscal year ended June 30, 2014. The remaining 70 WCU's in the amount of \$140,000 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.

**G. Facility Fees**

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

For the year ended June 30, 2014, the following Facility Fee Revenue (including interest) was collected in the General Fund:

Administration	\$	7,749
Fire		5,069
Police		6,951
Sanitation		3,155
Recreation		6,078
Total	\$	<u>29,002</u>

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

At June 30, 2014, the facility fees were transferred to the Capital Reserve Fund where they will remain until funds are needed for appropriate capital expenditures.

During the year ended June 30, 2014, \$4,106 of administration facility fees was used toward the debt for the new phone system and \$46,880 was used for construction of enclosed offices at the northern end of the municipal complex building for Administrative Services. Police facility fees of \$20,764 were used for a portion of new police 800 MHZ radio debt and debt for replacement police and animal control vehicles. Recreation fees of \$4,293 was used toward the debt on ocean rescue 800MHZ radio debt, \$1,144 was

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used for the cost of sidewalk construction included as part of the Carolinian Circle street assessment project, and \$4,715 was used for Town match to kayak grant.

As of June 30, 2014, the following balances of facility fees remained, and are included in the Capital Reserve Fund:

Administration	\$	30,694
Fire		9,727
Police		83,162
Sanitation		6,228
Recreation		47,167
Total	\$	<u>176,978</u>

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

**Facility Fees Collected (inclusive of interest):**

	Admin.	Fire	Police	Sanitation	Recreation	Total
FY 89-90	\$ 29,114	\$ 19,035	\$ 7,179	\$ 16,548	\$ -	\$ 71,876
FY 90-91	17,704	15,761	6,293	10,194	-	49,952
FY 91-92	24,115	27,159	11,204	15,236	-	77,714
FY 92-93	24,392	16,237	6,509	12,473	-	59,611
FY 93-94	23,758	24,740	10,317	12,476	-	71,291
FY 94-95	25,965	27,202	11,743	17,074	-	81,984
FY 95-96	28,330	28,125	12,570	19,832	-	88,857
FY 96-97	22,811	11,699	5,322	9,682	-	49,514
FY 97-98	34,009	15,243	15,749	10,406	-	75,407
FY 98-99	45,061	23,584	28,535	19,367	-	116,547
FY 99-00	45,953	31,970	43,067	24,461	14,473	159,924
FY 00-01	64,457	66,526	102,658	47,078	41,911	322,630
FY 01-02	64,532	34,245	43,293	30,466	42,338	214,874
FY 02-03	63,155	36,834	50,102	33,571	38,719	222,381
FY 03-04	39,368	16,606	18,221	10,109	28,633	112,937
FY 04-05	33,300	45,226	75,807	23,782	23,479	201,594
FY 05-06	24,395	14,920	20,474	13,677	23,030	96,496
FY 06-07	15,490	16,598	27,048	14,878	10,935	84,949
FY 07-08	28,606	12,856	24,638	11,786	19,005	96,891
FY 08-09	5,631	14,296	25,639	16,191	3,466	65,223
FY 09-10	6,378	3,925	5,842	5,836	4,396	26,377
FY 10-11	8,185	3,424	4,621	4,826	6,101	27,157
FY 11-12	9,833	6,455	9,514	7,259	7,056	40,117
FY 12-13	10,068	3,702	3,875	2,011	6,942	26,598
FY 13-14	7,749	5,069	6,951	3,155	6,078	29,002
<b>Total</b>	<b>\$ 702,359</b>	<b>\$ 521,437</b>	<b>\$ 577,171</b>	<b>\$ 392,374</b>	<b>\$ 276,562</b>	<b>\$ 2,469,903</b>

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**Facility Fees Used:**

	Admin.	Fire	Police	Sanitation	Recreation	Total
FY 89-90	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
FY 90-91	-	-	-	-	-	-
FY 91-92	-	30,000	-	20,000	-	50,000
FY 92-93	-	-	6,520	-	-	6,520
FY 93-94	-	26,247	4,097	-	-	30,344
FY 94-95	-	26,247	4,097	-	-	30,344
FY 95-96	-	75,765	-	-	-	75,765
FY 96-97	160,000	-	40,000	5,000	-	205,000
FY 97-98	10,000	-	5,000	5,000	-	20,000
FY 98-99	35,000	-	16,120	-	-	51,120
FY 99-00	31,500	26,942	28,434	18,864	-	105,740
FY 00-01	31,500	23,584	13,500	19,818	7,065	95,467
FY 01-02	31,500	31,970	48,227	71,677	44,000	227,374
FY 02-03	31,500	66,526	13,500	36,716	25,000	173,242
FY 03-04	56,861	40,591	60,601	50,999	42,000	251,052
FY 04-05	31,500	30,667	18,648	52,356	25,000	158,171
FY 05-06	31,500	16,427	25,198	36,716	52,000	161,841
FY 06-07	31,500	45,225	25,033	9,000	8,850	119,608
FY 07-08	31,500	14,921	39,627	12,000	-	98,048
FY 08-09	31,500	16,598	25,033	5,000	2,449	80,580
FY 09-10	31,500	24,000	25,033	22,000	-	102,533
FY 10-11	35,606	-	33,049	10,000	4,293	82,948
FY 11-12	4,106	-	20,764	-	4,293	29,163
FY 12-13	4,106	16,000	20,764	11,000	4,293	56,163
FY 13-14	50,986	-	20,764	-	10,152	81,902
<b>Total</b>	<b>\$ 671,665</b>	<b>\$ 511,710</b>	<b>\$ 494,009</b>	<b>\$ 386,146</b>	<b>\$ 229,395</b>	<b>\$ 2,292,925</b>
<b>Remaining</b>	<b>\$30,694</b>	<b>\$9,727</b>	<b>\$83,162</b>	<b>\$6,228</b>	<b>\$47,167</b>	<b>\$176,978</b>

**H. Beach Nourishment**

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

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2014**

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ordinance was amended again during the year ended June 30, 2014 to transfer \$1,000,000 in project savings 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 and remaining professional fees. Total costs incurred through June 30, 2014 include \$1,762,122 for engineering and construction oversight, \$25,530,000 in project construction costs, \$4,654,000 in mobilization, \$1,570,308 for other costs, \$354,093 in professional fees, \$642,492 in monitoring costs, and \$1,000,000 transferred to the General Fund for repayment of the debt. Funds committed as of June 30, 2014 include \$188,365 for post construction monitoring contracts.

The financing for the project was provided by special obligation bonds in the amount of \$18,000,000 secured by the Town's occupancy tax revenues. The terms of the debt obligation requires annual repayment of principal in the amount of \$3,600,000 and semiannual payment of interest. Repayment of the bond proceeds and interest is expected to be provided by both a town wide tax and additional taxes on the properties located in the municipal service districts for the next two years. The Town also received funding through an interlocal agreement with Dare County providing eighteen million dollars towards the construction costs and an additional two million annually for five years to be used towards the repayment of debt. During the year ended June 30, 2014, \$1,000,000 was transferred from the Beach Nourishment Project Fund from savings on the project costs to be used towards debt service on the special obligation bonds reducing both the funding needed from the County from \$2,000,000 to \$1,500,000, as well as, reducing the amount needed from the Town for this fiscal year. Funds received from these sources for debt repayment in excess of the amount needed for debt costs were transferred from the General Fund to the Capital Reserve Fund during the year in the amount of \$ 1,052,181 for a total of \$1,762,631 to be used in the future for debt repayment in the next two years or additional beach renourishment as needed. Additionally, \$546,790 was transferred from sales tax revenues derived from the municipal service district lev during the year for a total of \$1,083,652 to be used in the future for the same reasons as restricted by state statute for use in the municipal service district for the purpose for which they were established.

### **I. Subsequent Events**

Management has evaluated subsequent events through October 21, 2014, the date on which the financial statements were available to be issued.

**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%

\* 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 June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage 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%

**Notes to the Required Schedules:**

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

Valuation date	12/31/2012
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	18 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	5.00%
Projected salary increases *	4.25 - 7.85%
* Includes inflation at	3.00%
Cost-of-living adjustments	N/A

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

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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	\$0	\$1,737,866	\$1,737,866	0.00%	\$5,725,487	30.40%
12/31/2011	\$0	\$2,362,760	\$2,362,760	0.00%	\$5,262,661	44.90%

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

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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%

**Notes to the Required Schedules:**

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

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

## GENERAL FUND

Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual  
For the Year Ended June 30, 2014

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
REVENUES			
Ad Valorem Taxes:			
Current year	\$ -	\$ 5,867,233	\$ -
Municipal service district		1,795,913	
Discounts		-	
Prior year		14,015	
DMV current year		103,299	
DMV prior year		7,623	
Penalties and interest		16,452	
Total	<u>7,781,297</u>	<u>7,804,535</u>	<u>23,238</u>
Other Taxes and Licenses:			
Occupancy tax		2,492,045	
Land Transfer tax		532,837	
Local governmental sales tax		1,273,987	
1/2% sales tax revenue		959,630	
Special assessments		26,128	
Special assessment interest		89	
Privilege licenses		44,111	
Mixed beverage tax		30,151	
Privilege license penalties		1,828	
Total	<u>5,468,637</u>	<u>5,360,806</u>	<u>(107,831)</u>
Intergovernmental Revenues:			
Unrestricted:			
Utility Franchise tax		343,738	
Telecommunications tax		50,826	
Natural Gas Franchise fee		5,109	
Solid Waste Disposal fees		1,567	
Video programming tax/franchise fees		147,279	
Cable Franchise - PEG fund fees		63,568	
Beer and wine		12,209	
ABC revenue		18,649	
Total	<u>625,000</u>	<u>642,945</u>	<u>17,945</u>
Restricted:			
Federal:			
FEMA Fire Grants		94,739	
Drug Enforcement Overtime Grant		4,137	
Controlled substance excise tax		2,810	
Miscellaneous		5,000	
State:			
State Street Aid allocation-Powell Bill		117,877	
State DPI Grant		31,649	
Governor's Crime Commission		19,979	
DOT Grant		19,660	
CAMA Reimbursement		5,490	
Controlled substance excise tax		10,825	

GENERAL FUND

Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual  
For the Year Ended June 30, 2014

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Miscellaneous		2,420	
Local:			
Contributions from Dare County		1,524,000	
Government Access Channel Grant		25,325	
Outer Banks Visitor Bureau grant		101,555	
Miscellaneous		6,000	
Total	<u>2,112,154</u>	<u>1,971,466</u>	<u>(140,688)</u>
Total Intergovernmental Revenues	<u>2,737,154</u>	<u>2,614,411</u>	<u>(122,743)</u>
Permits and Fees:			
Building permits		177,594	
Facility fees		29,002	
Inspection and review fees		21,970	
Beach driving permits		23,702	
CAMA permits		5,100	
Motor vehicle licenses		670	
Total	<u>268,700</u>	<u>258,038</u>	<u>(10,662)</u>
Sales and Services:			
Court costs and fees	<u>4,000</u>	<u>2,018</u>	
Total	<u>4,000</u>	<u>2,018</u>	<u>(1,982)</u>
Investment Earnings	<u>85,000</u>	<u>67,292</u>	<u>(17,708)</u>
Other Revenues:			
Other rents		135,975	
Sale of materials		52,294	
Miscellaneous		36,067	
Sale of assets		18,446	
Damage recovery		30,811	
Civil Penalties		1,750	
Cart rollback		30,628	
Contributions to Police, Fire & Rescue Benevolent Fund		10,276	
Total	<u>310,329</u>	<u>316,247</u>	<u>5,918</u>
Total Revenues	<u>16,655,117</u>	<u>16,423,347</u>	<u>(231,770)</u>
EXPENDITURES			
General Government:			
Governing Body:			
Fees paid to elected officials		34,114	
FICA expense		2,632	
Contracted services		45,897	
Department supplies and materials		3,587	
Special events		356	

## GENERAL FUND

Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual  
For the Year Ended June 30, 2014

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Dues and subscriptions		8,934	
Printing		1,080	
Travel		5,767	
Training		2,995	
Equipment rental		179	
Employee incentive		282	
Contribution to YMCA		4,000	
Contribution to Nags Head Woods		10,000	
Contribution to Government Access Channel		64,568	
Contributions, miscellaneous		3,700	
Capital Outlay, equipment		22,553	
		<hr/>	
Total	226,553	210,644	(15,909)
		<hr/>	
Special Obligation Bonds:			
Debt service, bond principal		3,600,000	
Debt service, interest		267,096	
		<hr/>	
Total	3,867,840	3,867,096	(744)
		<hr/>	
Administration:			
Salaries and wages		370,090	
FICA expense		27,330	
Group insurance		62,856	
Group insurance - retiree		10,632	
Retirement		25,661	
401(k) account		6,522	
Contracted services		7,169	
Travel		2,508	
Advertising		3,615	
Departmental supplies		6,285	
Dues and subscriptions		2,334	
Equipment rental		4,227	
Telephone		4,413	
Employee training		8,390	
Postage		520	
Automotive Supplies		271	
Reimbursement from Water Fund		(67,587)	
		<hr/>	
Total	481,470	475,236	(6,234)
		<hr/>	
Administrative Services:			
Salaries and wages		314,480	
FICA expense		23,057	
Group insurance expense		47,607	
Retirement		21,269	
401(k) account		4,936	
Unemployment expense		61,920	
Insurance		266,281	
Contracted services		2,176	

## GENERAL FUND

Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual  
For the Year Ended June 30, 2014

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Employee training		2,590	
Professional services		23,500	
Fines and forfeitures		4,302	
Departmental supplies and materials		7,947	
Postage		6,034	
Telephone		2,958	
Travel		5,139	
Other supplies, computers		1,225	
Equipment rental		4,170	
Repairs and maintenance, equipment		115	
Wellness program		6,757	
Personnel Committee		185	
Special contracted services		3,259	
Dues and subscriptions		1,009	
Purchases for resale		2,156	
Advertising		1,052	
Repairs and maintenance, vehicles		987	
Automotive supplies		1,218	
Reimbursement from Water Fund		(143,596)	
Capital outlay, equipment		22,662	
Debt service, capital lease		7,331	
Debt service, vendor finance		14,282	
		<hr/>	
Total	751,012	717,008	(34,004)
		<hr/>	
Information Technology:			
Salaries and wages		124,241	
FICA expense		9,550	
Group insurance		13,897	
Retirement		8,770	
401(k) account		1,472	
Contracted services		2,600	
Contracted services, GIS		1,000	
Contracted services, website		2,072	
Contracted services, annual contracts		22,908	
Employee training		4,066	
Travel		479	
Professional services		150	
Departmental supplies		3,727	
Telephone		5,062	
Postage		37	
Repairs and maintenance, equipment		7,633	
Other supplies		7,063	
Internet costs		8,254	
Equipment rental		14,459	
Dues and subscriptions		125	
Reimbursement from Water Fund		(14,227)	
Debt service, capital lease		18,492	
Debt service, interest		757	
		<hr/>	

## GENERAL FUND

Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual  
For the Year Ended June 30, 2014

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Total	291,732	242,587	(49,145)
Planning and Development:			
Salaries and wages		483,494	
FICA expense		35,872	
Group insurance		67,963	
Retirement		34,027	
401(k) account		9,068	
Planning board, board of adjustment		7,640	
Uniforms		329	
Professional services		26,629	
Departmental supplies		8,455	
Travel		389	
Advertising		2,434	
Telephone		5,739	
Postage		530	
Repairs and maintenance, vehicles		1,209	
Contracted services		50,442	
Other supplies		1,885	
Automotive supplies		3,289	
Employee training		1,264	
Equipment rental		1,325	
Dues and subscriptions		2,063	
Reimbursement from Water Fund		(76,954)	
Total	765,455	667,092	(98,363)
Legal Services:			
Professional services		257,239	
Reimbursement from Water Fund		(3,972)	
Total	271,028	253,267	(17,761)
Total General Government	6,655,090	6,432,930	(222,160)

## Public Safety:

## Police Department:

Salaries and wages	1,299,293
FICA expense	95,506
Group insurance	245,036
Group insurance - retiree	15,137
Retirement	93,644
401(k) account	61,193
Separation Allowance	30,000
Automotive supplies	76,714
Departmental supplies	28,011
Repairs and maintenance, vehicles	26,842
Repairs and maintenance, equipment	25,264
Telephone	15,890
Other supplies	33,490

## GENERAL FUND

Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual  
For the Year Ended June 30, 2014

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Uniforms		14,003	
Equipment rental		7,462	
Travel		6,051	
Professional services		9,680	
Employee training		2,854	
Postage		1,393	
Dues and subscriptions		1,024	
Advertising		107	
Contracted services		216	
Reimbursement from Water Fund		(6,827)	
Capital outlay, equipment		160,074	
Capital outlay, equipment Governors grant		19,984	
Debt service, capital lease		137,675	
Debt service, interest		2,168	
Total	<u>2,487,327</u>	<u>2,401,884</u>	<u>(85,443)</u>
Drug Forfeiture:			
Department supplies		2,961	
Telephone		-	
Total	<u>6,419</u>	<u>2,961</u>	<u>(3,458)</u>
Fire Department:			
Salaries and wages		1,384,897	
FICA expense		101,044	
Group insurance		279,954	
Retirement expense		99,032	
401(k) account		24,944	
Departmental supplies		55,555	
Departmental supplies, FEMA grant		32,435	
Repairs and maintenance, vehicles		28,788	
Uniforms		13,005	
Repairs and maintenance, equipment		7,272	
Automotive supplies		23,027	
Telephone		7,236	
Employee training		5,246	
OSHA Compliance		3,885	
Travel		7,085	
Safety training		4,979	
Other supplies		6,144	
Equipment rental		1,415	
Dues and subscriptions		2,109	
Professional services		10,303	
Postage		334	
Contracted Services		13,322	
Printing		519	
Capital outlay, equipment		474,103	
Capital outlay, equipment FEMA grant		63,925	
Debt service, capital lease		170,722	
Debt service, interest		32,711	

## GENERAL FUND

Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual  
For the Year Ended June 30, 2014

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Total	2,883,192	2,853,991	(29,201)
Volunteer Fire:			
Incentive pay		3,940	
FICA expense		192	
Uniforms		2,501	
Dues and subscriptions		390	
Training		300	
Professional services		8,350	
Retirement		5,700	
Department supplies		7,325	
Total	31,612	28,698	(2,914)
Ocean Rescue:			
Salaries and wages		413,869	
FICA expense		24,973	
Group insurance		6,667	
Retirement expense		3,705	
401(k) account		681	
Departmental supplies		29,336	
Uniforms		12,337	
Automotive supplies		15,142	
Repairs and maintenance, equipment		3,982	
Travel		2,537	
Repairs and maintenance, vehicles		1,250	
Professional fees		4,125	
Telephone		1,096	
Employee training		1,220	
Printing		528	
Dues and subscriptions		1,330	
Postage		86	
Capital outlay, equipment		9,043	
Debt service, capital lease		27,454	
Debt service, interest		962	
Total	564,177	560,323	(3,854)
Total Public Safety	5,972,727	5,847,857	(124,870)
Environmental Protection:			
Sanitation:			
Salaries and wages		356,668	
FICA expense		29,070	
Group insurance		72,529	
Group insurance - retiree		10,200	
Retirement		23,702	
401(k) account		1,454	
Repairs and maintenance, vehicles		158,904	
Automotive supplies		117,789	
Department supplies		11,629	

## GENERAL FUND

Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual  
For the Year Ended June 30, 2014

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Uniforms		3,162	
Contracted services		14,000	
Recycling		33,373	
Repairs and maintenance, equipment		2,490	
Telephone		2,398	
Employee training		100	
Travel		214	
Rollback refunds		1,187	
Advertising		348	
Capital outlay, equipment		256,836	
Debt service, capital lease		130,943	
Debt service, interest		4,910	
		<hr/>	
Total	1,310,121	1,231,906	(78,215)
		<hr/>	
Solid Waste:			
Tipping fees		626,778	
		<hr/>	
Total	661,137	626,778	(34,359)
		<hr/>	
Total Environmental Protection	1,971,258	1,858,684	(112,574)
		<hr/>	
Public Works:			
Administration:			
Salaries and wages		280,487	
FICA expense		20,446	
Group insurance		54,798	
Group insurance - retiree		18,522	
Retirement		19,811	
401(k) account		5,109	
Contracted services		6,058	
Purchase for resale		46,550	
Telephone		3,647	
Departmental supplies		5,683	
Other supplies		1,366	
Advertising		795	
Equipment rental		232	
Automotive supplies		4,479	
Employee training		737	
Travel		1,313	
Dues and subscriptions		1,318	
Postage		160	
Repairs and maintenance, vehicles		968	
Capital outlay, other		5,404	
Capital outlay, equipment		6,578	
Uniforms		479	
Professional fees		559	
Reimbursement from Water Fund		(142,965)	
		<hr/>	
Total	362,871	342,534	(20,337)

## GENERAL FUND

Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual  
For the Year Ended June 30, 2014

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Public Facilities Maintenance:			
Salaries and wages		376,641	
FICA expense		27,863	
Group insurance		79,203	
Retirement		26,090	
401(k) account		5,952	
Repairs and maintenance, facilities		37,860	
Utilities		189,112	
Contracted services		70,421	
Contracted services, Powell Bill		4,172	
Department supplies		17,021	
Repairs and maintenance, equipment		34,090	
Signs		13,986	
Automotive supplies		22,338	
Repairs and maintenance, other		65,547	
Other supplies		18,063	
Professional services		5,828	
Uniforms		2,820	
Repairs and maintenance, vehicles		7,283	
Employee training		550	
Travel		215	
Telephone		1,620	
Special Projects, sandfencing		24,000	
Street supplies, Powell Bill		21,425	
Dues and subscriptions		50	
Reimbursement from Water Fund		(50,112)	
Capital outlay, multi use path grant		186,211	
Capital outlay, buildings		46,880	
Capital outlay, other		51,748	
Capital outlay, equipment		310,059	
Capital outlay, other Powell Bill		116,740	
Capital outlay, land		1,507,653	
Capital outlay, land from water fund		300,000	
Debt service, capital lease		213,801	
Debt service, interest		10,858	
		<hr/>	
Total	3,989,086	3,745,988	(243,098)
		<hr/>	

## Maintenance Garage:

Salaries and wages	199,938
FICA account	14,907
Group insurance	38,253
Group insurance, retiree	10,605
Retirement	12,005
401(k) account	2,671
Other supplies	10,779
Departmental supplies	16,526
Uniforms	2,034
Contracted services	1,136

## TOWN OF NAGS HEAD, NORTH CAROLINA

Schedule 1

## GENERAL FUND

Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual  
For the Year Ended June 30, 2014

	<u>Budget</u>	<u>Actual</u>	Variance Over (Under)
Professional services		65	
Automotive supplies		1,125	
Repairs and maintenance, vehicles		730	
Employee training		2,215	
Repairs and maintenance, equipment		825	
Reimbursement from Water Fund		(8,760)	
Total	322,545	305,054	(17,491)
Total Public Works	4,674,502	4,393,576	(280,926)
Contingency	25,000	-	(25,000)
Total Expenditures	19,298,577	18,533,047	(765,530)
Revenues Over (Under) Expenditures	(2,643,460)	(2,109,700)	533,760
Other Financing Sources (Uses):			
Capital lease issued	939,119	938,539	(580)
Transfers to/from Capital Reserve Funds (Net)	(689,033)	(677,024)	12,009
Transfers from Capital Projects Fund (Net)			-
Appropriated Fund Balance	2,393,374	-	(2,393,374)
Other financing sources (uses), net	2,643,460	261,515	(2,381,945)
Net change in fund balance	<u>\$ -</u>	(1,848,185)	<u>\$ (1,848,185)</u>
FUND BALANCE, beginning		<u>10,698,494</u>	
FUND BALANCE, ending		<u>\$ 8,850,309</u>	

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual  
 For the Fiscal Year Ended June 30, 2014

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	Budget	Actual Amounts	Variance Over (Under)
Revenues:			
Investment earnings	\$ -	\$ 11,615	\$ 11,615
Total revenues	<u>-</u>	<u>11,615</u>	<u>11,615</u>
Other financing sources (uses):			
Transfers from other funds	1,369,935	1,858,926	488,991
Transfers to other funds	(181,902)	(181,902)	-
Appropriated Fund Balance	(1,188,033)	-	1,188,033
Total other financing sources (uses)	<u>-</u>	<u>1,677,024</u>	<u>1,677,024</u>
Net change in fund balance	<u>\$ -</u>	<u>1,688,639</u>	<u>\$ 1,688,639</u>
Fund balances, beginning of year		<u>1,627,359</u>	
Fund balances, end of year		<u>\$ 3,315,998</u>	

**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, 2014**

**Schedule 3**

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Actual Current Year</u>	<u>Total to Date</u>	<u>Variance Over (Under)</u>
<b>Revenues</b>					
Investment Earnings	\$ -	\$ 40,775	\$ 1,339	\$ 42,114	\$ 42,114
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>18,043,704</b>	<b>1,339</b>	<b>18,045,043</b>	<b>45,043</b>
<b>Expenditures</b>					
Professional Fees	330,713	345,530	8,563	354,093	23,380
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	450,327	192,165	642,492	(197,218)
Other Costs	1,571,162	1,570,308	-	1,570,308	(854)
<b>Total Expenditures</b>	<b>35,000,000</b>	<b>34,312,287</b>	<b>200,728</b>	<b>34,513,015</b>	<b>(486,985)</b>
<b>Revenues over (under) expenditures</b>	<b>(17,000,000)</b>	<b>(16,268,583)</b>	<b>(199,389)</b>	<b>(16,467,972)</b>	<b>532,028</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)	(1,027,251)	(1,000,000)	(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>18,000,000</b>	<b>(1,000,000)</b>	<b>17,000,000</b>	<b>-</b>
<b>Net change in fund balance</b>	<b>\$ -</b>	<b>\$ 1,731,417</b>	<b>(1,199,389)</b>	<b>\$ 532,028</b>	<b>\$ 532,028</b>
Fund balance, beginning of year			1,731,417		
Fund balance, end of year			<u>\$ 532,028</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, 2014

	<u>Budget</u>	<u>Actual</u>	Variance Over <u>(Under)</u>
REVENUES			
Operating Revenues:			
Water sales	\$ -	\$ 2,262,835	\$ -
Tap and connection fees		10,990	
Late payment penalties and interest		25,590	
Water cutoff tag fees		8,950	
Miscellaneous		1,764	
Total	<u>2,452,191</u>	<u>2,310,129</u>	<u>(142,062)</u>
Non-Operating Revenues:			
Interest earned on investments		24,255	
Impact fees		91,500	
Ammons Dare impact fees		4,000	
Total	<u>25,000</u>	<u>119,755</u>	<u>94,755</u>
Total Revenues	<u>2,477,191</u>	<u>2,429,884</u>	<u>(47,307)</u>
EXPENDITURES			
Administration:			
Salaries and wages		62,205	
FICA expense		4,487	
Group insurance		19,631	
Retirement expense		4,609	
401(k) account		414	
Reimburse General Fund administrative expenses		71,404	
Contracted services		3,474	
Postage		9,936	
Travel		221	
Supplies and materials		1,394	
Repairs and maintenance, equipment		797	
Bad debt		5,000	
Total Administration	<u>201,309</u>	<u>183,572</u>	<u>(17,737)</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, 2014**

	<u>Budget</u>	<u>Actual</u>	Variance Over <u>(Under)</u>
Septic Health:			
Salaries and wages		51,401	
FICA expense		3,625	
Group insurance		13,278	
Retirement		3,596	
401(k) account		944	
Contracted services		250	
Reimburse General Fund administrative expenses		107,471	
Inspection rebates		8,288	
Pumping credits		1,440	
Postage		1,629	
Travel		1,828	
Water quality testing		36,236	
Telephone		613	
Printing		2,619	
Employee training		833	
Automotive supplies		976	
Repairs and maintenance, vehicles		13	
Departmental supplies		274	
<b>Total Septic Health</b>	<b>244,156</b>	<b>235,314</b>	<b>(8,842)</b>
Operations:			
Salaries and wages		190,898	
FICA expense		14,279	
Group insurance		40,893	
Retirement		13,821	
401(k) account		2,633	
Purchases for resale		817,402	
Reimburse General Fund administrative expenses		190,077	
Insurance		47,626	
Utilities		57,138	
Contracted services		9,570	
Departmental supplies		24,445	
Professional fees		4,384	
Other supplies		5,409	
Repairs and maintenance, equipment		13,721	
Postage		295	

**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, 2014**

	<u>Budget</u>	<u>Actual</u>	Variance Over <u>(Under)</u>
Telephone		3,679	
Uniforms		1,188	
Dues and subscriptions		2,387	
Equipment rental		658	
Printing		3,975	
Automotive supplies		5,806	
Employee training		1,060	
Travel		485	
Advertising		161	
Repairs and maintenance, vehicles		945	
<b>Total Operations</b>	<b>1,463,177</b>	<b>1,452,935</b>	<b>(10,242)</b>
<b>Operations Distribution:</b>			
Salaries and wages		155,959	
FICA expense		11,646	
Group insurance		41,355	
Group insurance, retiree		11,635	
Retirement		11,413	
401(k) account		3,052	
Reimburse General Fund administrative expenses		146,048	
Contracted services		4,934	
Other supplies		11,585	
Repairs and maintenance, other		37,960	
Insurance		5,862	
Automobile supplies		11,084	
Departmental supplies		12,863	
Professional fees		111	
Uniforms		1,446	
Repairs and maintenance, vehicles		3,593	
Telephone		2,148	
Dues and subscriptions		1,139	
Advertising		1,266	
Repairs and maintenance, equipment		2,913	
Travel		1,632	
Employee training		2,409	
<b>Total Operations Distribution</b>	<b>494,414</b>	<b>482,053</b>	<b>(12,361)</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, 2014**

	<u>Budget</u>	<u>Actual</u>	Variance Over (Under)
TOTAL EXPENDITURES	2,403,056	2,353,874	(49,182)
REVENUES OVER (UNDER) EXPENDITURES	74,135	76,010	1,875
Other Sources and (Uses):			
Appropriated Retained Earnings	51,244	-	
Loan Proceeds	154,543	154,543	
Debt interest	(19,039)	(18,926)	
Debt principal	(123,394)	(121,134)	
Septic Health Loans provided to customers	(25,000)	(10,395)	
Principal repayments Septic Health Loans	10,000	17,990	
Sale of Capital Assets	300,000	300,000	
Capital outlay:			
Buildings	(9,900)	(9,858)	
Machinery and equipment	(157,069)	(156,793)	
Other	(205,520)	(44,457)	
Contingency	(50,000)	-	
Total Other Sources and (Uses)	(74,135)	110,970	185,105
Revenues and Other Sources Over (under) Expenditures and Other Uses	-	186,980	186,980

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

Revenues under expenditures	186,980
Reconciling items:	
Septic Health Loans	10,395
Principal repayments Septic Health Loans	(17,990)
Payment of debt principal	121,134
Decrease in accrued OPEB liability	1,970
Loan Proceeds	(154,543)
Sale of capital asset	(300,000)
Capital outlay	211,108
Depreciation and amortization	(263,290)
Change in net assets	<u>\$ (204,236)</u>

## Storm Water Fund

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

For the Fiscal Year Ended June 30, 2014

	<u>Budget</u>	<u>Actual</u>	Variance Over (Under)
REVENUES			
Operating Revenues:			
Storm Water Fees	\$ 114,384	\$ 115,364	\$ 980
Total	114,384	115,364	980
Nonoperating Revenues:			
Interest earned on investments	-	711	711
Total	-	711	711
Total Revenues	114,384	116,075	1,691
EXPENDITURES			
Utilities		1,967	
Automotive Supplies		2,088	
Water quality testing		1,320	
Department Supplies		2,172	
Repairs and maintenance, equipment		1,625	
Total Expenditures	49,400	9,172	40,228
Revenues Over (Under) Expenditures	64,984	106,903	41,919
Other Financing Sources (Uses)			
Appropriated retained earnings	35,016	-	
Interest		-	
Debt Principal		-	
Capital Outlay Other	(100,000)	(76,370)	
Total Other Financing Sources (Uses)	(64,984)	(76,370)	(11,386)
Revenues and other financing sources over (under) expenditures and other uses	\$ -	30,533	\$ 30,533

Storm Water Fund

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

For the Fiscal Year Ended June 30, 2014

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RECONCILIATION OF MODIFIED ACCRUAL BASIS  
TO FULL ACCRUAL BASIS

Revenues over (under) expenditures	30,533
Reconciling items:	
Capital Outlay	76,370
Payment of Debt Principal	
Depreciation	<u>(32,223)</u>
Change in net assets	<u>\$ 74,680</u>

**TOWN OF NAGS HEAD, NORTH CAROLINA**  
**Schedule of Ad Valorem Taxes Receivable**  
**June 30, 2014**

**Schedule 6**

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2013</u>	<u>Additions</u>	<u>Collection And Credits</u>	<u>Adjustments</u>	<u>Uncollected Balance June 30, 2014</u>
2013-2014		\$ 5,822,136	\$ 5,967,514	\$ 152,012	\$ 6,634
2013-2014 MSD		1,796,531	1,798,931	3,519	\$ 1,119
2012-2013	16,559		12,702	(264)	3,593
2012-2013 MSD	4,213		3,756		457
2011-2012	6,742		3,988	(28)	2,726
2011-2012 MSD	500		(4)		504
2010-2011	2,257	-	601		1,656
2009-2010	1,373	-	301	-	1,072
2008-2009	880	-	102	-	778
2007-2008	1,120	-	126	(6)	988
2006-2007	895	-	42	-	853
2005-2006	1,747	-	9	-	1,738
2004-2005	2,535	-	20	-	2,515
2003-2004	2,601	-	2,601	-	-

<u>\$ 41,422</u>	<u>\$ 7,618,667</u>	<u>\$ 7,790,689</u>	<u>\$ 155,233</u>	<u>\$ 24,633</u>
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Less allowance for uncollectible  
ad valorem taxes receivable

10,000

Ad Valorem Taxes Receivable, net

\$ 14,633

Reconciliation with revenues:

Taxes, ad valorem , General Fund	\$ 7,804,535
Amounts written off for tax year 2003-04	503
DMV written off	2,093
Amounts written off <\$1	10
Less penalties and interest	(16,452)
	<u>\$ 7,790,689</u>

**Town of Nags Head, North Carolina**  
**Analysis of Current Tax Levy**  
**For the Fiscal Year Ended June 30, 2014**

**Schedule 7**

	<b>Town - Wide</b>		<b>Total Levy</b>		
			Property Excluding Registered Motor Vehicles	Registered Motor Vehicles	
	Property Valuation	Rate	Total Levy		
Original levy:					
Property taxed at current year's rate	\$2,295,151,492	0.2570	\$5,898,397	\$5,820,100	\$ 78,297
Registered motor vehicle taxes taxed at prior year's rate	14,239,674	0.1775	25,275	-	25,275
Penalties			2,036	2,036	
<b>Total</b>	<b>2,309,391,166</b>		<b>5,925,708</b>	<b>5,822,136</b>	<b>103,572</b>
Discoveries:					
Current year taxes	19,722,824		50,670	50,482	188
Penalties			3	3	
<b>Total</b>	<b>19,722,824</b>		<b>50,673</b>	<b>50,485</b>	<b>188</b>
Releases:	(595,293)		(2,233)	(1,204)	(1,029)
<b>Total property valuation</b>	<b>\$ 2,328,518,697</b>				
Net levy			5,974,148	5,871,417	102,731
Uncollected taxes at June 30, 2014			(6,634)	(4,185)	(2,449)
Current year taxes collected			\$ 5,967,514	\$ 5,867,233	\$ 100,282
Current levy collection percentage			99.89%	99.93%	97.62%

# Dowdy & Osborne LLP

CERTIFIED PUBLIC ACCOUNTANTS

Jeff Dowdy, CPA • Teresa Osborne, CPA

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, each major fund, and the aggregated remaining fund information of the Town of Nags Head, North Carolina, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town of Nags Head's basic financial statements, and have issued our report thereon dated October 21, 2014

### Internal Control Over Financial Reporting

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

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

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

103 W. Woodhill Dr., Suite B • P.O. Box 9 • Nags Head, North Carolina 27959  
Telephone 252.449.4404 • Facsimile 252.449.6976

### Compliance and Other Matters

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

### Purpose of this Report

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

### *Dowdy & Osborne, LLP*

Dowdy & Osborne, LLP  
Certified Public Accountants

Nags Head, North Carolina

October 21, 2014