

**TOWN OF NAGS HEAD  
NORTH CAROLINA**

**BASIC FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2010**

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

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

**Town of Nags Head, North Carolina  
Basic Financial Statements  
For the Year Ended June 30, 2010**

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Basic Financial Statements  
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**Town of Nags Head, North Carolina  
Basic Financial Statements  
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# MARTIN ♦ STARNES & ASSOCIATES, CPAs, P.A.

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

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town of Nags Head, North Carolina, as of and for the year ended June 30, 2010, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Nags Head, North Carolina's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, business-type activities, each major fund, and the aggregate remaining fund information of the Town of Nags Head, North Carolina, as of June 30, 2010, the respective changes in financial position and cash flows, where appropriate thereof, and the respective budgetary comparison for the General Fund and Capital Reserve Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2010 on our consideration of the Town of Nags Head, North Carolina's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit prepared in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and the Law Enforcement Officers' Special Separation Allowance and Other Post-Employment Benefits' Schedule of Funding Progress and Schedule of Employer Contributions are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion thereon.

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

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

Martin Starnes & Associates, CPAs, P.A.  
September 23, 2010

## **Town of Nags Head, North Carolina**

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

As management of the Town of Nags Head, we offer readers of our financial statements this narrative overview and analysis of the financial activities of the Town of Nags Head for the fiscal year ended June 30, 2010. The Management's Discussion and Analysis (MD&A) section is designed to assist the reader in focusing on significant financial issues, provide an overview of the Town's financial activity, identify changes in the Town's financial condition, identify material deviations from the financial budget, and identify individual fund issues or concerns.

#### ***FINANCIAL HIGHLIGHTS***

The assets of the Town of Nags Head exceeded its liabilities at the close of the fiscal year by \$35,629,700 (net assets).

The Town's net assets decreased by \$432,472 over the prior year. The governmental net assets decreased by \$19,747 (-.079%). The business-type net assets decreased by \$412,725 (-3.68%).

At the end of the current fiscal year, the total unreserved fund balance for the General Fund was \$7,687,463, which is up by \$80,520 (+1.06%) from the prior year. The increase is due primarily to decreases in reserved fund balances and a slight increase to total fund balance. The adopted operating budget for FY 2009-2010 included the use of \$726,754 compared with actual used of zero due to freezing vacant positions and close monitoring of expenditures throughout the year. This unreserved fund balance represents 75.59% of total General Fund expenditures for the fiscal year up from 60.63% in the prior year.

The Town of Nags Head's total debt decreased by \$729,345 (-14.66%) during the current fiscal year.

The General Fund budget for the fiscal year ended June 30, 2010 was adopted with a tax rate of \$.1475 per \$100 assessed valuation reflecting no change from the prior year. Total assessed valuation increased from \$3,079,696,650 as of June 30, 2009 to \$3,093,808,747 as of June 30, 2010, an increase of \$14,112,097 (+.46%).

General Fund budget amendments during fiscal year 2009-2010 increased the adopted budget by \$41,534 with individual increases (decreases) by functional area noted below:

- General Government decreased by \$517,629 for reimbursements from the Water Fund for administrative oversight through the allocation of indirect costs, the allocation of cost of living salary increases to other departments, and reductions for positions frozen and eliminated.
- Public Safety increased by \$195,977 to fund capital purchases budgeted at the first year debt payment.
- Environmental Protection increased by \$79,944 for increased funding for tipping fees and by capital purchases budgeted at the first year debt payment amount.

- Public Works increased by \$55,174 due to capital purchases budgeted at the first year debt payment amount and November storm repair costs partially offset by the allocation of indirect costs.
- The amount budgeted for Interfund transfers increased by \$145,000 during the year to provide additional funding for engineering costs in the Beach Nourishment Fund due to continued delays in obtaining the permits for the project.

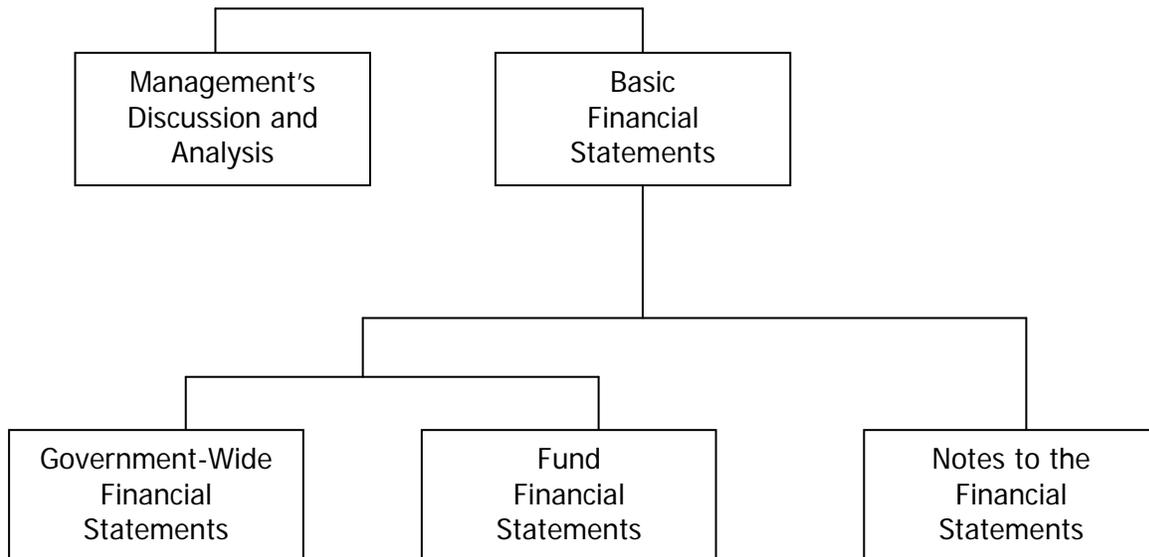
**Key Ratios**

% Debt to General Governmental Expenses	35.09%
% Property Tax Collection	99.68%
% Increase in Assessed Property Valuation	.46%

***OVERVIEW OF THE FINANCIAL STATEMENTS***

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

Figure 1 – Required Components of Annual Financial Report



## **A. Government-Wide Financial Statements**

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

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

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

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

## **B. Fund Financial Statements**

The fund financial statements provide more detailed information about the Town's major funds while focusing on the fiscal accountability. Funds are accounting devices that the Town uses to keep track of specific sources of funding, such as those required by State law, and spending for particular purposes. The Board of Commissioners establishes several funds to assure control, as well as good management, and to exhibit proper usage of certain taxes and grants. The Town of Nags Head, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes.

The Town has three types of funds:

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

*Proprietary Funds* – Services for which the Town charges customers a fee are generally reported in proprietary funds. Accounted for like the government-wide statements, proprietary funds provide both long and short-term financial information and, in addition, includes 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 also the trustee, or fiduciary, for the Beach Nourishment 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 assets and a statement of changes in fiduciary net assets. We exclude these activities from the government-wide financial statements because the Town cannot use these assets to finance its operations.

### **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.

#### **C. 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.

#### **D. Other Supplementary Information**

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

### ***GOVERNMENT-WIDE FINANCIAL ANALYSIS***

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town of Nags Head, assets exceeded liabilities by \$35,629,700 at the close of the fiscal year ended June 30, 2010. A large portion of the Town of Nags Head's net assets, \$23,066,185, represents its investment in capital assets (e.g. land, building, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding plus any loan proceeds not yet expended at the end of the fiscal year. The resources to repay the debt must be provided from sources other than capital assets, since it cannot be used to liquidate the liabilities.

An additional portion of the Town of Nags Head's net assets, \$107,450, represents resources that are subject to restrictions on how they may be used. The remainder of \$12,456,065 in unrestricted net assets is the residual amount of assets that can be used without constraints established by debt covenants, enabling legislation, or other legal requirements. However, it should be noted that only a portion of this amount is available and unobligated to finance additional day-to-day governmental activities or unforeseen circumstances in the future.

	Town of Nags Head's Net Assets					
	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Current and Other Assets	\$ 10,985,859	\$ 11,471,520	\$ 4,389,226	\$ 4,748,556	\$ 15,375,085	\$ 16,220,076
Capital Assets, Net	<u>17,774,367</u>	<u>17,969,939</u>	<u>7,939,782</u>	<u>8,055,481</u>	<u>25,714,149</u>	<u>26,025,420</u>
<b>Total Assets</b>	<u>28,760,226</u>	<u>29,441,459</u>	<u>12,329,008</u>	<u>12,804,037</u>	<u>41,089,234</u>	<u>42,245,496</u>
Long-Term Debt Outstanding	3,455,024	4,145,238	678,435	741,207	4,133,459	4,886,445
Other Liabilities	<u>470,037</u>	<u>441,309</u>	<u>856,038</u>	<u>855,570</u>	<u>1,326,075</u>	<u>1,296,879</u>
<b>Total Liabilities</b>	<u>3,925,061</u>	<u>4,586,547</u>	<u>1,534,473</u>	<u>1,596,777</u>	<u>5,459,534</u>	<u>6,183,324</u>
Investment in Capital Assets, Net of Related Debt	15,867,188	15,440,091	7,198,997	7,238,027	23,066,185	22,678,118
Restricted	107,450	149,282	-	-	107,450	149,282
Unrestricted	<u>8,860,527</u>	<u>9,265,539</u>	<u>3,595,538</u>	<u>3,969,233</u>	<u>12,456,065</u>	<u>13,234,772</u>
<b>Total Net Assets</b>	<u>\$ 24,835,165</u>	<u>\$ 24,854,912</u>	<u>\$ 10,794,535</u>	<u>\$ 11,207,260</u>	<u>\$ 35,629,700</u>	<u>\$ 36,062,172</u>

See Exhibit 1

Town of Nags Head's Changes in Net Assets

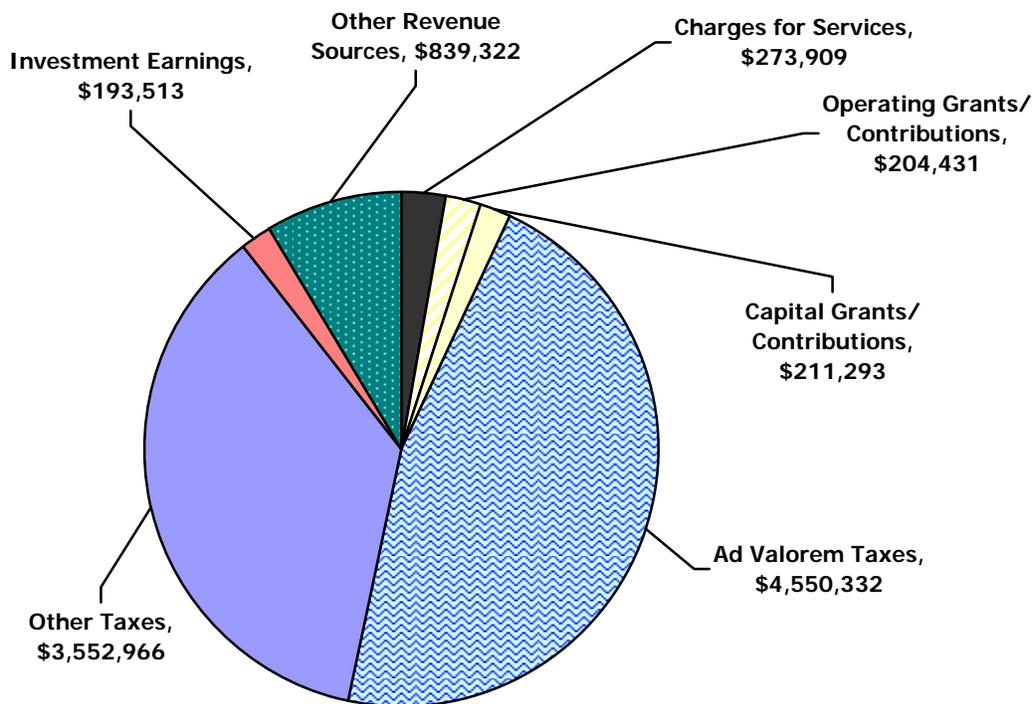
	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program Revenues:						
Charges for Services	\$ 273,909	\$ 409,665	\$ 2,189,146	\$ 2,504,781	\$ 2,463,055	\$ 2,914,446
Operating Grants	204,431	29,892	-	-	204,431	29,892
Capital Grants	211,293	1,331,002	153,509	151,000	364,802	1,482,002
General Revenues:						
Property Taxes	4,550,332	4,535,007	-	-	4,550,332	4,535,007
Other Taxes	3,552,966	3,676,271	-	-	3,552,966	3,676,271
Investment Income	193,513	350,256	11,913	58,187	205,426	408,443
Other	839,322	2,172,368	6,387	5,896	845,709	2,178,264
Total Revenues	<u>9,825,766</u>	<u>12,504,461</u>	<u>2,360,955</u>	<u>2,719,864</u>	<u>12,186,721</u>	<u>15,224,325</u>
Expenses:						
General Government	2,180,840	2,367,328	-	-	2,180,840	2,367,328
Public Safety	4,275,197	4,502,963	-	-	4,275,197	4,502,963
Public Works/Transportation	1,618,287	1,648,013	-	-	1,618,287	1,648,013
Environmental Protection	1,662,597	1,638,552	-	-	1,662,597	1,638,552
Interest on Long-Term Debt	108,592	135,207	-	-	108,592	135,207
Water Utility	-	-	2,773,680	2,997,628	2,773,680	2,997,628
Other	-	-	-	388,327	-	388,327
Total Expenses	<u>9,845,513</u>	<u>10,292,063</u>	<u>2,773,680</u>	<u>3,385,955</u>	<u>12,619,193</u>	<u>13,678,018</u>
Net Increase (Decrease) in Net Assets	(19,747)	2,212,398	(412,725)	(666,091)	(432,472)	1,546,307
Net Assets - July 1	<u>24,854,912</u>	<u>22,642,514</u>	<u>11,207,260</u>	<u>11,873,351</u>	<u>36,062,172</u>	<u>34,515,865</u>
Net Assets - June 30	<u>\$ 24,835,165</u>	<u>\$ 24,854,912</u>	<u>\$ 10,794,535</u>	<u>\$ 11,207,260</u>	<u>\$ 35,629,700</u>	<u>\$ 36,062,172</u>

See Exhibit 2

### A. Governmental Activities

Governmental activities decreased the Town of Nags Head's net assets by \$19,747. The governmental activities' revenues decreased by \$2,678,695, which included a decrease in grant revenue for the acquisition of real property of \$1,068,500 in the prior fiscal year. Ad valorem tax revenue was up by \$15,325 with other taxes down by \$123,305. Investment earnings decreased by \$156,743 due to declining market rate of return. Building permits were down for the sixth year in a row with a decrease of \$38,422.

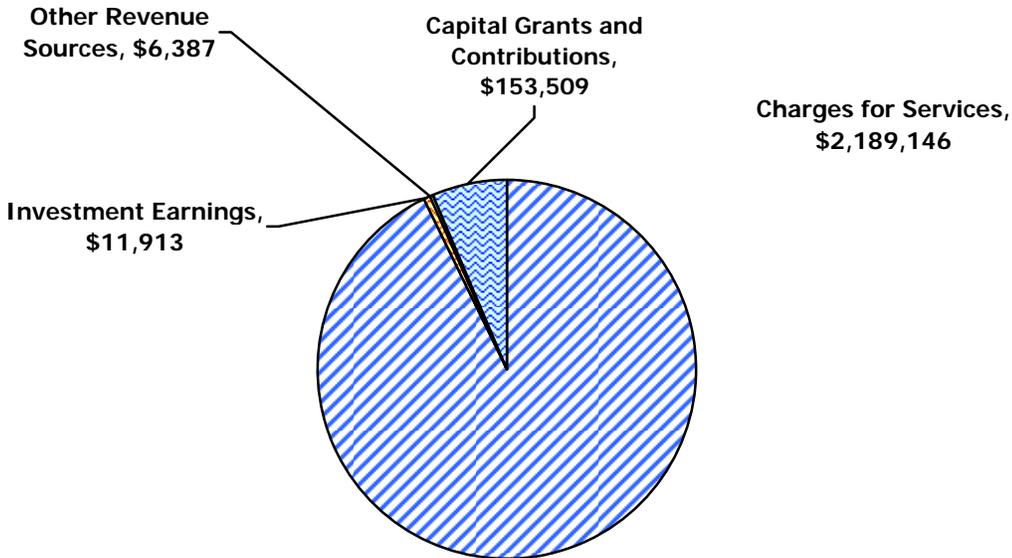
During the year, the Town's governmental expenses were \$9,845,513, a decrease of \$446,550 (-4.34%).



**Revenues by Source for Governmental-Type Activities**

## B. Business-Type Activities

Business-type activities decreased the Town of Nags Head's net assets by \$412,725. 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 \$315,879 and increased slightly in the Storm Water Fund by \$244 as compared to the preceding year.



**Revenues by Source for Business-Type Activities**

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

### **A. Governmental Funds**

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

The General Fund is the chief operating fund of the Town of Nags Head. At the end of the current fiscal year, unreserved fund balance of the General Fund increased by \$80,502 from \$7,606,961 at June 30, 2009 to \$7,687,463 at June 30, 2010. Total fund balance also increased by \$4,756 from \$8,999,672 as of June 30, 2009 to \$9,004,428 at June 30, 2010. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance at June 30, 2010 represents 75.59% of total General Fund expenditures compared with 60.63% for the prior year. Unreserved fund balance increased by more than total fund balance due to decreases in several restricted fund balance amounts including reserved for Encumbrances which decreased by \$98,988, a decrease in fund balance reserved for Restricted Assets of \$34,526, a decrease in reserved for Powell Bill of \$29,107, a decrease in fund balance reserved for Inventories of \$5,519, and a decrease in fund balance reserved for Prepaids of \$510. These are partially offset by increases in fund balances reserved for State Statute of \$71,103 and fund balance reserved for Drug Enforcement of \$21,801.

As of June 30, 2010, the governmental funds of the Town of Nags Head reported combined fund balance of \$9,463,981, a decrease of \$330,499 (-3.37 %) over last year. Included in this change in fund balance are decreases in fund balance in the Capital Reserve Fund, and the Beach Nourishment Project Fund is partially offset by an increase in fund balance in the General Fund.

### **B. Proprietary Funds**

The Town of Nags Head's proprietary funds provide the same type of information found in the government-wide statement, but in more detail. Unrestricted net assets of the Water Fund at the end of the fiscal year amounted to \$3,318,532. This represents a decrease of \$342,361 (-9.35%). Unrestricted net assets in the Storm Water Fund also decreased by \$31,336 to \$276,504.

### **C. Capital Assets**

The Town of Nags Head's investment in capital assets for its governmental and business-type activities as of June 30, 2010 totals \$25,714,149 (net of accumulated depreciation) which represents a decrease of \$311,271. 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:

- Construction of Phase III of the west side multi-use path at a total cost of \$240,132 which included a governmental share of \$81,685 and a business-type share of \$158,447 for storm water mitigation. Half of the entire project, excluding engineering costs, was funded by a grant from the Outer Banks Visitor's Bureau.
- On-going costs for construction engineering for the Town's Beach Nourishment Project increased capital assets by \$254,274 during the fiscal year.

	Town of Nags Head's Capital Assets					
	(net of depreciation)					
	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Land	\$ 7,857,513	\$ 7,857,513	\$ 2,453,473	\$ 2,453,473	\$ 10,310,986	\$ 10,310,986
Construction in Progress	927,117	680,438	20,770	10,320	947,887	690,758
Buildings	4,753,100	4,909,572	3,053,471	3,008,173	7,806,571	7,917,745
Other Improvements	1,726,507	1,661,500	-	-	1,726,507	1,661,500
Equipment	368,731	435,923	328,758	384,480	697,489	820,403
Vehicles	2,141,399	2,424,993	4,505	13,444	2,145,904	2,438,437
Intangibles	-	-	2,078,805	2,185,591	2,078,805	2,185,591
<b>Total</b>	<b>\$ 17,774,367</b>	<b>\$ 17,969,939</b>	<b>\$ 7,939,782</b>	<b>\$ 8,055,481</b>	<b>\$ 25,714,149</b>	<b>\$ 26,025,420</b>

See Exhibit 1

#### D. Long-Term Debt

As of June 30, 2010, the Town of Nags Head had no bonded debt. The Town's total debt decreased by \$729,345 for the year.

	Town of Nags Head's Outstanding Debt					
	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Finance Contracts	\$ 2,388,906	\$ 2,934,226	\$ 702,364	\$ 767,125	\$ 3,091,270	\$ 3,701,351
Capital Leases	523,273	808,578	38,422	50,329	561,695	858,907
Other Post-Employment Benefits	128,899	-	13,563	-	142,462	-
Net Pension Obligation	959	(24,662)	-	-	959	(24,662)
Compensated Absences	412,987	402,434	35,156	35,844	448,143	438,278
<b>Total</b>	<b>\$ 3,455,024</b>	<b>\$ 4,120,576</b>	<b>\$ 789,505</b>	<b>\$ 853,298</b>	<b>\$ 4,244,529</b>	<b>\$ 4,973,874</b>

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

The level of unemployment in Dare County ranged from 6.0% to 17.6% compared to the seasonally adjusted statewide average of 10.84% (up from 9.77% in the prior fiscal year).

Construction in fiscal year 2010 decreased overall in the Town of Nags Head by \$2,993,375 (-15.95%) from the previous year. The only increase over the prior year was in single family large construction which was up by \$881,000. There were decreases in both single family and miscellaneous of \$624,558 and \$171,227, respectively. Also, down was commercial construction by \$3,078,590. Review fees increased over the prior year by \$43,210, or 80.11%, and building permit fees decreased by \$11,777 for the sixth consecutive annual decrease.

The property tax base increased by .46% to \$3,093,808,747 in the fiscal year ended June 30, 2010. Occupancy tax which had exhibited continued strong growth for the Town in past years decreased in fiscal year 2009-2010 by \$65,866 or 3.63%, for the second year. Combined sales tax revenues were down from the prior year for a combined decrease of \$80,483, or 5.49%. Land transfer tax revenues increased for the first time in five years by \$22,970, or 6.40%. Investment earnings were also down by \$148,009 relative to the prior year due to the decline in market interest rates.

The Town's adopted budget for the fiscal year ending June 30, 2010 reflects no change in the property tax rate of .1475 per \$100 in assessed valuation compared to the previous year.

Considering the above indicators when adopting the operating budget for the next fiscal year, the Town's adopted 2010-2011 budget decreased by \$275,700 (-2.45%) over the 2009-2010 amended budget and decreased by \$317,234 (-2.81%) over the adopted budget for 2009-2010.

## ***BUDGET HIGHLIGHTS FOR THE FISCAL YEAR ENDING JUNE 30, 2011***

Governmental Activities: The adopted budget for fiscal year 2009-2010 is based on the estimated increased property valuation of \$3,093,808,747, up \$14,112,097 (+.46%) from the prior year valuation of \$3,079,696,650 with an increase in the tax rate of .01/\$100 to \$.1575/\$100. The adopted budget reflects a decrease of \$317,234 from the prior year's adopted budget. Decreases in projected funding include a reduction of \$60,000 in occupancy taxes, a reduction of \$225,000 in combined sales tax revenues, a reduction in building permit fees of \$32,500, a reduction in review fees of \$20,000, a \$40,000 decrease in projected revenues from investment income, a decrease in funding from Powell Bill of \$13,610, and a decrease in anticipated use of Fund Balance in the amount of \$211,022. To offset the continued declines in revenues and use of fund balance to balance the budget for the prior three years, the Town adopted a tax increase of .01 to .1575/\$100 from .1475/\$100 with projected tax revenues increasing by \$328,892. Land transfer revenues reflect an increase in anticipated revenue over the prior year of \$68,000.

Budgeted expenditures in the General Fund are generally down in all departments with the exception of those requiring either replacement capital items or new capital items such as the 800MHZ radios in Police, Fire, Ocean Rescue, and Animal Control. There were no funds included in the adopted budget for merit or cost of living increases in salaries and funding for non-law enforcement employees 401(k) funding was reduced from 3% to 1% for the entire fiscal year. Several positions remain frozen and unfunded and several positions that were funded in the prior fiscal year were not funded in the current operating budget including deputy manager, deputy planning director, and fire marshal positions. The only position added back was the previously frozen information technology support technician which was funded as a full-time position in FY 2010-2011 versus part-time funding in FY 2009-2010. Capital replacement was reduced to five vehicles, replacement financial and planning software, 800MHZ radios in public safety, and phone system replacement. There were no capital projects funded.

Business-Type Activities: The water rates in the Town were increased by 10% with the adoption of the operating budget for FY 2010-2011 to more adequately match the costs of operations and reduce or eliminate negative operating income and negative cash flow. This increased projected revenues from water sales by \$200,000 from \$2,033,092 in the prior year to \$2,223,092 for FY 2010-2011. Appropriated retained earnings will be used to fund the debt service on the new water tank of \$93,874, current year contingency in the amount of \$50,000 with funds not spent in the prior fiscal year, and a one-time use of fund balance for current year operating costs in the amount of approximately \$99,844.

### **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, North Carolina 27959 or by calling 252-441-5508.

**Town of Nags Head, North Carolina**  
**Statement of Net Assets**  
**June 30, 2010**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 6,002,804	\$ 3,860,316	\$ 9,863,120
Investments	2,786,459	-	2,786,459
Taxes receivable (net)	20,834	-	20,834
Accounts receivable (net)	43,036	478,449	521,485
Accrued interest receivable	157,064	-	157,064
Due from other governments	899,884	-	899,884
Inventories	70,272	50,391	120,663
Prepaid items	506	70	576
Total current assets	<u>9,980,859</u>	<u>4,389,226</u>	<u>14,370,085</u>
Non-current assets:			
Capital lease receivable	<u>1,005,000</u>	<u>-</u>	<u>1,005,000</u>
Capital Assets (Note 4):			
Land, non-depreciable improvements and construction in progress	8,784,630	2,474,243	11,258,873
Other capital assets, net of depreciation	<u>8,989,737</u>	<u>5,465,539</u>	<u>14,455,276</u>
Total capital assets	<u>17,774,367</u>	<u>7,939,782</u>	<u>25,714,149</u>
Total assets	<u>28,760,226</u>	<u>12,329,008</u>	<u>41,089,234</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	130,875	129,533	260,408
Accrued liabilities	254,748	16,839	271,587
Unearned revenue	63,937	220,000	283,937
Bonds and deposits	18,650	378,596	397,246
Due to other governments	1,827	-	1,827
Long-term liabilities:			
Due within one year	967,257	111,070	1,078,327
Due in more than one year	<u>2,487,767</u>	<u>678,435</u>	<u>3,166,202</u>
Total liabilities	<u>3,925,061</u>	<u>1,534,473</u>	<u>5,459,534</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	15,867,188	7,198,997	23,066,185
Restricted for:			
Powell Bill expenditures	70,436	-	70,436
Public safety enforcement	37,014	-	37,014
Unrestricted	<u>8,860,527</u>	<u>3,595,538</u>	<u>12,456,065</u>
Total net assets	<u>\$ 24,835,165</u>	<u>\$ 10,794,535</u>	<u>\$ 35,629,700</u>

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

**Town of Nags Head, North Carolina**  
**Statement of Activities**  
**For the Fiscal Year Ended June 30, 2010**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
<b>Primary Government</b>				
Governmental activities:				
General Government	\$ 2,180,840	\$ 269,415	\$ 12,955	\$ -
Public Safety	4,275,197	4,494	37,367	-
Public Works/Transportation	1,618,287	-	154,109	211,293
Environmental Protection	1,662,597	-	-	-
Interest on long-term debt	108,592	-	-	-
Total governmental activities (See Note 1)	<u>9,845,513</u>	<u>273,909</u>	<u>204,431</u>	<u>211,293</u>
Business-type activities:				
Water	2,735,581	2,076,534	-	90,000
Storm Water	38,099	112,612	-	63,509
Total business-type activities	<u>2,773,680</u>	<u>2,189,146</u>	<u>-</u>	<u>153,509</u>
Total primary government	<u>\$ 12,619,193</u>	<u>\$ 2,463,055</u>	<u>\$ 204,431</u>	<u>\$ 364,802</u>

General revenues:

Taxes:

Property taxes, levied for general purpose

Occupancy tax

Land transfer taxes

Sales taxes

Other taxes

Grants and contributions not restricted to specific programs

Unrestricted investment earnings

Miscellaneous

Transfers:

Total general revenues, special items and transfers

Total change in net assets

Net assets:

Beginning of year - July 1

End of year - June 30

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

## Exhibit 2

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Total
\$ (1,898,470)	\$ -	\$ (1,898,470)
(4,233,336)	-	(4,233,336)
(1,252,885)	-	(1,252,885)
(1,662,597)	-	(1,662,597)
(108,592)	-	(108,592)
(9,155,880)	-	(9,155,880)
-	(569,047)	(569,047)
-	138,022	138,022
-	(431,025)	(431,025)
(9,155,880)	(431,025)	(9,586,905)
4,550,332	-	4,550,332
1,748,369	-	1,748,369
382,123	-	382,123
1,384,626	-	1,384,626
37,848	-	37,848
619,175	-	619,175
193,513	11,913	205,426
220,147	6,387	226,534
9,136,133	18,300	9,154,433
(19,747)	(412,725)	(432,472)
24,854,912	11,207,260	36,062,172
\$ 24,835,165	\$ 10,794,535	\$ 35,629,700

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

**Town of Nags Head, North Carolina**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2010**

	Major Funds				Total
	General Fund	Capital Reserve Fund	Beach/Sound Accesses Fund	Beach Nourishment Fund	
<b>ASSETS</b>					
Cash and cash equivalents	\$ 5,578,123	\$ 392,668	\$ -	\$ 32,013	\$ 6,002,804
Investments	2,786,459	-	-	-	2,786,459
Taxes receivable (net)	20,834	-	-	-	20,834
Accounts receivable (net)	43,036	-	-	-	43,036
Accrued interest receivable	157,064	-	-	-	157,064
Due from other governments	899,884	-	-	-	899,884
Due from other funds	-	101,029	-	-	101,029
Inventories	70,272	-	-	-	70,272
Prepaid items	506	-	-	-	506
Capital lease receivable	1,005,000	-	-	-	1,005,000
<b>Total assets</b>	<b>\$ 10,561,178</b>	<b>\$ 493,697</b>	<b>\$ -</b>	<b>\$ 32,013</b>	<b>\$ 11,086,888</b>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	\$ 64,718	\$ -	\$ -	\$ 66,157	\$ 130,875
Accrued expenses	254,748	-	-	-	254,748
Bonds and deposits	18,650	-	-	-	18,650
Due to other funds	101,029	-	-	-	101,029
Due to other governments	1,827	-	-	-	1,827
Deferred revenue	1,051,841	-	-	-	1,051,841
Unearned revenue	63,937	-	-	-	63,937
<b>Total liabilities</b>	<b>1,556,750</b>	<b>-</b>	<b>-</b>	<b>66,157</b>	<b>1,622,907</b>
Fund balances:					
Reserved for:					
Encumbrances	64,760	-	-	704,069	768,829
Inventories	70,272	-	-	-	70,272
State statute	1,073,977	101,029	-	-	1,175,006
Streets - Powell Bill	70,436	-	-	-	70,436
Prepays	506	-	-	-	506
Drug enforcement	37,014	-	-	-	37,014
Unreserved:	7,171,731	-	-	(738,213)	6,433,518
Designated for future capital	-	258,038	-	-	258,038
Designated for next year budget	515,732	134,630	-	-	650,362
<b>Total fund balances</b>	<b>9,004,428</b>	<b>493,697</b>	<b>-</b>	<b>(34,144)</b>	<b>9,463,981</b>
<b>Total liabilities and fund balances</b>	<b>\$ 10,561,178</b>	<b>\$ 493,697</b>	<b>\$ -</b>	<b>\$ 32,013</b>	
Amounts reported for governmental activities in the Statement of Net Assets (Exhibit 1) are different because:					
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.					
					17,774,367
Liabilities for earned, but deferred, revenues in the fund statements.					
Deferred capital lease receivable					1,005,000
Deferred taxes receivable					20,834
Deferred miscellaneous receivable					26,007
Some liabilities, including bonds payable and accrued interest, are not due and payable in the current period and, therefore, are not reported in the funds.					
					(3,455,024)
Net assets of governmental activities					<u>\$ 24,835,165</u>

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

**Town of Nags Head, North Carolina**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Fiscal Year Ended June 30, 2010**

	Major Funds				Total
	General Fund	Capital Reserve Fund	Beach/Sound Accesses Fund	Beach Nourishment Fund	
<b>REVENUES</b>					
Ad valorem taxes	\$ 4,549,222	\$ -	\$ -	-	\$ 4,549,222
Other taxes and licenses	3,582,728	-	-	-	3,582,728
Unrestricted intergovernmental	589,413	-	-	-	589,413
Restricted intergovernmental	408,404	-	-	-	408,404
Permits and fees	220,715	-	-	-	220,715
Sales and services	4,494	-	-	-	4,494
Investment earnings	192,335	971	-	207	193,513
Miscellaneous	461,167	-	-	-	461,167
Total revenues	<u>10,008,478</u>	<u>971</u>	<u>-</u>	<u>207</u>	<u>10,009,656</u>
<b>EXPENDITURES</b>					
Current:					
General Government	2,089,958	-	-	-	2,089,958
Public Safety	3,910,242	-	-	-	3,910,242
Environmental Protection	1,389,622	-	-	-	1,389,622
Public Works	1,289,728	-	-	-	1,289,728
Debt service:					
Principal	936,526	-	-	-	936,526
Interest and other charges	108,592	-	-	-	108,592
Capital outlay	444,708	-	-	276,679	721,387
Total expenditures	<u>10,169,376</u>	<u>-</u>	<u>-</u>	<u>276,679</u>	<u>10,446,055</u>
Revenues over (under) expenditures	<u>(160,898)</u>	<u>971</u>	<u>-</u>	<u>(276,472)</u>	<u>(436,399)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers from other funds	231,131	26,377	-	145,000	402,508
Transfers to other funds	(171,377)	(231,131)	-	-	(402,508)
Installment purchase obligations issued	105,900	-	-	-	105,900
Total other financing sources (uses)	<u>165,654</u>	<u>(204,754)</u>	<u>-</u>	<u>145,000</u>	<u>105,900</u>
Net change in fund balances	4,756	(203,783)	-	(131,472)	(330,499)
Fund Balances:					
Beginning of year - July 1	<u>8,999,672</u>	<u>697,480</u>	<u>-</u>	<u>97,328</u>	<u>9,794,480</u>
End of year - June 30	<u>\$ 9,004,428</u>	<u>\$ 493,697</u>	<u>\$ -</u>	<u>\$ (34,144)</u>	<u>\$ 9,463,981</u>

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

**Town of Nags Head, North Carolina**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Governmental Funds**  
**For the Fiscal Year Ended June 30, 2010**

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

Net changes in fund balances - total governmental funds \$ (330,499)

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

Capital outlay	721,387	
Depreciation	<u>(916,960)</u>	(195,573)

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

Change in deferred revenue for tax and miscellaneous revenues		1,110
Change in deferred capital lease receivable		<u>(185,000)</u>

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets. This is the amount by which principal repayments exceeded the proceeds from lease purchase financing.

Debt issued	(105,900)	
Increase (decrease) in compensated absences	(10,553)	
Increase (decrease) in net pension obligation	(959)	
Increase (decrease) in other post-employment benefits	(128,899)	
Principal repayments	<u>936,526</u>	<u>690,215</u>

Total changes in net assets of governmental activities \$ (19,747)

**Town of Nags Head, North Carolina**  
**General Fund and Annually Budgeted Capital Reserve Fund**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual**  
**For the Fiscal Year Ended June 30, 2010**

	General Fund			Variance with Final Budget Over/Under
	Budgeted Amounts		Actual Amounts	
	Original	Final		
<b>REVENUES</b>				
Ad valorem taxes	\$ 4,502,424	\$ 4,507,824	\$ 4,549,222	\$ 41,398
Other taxes and licenses	3,608,000	3,608,000	3,582,728	(25,272)
Unrestricted intergovernmental	546,000	536,500	589,413	52,913
Restricted intergovernmental	233,715	362,939	408,404	45,465
Permits and fees	329,150	335,150	220,715	(114,435)
Sales and services	8,000	8,000	4,494	(3,506)
Investment earnings	145,000	145,000	192,335	47,335
Miscellaneous	529,254	553,219	461,167	(92,052)
Total revenues	<u>9,901,543</u>	<u>10,056,632</u>	<u>10,008,478</u>	<u>(48,154)</u>
<b>EXPENDITURES</b>				
Current:				
General Government	2,753,461	2,302,797	2,109,237	193,560
Public Safety	4,114,542	4,284,521	4,071,800	212,721
Environmental Protection	1,399,128	1,470,640	1,408,307	62,333
Public Works	1,673,873	1,653,650	1,534,914	118,736
Debt service:				
Principal	900,273	943,135	936,526	6,609
Interest and other charges	226,151	226,151	108,592	117,559
Contingency	125,000	125,000	-	125,000
Total expenditures	<u>11,192,428</u>	<u>11,005,894</u>	<u>10,169,376</u>	<u>836,518</u>
Revenues over (under) expenditures	<u>(1,290,885)</u>	<u>(949,262)</u>	<u>(160,898)</u>	<u>788,364</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers from other funds	664,131	249,131	231,131	(18,000)
Transfers to other funds	(100,000)	(245,000)	(171,377)	73,623
Installment purchase obligations issued	-	105,900	105,900	-
Appropriated fund balance	726,754	839,231	-	(839,231)
Total other financing sources (uses)	<u>1,290,885</u>	<u>949,262</u>	<u>165,654</u>	<u>(783,608)</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	4,756	<u>\$ 4,756</u>
Fund Balances:				
Beginning of year - July 1			<u>8,999,672</u>	
End of year - June 30			<u>\$ 9,004,428</u>	

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

**Exhibit 5**

Capital Reserve Fund			
Budgeted Amounts		Actual Amounts	Variance with Final Budget Over/Under
Original	Final		
\$ -	\$ -	\$ -	\$ -
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	971	971
-	-	-	-
-	-	971	971
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	971	971
100,000	100,000	26,377	(73,623)
(149,131)	(249,131)	(231,131)	18,000
-	-	-	-
49,131	149,131	-	(149,131)
-	-	(204,754)	(204,754)
-	-	-	-
\$ -	\$ -	(203,783)	\$ (203,783)
		697,480	
		\$ 493,697	

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

**Town of Nags Head, North Carolina**  
**Statement of Net Assets**  
**Proprietary Funds**  
**June 30, 2010**

	Enterprise Funds			
	Major Funds		Nonmajor Funds	Total
	Water Fund	Storm Water Fund	Nags Head Leasing	
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 3,644,750	\$ 215,064	\$ 502	\$ 3,860,316
Accounts receivable trade (net)	386,517	2,652	-	389,169
Accounts receivable other (net)	25,771	63,509	-	89,280
Prepays	70	-	-	70
Inventories	50,391	-	-	50,391
Total current assets	<u>4,107,499</u>	<u>281,225</u>	<u>502</u>	<u>4,389,226</u>
Capital assets:				
Land, non-depreciable improvements and construction in progress	2,463,793	10,450	-	2,474,243
Other capital assets, net of depreciation	5,240,544	224,995	-	5,465,539
Total capital assets (net)	<u>7,704,337</u>	<u>235,445</u>	<u>-</u>	<u>7,939,782</u>
Total assets	<u>11,811,836</u>	<u>516,670</u>	<u>502</u>	<u>12,329,008</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	125,471	4,062	-	129,533
Accrued liabilities	16,180	659	-	16,839
Unearned revenue	220,000	-	-	220,000
Customer deposits	376,151	-	-	376,151
Cash bonds	2,445	-	-	2,445
Compensated absences - current	31,907	-	-	31,907
Capital leases payable - current	66,817	12,346	-	79,163
Total current liabilities	<u>838,971</u>	<u>17,067</u>	<u>-</u>	<u>856,038</u>
Non-current liabilities:				
Other post-employment benefits	13,563	-	-	13,563
Compensated absences - non-current	3,250	-	-	3,250
Capital leases payable - non-current	635,546	26,076	-	661,622
Total non-current liabilities	<u>652,359</u>	<u>26,076</u>	<u>-</u>	<u>678,435</u>
Total liabilities	<u>1,491,330</u>	<u>43,143</u>	<u>-</u>	<u>1,534,473</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	7,001,974	197,023	-	7,198,997
Unrestricted	3,318,532	276,504	502	3,595,538
Total net assets	<u>\$ 10,320,506</u>	<u>\$ 473,527</u>	<u>\$ 502</u>	<u>\$ 10,794,535</u>

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

**Town of Nags Head, North Carolina**  
**Statement of Revenues, Expenses, and Changes in Fund Net Assets**  
**Proprietary Funds**  
**For the Fiscal Year Ended June 30, 2010**

	Enterprise Funds			Total
	Water Fund	Storm Water Fund	Nags Head Leasing	
<b>OPERATING REVENUES</b>				
Charges for services	\$ 2,027,983	\$ 112,612	\$ -	\$ 2,140,595
Tap and connection fees	12,585	-	-	12,585
Late payment penalties	24,299	-	-	24,299
Water tag fees	11,667	-	-	11,667
OBVB Grant	-	63,509	-	63,509
Miscellaneous	6,387	-	-	6,387
Total operating revenues	<u>2,082,921</u>	<u>176,121</u>	<u>-</u>	<u>2,259,042</u>
<b>OPERATING EXPENSES</b>				
Administration	173,171	-	-	173,171
Septic health	239,984	-	-	239,984
Operations	1,513,009	-	-	1,513,009
Distribution	506,338	-	-	506,338
Storm Water	-	25,612	-	25,612
Depreciation and amortization	273,966	10,630	-	284,596
Total operating expenses	<u>2,706,468</u>	<u>36,242</u>	<u>-</u>	<u>2,742,710</u>
Total operating income (loss)	<u>(623,547)</u>	<u>139,879</u>	<u>-</u>	<u>(483,668)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
Investment earnings	11,095	816	2	11,913
Interest expense	(29,113)	(1,857)	-	(30,970)
Total non-operating revenues (expenses)	<u>(18,018)</u>	<u>(1,041)</u>	<u>2</u>	<u>(19,057)</u>
Income (loss) before contributions and transfers	(641,565)	138,838	2	(502,725)
Capital contributions from impact fees	90,000	-	-	90,000
Change in net assets	(551,565)	138,838	2	(412,725)
<b>NET ASSETS</b>				
Beginning of year - July 1	<u>10,872,071</u>	<u>334,689</u>	<u>500</u>	<u>11,207,260</u>
End of year - June 30	<u>\$ 10,320,506</u>	<u>\$ 473,527</u>	<u>\$ 502</u>	<u>\$ 10,794,535</u>

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

**Town of Nags Head, North Carolina**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Fiscal Year Ended June 30, 2010**

	Business-Type Activities			Total
	Enterprise Funds			
	Water Fund	Storm Water Fund	Nags Head Leasing	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash received from customers	\$ 2,062,828	\$ 115,508	\$ -	\$ 2,178,336
Cash paid for goods and services	(1,709,240)	351	-	(1,708,889)
Cash paid to or on behalf of employees for services	(701,991)	(22,471)	-	(724,462)
Customer deposits received	(5,805)	-	-	(5,805)
Other operating revenues	6,387	-	-	6,387
Net cash provided (used) by operating activities	<u>(347,821)</u>	<u>93,388</u>	<u>-</u>	<u>(254,433)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Initial impact fees received	90,000	-	-	90,000
Interest paid on debt financing	(29,113)	(1,857)	-	(30,970)
Septic loans issued	(16,775)	-	-	(16,775)
Repayment of septic loans	14,091	-	-	14,091
Principal paid on debt financing	(64,761)	(11,907)	-	(76,668)
Acquisition of capital assets	-	(168,897)	-	(168,897)
Net cash provided (used) by capital and related financing activities	<u>(6,558)</u>	<u>(182,661)</u>	<u>-</u>	<u>(189,219)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest	<u>11,093</u>	<u>816</u>	<u>2</u>	<u>11,911</u>
Net increase (decrease) in cash and cash equivalents	<u>(343,286)</u>	<u>(88,457)</u>	<u>2</u>	<u>(431,741)</u>
Cash and Cash Equivalents:				
Beginning of year - July 1	<u>3,988,036</u>	<u>303,521</u>	<u>500</u>	<u>4,292,057</u>
End of year - June 30	<u>\$ 3,644,750</u>	<u>\$ 215,064</u>	<u>\$ 502</u>	<u>\$ 3,860,316</u>

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

**Town of Nags Head, North Carolina**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Fiscal Year Ended June 30, 2010**

	Business-Type Activities			Total
	Enterprise Funds			
	Water Fund	Storm Water	Nags Head Leasing	
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	<u>\$ (623,547)</u>	<u>\$ 139,879</u>	<u>\$ -</u>	<u>\$ (483,668)</u>
Adjustments to reconcile operating income(loss) to net cash provided (used) by operating activities:				
Depreciation and amortization	273,966	10,629	-	284,595
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable	(13,706)	2,896	-	(10,810)
(Increase) decrease in due from other governments	-	(63,509)	-	-
(Increase) decrease in inventories	4,662	-	-	4,662
(Increase) decrease in prepaids	(70)	-	-	-
Increase (decrease) in accounts payable	7,245	3,560	-	10,805
Increase (decrease) in accrued liabilities	(4,129)	(67)	-	(4,196)
Increase (decrease) in customer deposits	(5,805)	-	-	(5,805)
Increase (decrease) in accrued OPEB liability	<u>13,563</u>	<u>-</u>	<u>-</u>	<u>13,563</u>
Total adjustments	<u>275,726</u>	<u>(46,491)</u>	<u>-</u>	<u>229,235</u>
Net cash provided (used) by operating activities	<u>\$ (347,821)</u>	<u>\$ 93,388</u>	<u>\$ -</u>	<u>\$ (254,433)</u>

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

**Town of Nags Head, North Carolina  
Statement of Fiduciary Net Assets  
Fiduciary Funds  
June 30, 2010**

	Pension Trust	Private-Purpose Trust <u>Private Beach Nourishment</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 205,421	\$ 2,653
Total assets	205,421	2,653
<b>NET ASSETS</b>		
Held in trust for pension benefits and other purposes	\$ 205,421	\$ 2,653

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

**Town of Nags Head, North Carolina**  
**Statement of Changes in Fiduciary Net Assets**  
**Fiduciary Funds**  
**For the Fiscal Year Ended June 30, 2010**

	Pension Trust	Private-Purpose Trust Private Beach Nourishment
<b>ADDITIONS</b>		
Investment earnings	\$ 612	\$ 1
Total additions	<u>612</u>	<u>1</u>
<b>DEDUCTIONS</b>		
Benefits	34,839	-
Total deductions	<u>34,839</u>	<u>-</u>
Change in net assets	(34,227)	1
<b>NET ASSETS</b>		
Beginning of year - July 1	<u>239,648</u>	<u>2,652</u>
End of year - June 30	<u>\$ 205,421</u>	<u>\$ 2,653</u>

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

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2010**

**I. Summary of Significant Accounting Policies**

The accounting policies of the Town of Nags Head (the "Town") 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 Corporation is a not-for-profit corporation formed and operated for the purpose of providing financial assistance to the Town of Nags Head and to enable the Town to acquire water system improvements or other capital items. Nags Head Leasing Corporation is reported as an Enterprise Fund.

**B. Basis of Presentation**

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

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

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

**Town of Nags Head, North Carolina  
Notes to the Financial Statements  
For the Year Ended June 30, 2010**

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. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

The Town reports the following major governmental funds:

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

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

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

**Beach and Sound Access Project Fund.** This fund accounts for the Town's capital construction of new and improved beach and sound access sites.

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 nonmajor 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.

**Beach Nourishment Trust.** This is a fiduciary fund for private funding of beach nourishment. Donors may choose whether to donate funds unconditionally as a gift or based upon the condition of return if the project should not commence by January 1, 2013.

### **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.

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2010**

*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. Non-exchange 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.

Proprietary funds distinguish operating revenues and expenses from non-operating 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 non-operating revenues and expenses.

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

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of January 1, 1993, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, Dare County is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts in the County, including the Town of Nags Head. For registered motor vehicles property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, the Town's vehicle taxes for vehicles registered in Dare County from March 2009 through February 2010 apply to the fiscal year ended June 30, 2010. Uncollected taxes which were billed during this period are shown as a receivable on these financial statements.

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2010**

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

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

**D. Budgetary Data**

1. Budget

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

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

2. Encumbrances

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

At June 30, 2010, \$64,760 of open purchase orders and contracts were outstanding in the General Fund. These encumbrances outstanding are reported as "Reserved for Encumbrances" in the fund balance section of the balance sheet for the General Fund and will be re-appropriated in the subsequent year's budget. The Beach Nourishment Capital Project Fund had \$704,069 in outstanding encumbrances at June 30, 2010. The Water Fund had \$16,060 in encumbrances outstanding at June 30, 2010. There were no open purchase orders in any of the other Town funds.

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2010**

**E. Assets, Liabilities, and Fund Equity**

1. Deposits and Investments

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

State law [G.S. 159-30(c)] authorizes the Town to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances and the North Carolina Capital Management Trust (NCCMT), an 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, an SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued at fair value. Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost. Non-participating interest earning investment contracts are reported at cost.

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

2. Cash and Cash Equivalents

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

3. Restricted Assets

The unexpended debt proceeds of the General Fund and the Water Fund are classified as restricted assets because their use is completely restricted to the purpose for which the debt was originally issued. There were no restricted assets in any Town funds as of June 30, 2010.

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, 2009.

**Town of Nags Head, North Carolina  
Notes to the Financial Statements  
For the Year Ended June 30, 2010**

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 funds consist of materials and supplies held for subsequent use. The cost of these inventories is expensed when used or held for resale rather than when purchased.

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

7. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of five years. Minimum capitalization cost is \$5,000. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

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

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

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2010**

8. Long-Term Obligations

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

9. Compensated Absences

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

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

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

10. Net Assets/Fund Balances

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

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

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

The governmental fund types classify fund balances as follows:

**Reserved**

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

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2010**

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

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

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

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

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

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

**Unreserved**

Designated for subsequent year's expenditures – portion of the total fund balance available for appropriation that has been designated for the adopted 2010 – 2011 budget ordinance.

Designated for Government Access Channel Funding – portion of fund balance owed to the Government Access Channel pursuant to Memorandum of Understanding for future funding from the excess of PEG funds received over the amount requested from the Government Access Channel as of year-end.

Designated for future capital – portion of the total fund balance designated for funding capital expenditures in future years.

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

**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 Year Ended June 30, 2010**

**II. Stewardship, Compliance, and Accountability**

**A. Deficit in Fund Balance or Net Assets of Individual Funds**

For the year ending June 30, 2010, liabilities of the Beach Nourishment Fund exceeded the assets resulting in a negative fund balance of \$34,144. This occurred because of higher than anticipated engineering costs for the month of June in pursuit of permits for the project including required monitoring and testing. It is the intent of the Town's Board to fund these ongoing costs from the General Fund until to be reimbursed at the time funding for the project costs is obtained.

**III. 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, 2010, the Town's deposits had a carrying amount of \$10,070,194 and a bank balance of \$10,194,033. Of the bank balance, \$4,314,044 was covered by federal depository insurance and the remainder was covered by collateral held under the Pooling Method. At June 30, 2010, the Town's petty cash fund totaled \$1,000.

**Town of Nags Head, North Carolina  
Notes to the Financial Statements  
For the Year Ended June 30, 2010**

2. Investments

At June 30, 2010, the Town's investments were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less than</u>			
		<u>6 Months</u>	<u>6-12 Months</u>	<u>1-3 Years</u>	<u>3-10 Years</u>
GNMA Mortgage backed Securities	\$ 162,245	\$ -	\$ -	\$ -	\$ 162,245
NC Capital Management Trust -					
Cash Portfolio*	<u>2,624,214</u>	<u>-</u>	<u>2,624,214</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 2,786,459</u>	<u>\$ -</u>	<u>\$ 2,624,214</u>	<u>\$ -</u>	<u>\$ 162,245</u>

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

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

*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, all Government Obligations, and Agencies are rated AAA by Standard & Poor's as of June 30, 2010. 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, 2010.

*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. The Town has more than 5% invested in Government National Mortgage Association mortgage-backed securities. These investments are 5.82% of the Town's total investments.

**Town of Nags Head, North Carolina  
Notes to the Financial Statements  
For the Year Ended June 30, 2010**

3. Receivables

The receivables shown in Exhibit A at June 30, 2010 were as follows:

	<u>Accounts</u>	<u>Taxes</u>	<u>Due from Other Governments</u>	<u>Interest Receivable</u>	<u>Total</u>
<b>Governmental Activities:</b>					
General Fund	\$ 43,036	\$ 30,834	\$ 899,884	\$ 157,064	\$ 1,130,818
Allowance for doubtful accounts	<u>-</u>	<u>(10,000)</u>	<u>-</u>	<u>-</u>	<u>(10,000)</u>
Total governmental activities	<u>43,036</u>	<u>20,834</u>	<u>899,884</u>	<u>157,064</u>	<u>1,120,818</u>
<b>Business-Type Activities:</b>					
Water Fund	425,900	-	-	-	425,900
Storm Water Fund	66,161	-	-	-	66,161
Allowance for doubtful accounts	<u>(13,612)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(13,612)</u>
Total business-type activities	<u>\$ 478,449</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 478,449</u>

Due from other governments consisted of the following:

Occupancy tax	\$ 304,397
Land transfer tax	118,228
Sales taxes	216,621
Tax reimbursement	50,083
Due from NCEM	126,294
Due from DCTB	81,685
Other	<u>2,576</u>
Total	<u>\$ 899,884</u>

**Capital Lease Receivable**

The Town assisted the Outer Banks Family YMCA in obtaining tax-exempt financing for the YMCA property located within the Town of Nags Head. The Town acquired title to the YMCA property and borrowed funds from the Bank of America in the amount of \$3,721,000. The Town has entered into an agreement to lease the property to the YMCA for the total of the amount due under the financing arrangement and has no financial responsibility beyond lease payments. The outstanding balance as of June 30, 2010 was \$1,005,000. Total payments received under this lease for the fiscal year ended June 30, 2010 were \$200,217, and the payments made were \$185,000 in principal and \$15,217 in interest.

**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, 2010 was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases/ Transfers</u>	<u>Ending Balances</u>
<b>Governmental Activities:</b>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 7,857,513	\$ -	\$ -	\$ 7,857,513
Construction in progress	680,438	281,179	(34,500)	927,117
Total capital assets not being depreciated	<u>8,537,951</u>	<u>281,179</u>	<u>(34,500)</u>	<u>8,784,630</u>
<b>Capital assets being depreciated:</b>				
Buildings	7,085,446	-	34,500	7,119,946
Other improvements	1,995,512	223,329	-	2,218,841
Equipment	1,428,344	36,637	(31,442)	1,433,539
Vehicles and motorized equipment	5,781,395	180,242	(216,902)	5,744,735
Total capital assets being depreciated	<u>16,290,697</u>	<u>440,208</u>	<u>(213,844)</u>	<u>16,517,061</u>
<b>Less accumulated depreciation:</b>				
Buildings	2,175,874	190,972		2,366,846
Other improvements	334,011	158,323		492,334
Equipment	992,422	103,830	(31,443)	1,064,809
Vehicles and motorized equipment	3,356,402	463,835	(216,902)	3,603,335
Total accumulated depreciation	<u>6,858,709</u>	<u>\$ 916,960</u>	<u>\$ (248,345)</u>	<u>7,527,324</u>
Total capital assets being depreciated, net	<u>9,431,988</u>			<u>8,989,737</u>
<b>Governmental activity capital assets, net</b>	<u>\$ 17,969,939</u>			<u>\$ 17,774,367</u>

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

General Government	\$ 50,542
Public Safety	290,960
Public Works/Transportation	222,505
Environmental Protection	352,953
Total depreciation expense	<u>\$ 916,960</u>

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Capital asset activities for the business-type activities for the year ended June 30, 2010 are as follows:

	<u>Ending Balances</u>	<u>Increases</u>	<u>Decreases/ Transfers</u>	<u>Ending Balances</u>
<b>Business-Type Activities:</b>				
<b>Water Fund:</b>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 2,453,473	\$ -	\$ -	\$ 2,453,473
Construction in progress	10,320	-	-	10,320
Total capital assets not being depreciated	<u>2,463,793</u>	<u>-</u>	<u>-</u>	<u>2,463,793</u>
<b>Capital assets being depreciated:</b>				
Plant	5,451,834	-	(10,428)	5,441,406
Equipment	998,051	-	(49,974)	948,077
Vehicles	144,862	-	-	144,862
Intangibles	4,203,619	-	-	4,203,619
Total capital assets being depreciated	<u>10,798,366</u>	<u>-</u>	<u>(60,402)</u>	<u>10,737,964</u>
<b>Less accumulated depreciation for:</b>				
Plant	2,443,662	113,149	(10,428)	2,546,383
Equipment	690,748	45,092	(49,974)	685,866
Vehicles	131,418	8,939	-	140,357
Intangibles	2,018,028	106,786	-	2,124,814
Total accumulated depreciation	<u>5,283,856</u>	<u>\$ 273,966</u>	<u>\$ (60,402)</u>	<u>5,497,420</u>
Total capital assets being depreciated, net	<u>5,591,688</u>			<u>5,240,544</u>
Water Fund capital assets, net	<u>8,055,481</u>			<u>7,704,337</u>
<b>Storm Water Fund:</b>				
<b>Capital assets not being depreciated:</b>				
Construction in progress	-	10,450	-	10,450
Total capital assets not being depreciated	<u>-</u>	<u>10,450</u>	<u>-</u>	<u>10,450</u>
<b>Capital assets being depreciated:</b>				
Plant	-	158,447	-	158,447
Equipment	96,472	-	16,000	112,472
Total capital assets being depreciated	<u>96,472</u>	<u>158,447</u>	<u>16,000</u>	<u>270,919</u>
<b>Less accumulated depreciation for:</b>				
Furniture and equipment	19,294	10,630	16,000	45,924
Total accumulated depreciation	<u>19,294</u>	<u>\$ 10,630</u>	<u>\$ 16,000</u>	<u>45,924</u>
Total capital assets being depreciated, net	<u>77,178</u>			<u>224,995</u>
Storm Water Fund capital assets, net	<u>77,178</u>			<u>235,445</u>
<b>Business-type activities capital assets, net</b>	<u>\$ 8,132,659</u>			<u>\$ 7,939,782</u>

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The government has active construction projects as of June 30, 2010. At year-end, the government's estimated commitments to projects ongoing are as follows:

<u>Project</u>	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Beach Nourishment Fund	\$ 910,605	\$ 704,069
Total	<u>\$ 910,605</u>	<u>\$ 704,069</u>

**B. Liabilities**

1. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

*Plan Description*

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

*Funding Policy*

Plan members are required to contribute six percent of their annual covered salary. The Town is required to contribute at an actuarially determined rate. For the Town, the current rate for employees not engaged in law enforcement and for law enforcement officers is 4.88% and 4.86%, 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, 2010, 2009, and 2008 were \$255,984, \$277,133, and \$260,794, 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

**Town of Nags Head, North Carolina  
Notes to the Financial Statements  
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year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

All full-time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2009, 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	19
Total	21

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 zero or 0.00% 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, 2008 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 7.50% investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 4.5% to 12.3% per year. Item (b) included an inflation component of 3.75%. The assumptions did not include post-employment benefit increases. The actuarial value of assets was determined using the market value of investments. The unfunded actuarial accrued liabilities are being amortized as a level dollar amount on a closed basis. The remaining amortization period at December 31, 2008 was 22 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	\$ 25,855
Interest on net pension obligation	(1,788)
Adjustment to annual required contribution	1,554
Annual pension cost	25,621
Contributions made	-
Increase (decrease) in net pension obligation	25,621
Net pension obligation beginning of year	<u>(24,662)</u>
Net pension obligation end of year	<u><u>\$ 959</u></u>

**Three-Year Trend Information**

Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2008	\$ 15,956	0.0%	\$ (18,300)
2009	23,638	126.9%	(24,662)

As of December 31, 2009, the most recent actuarial valuation date, the plan was 60.76 percent funded. The actuarial accrued liability for benefits was \$370,148, resulting in an unfunded actuarial accrued liability (UAAL) of \$145,264. The covered payroll (annual payroll of active employees covered by the plan) was \$956,725, and the ratio of the UAAL to the covered payroll was 15.18 percent.

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 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.

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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, 2010 were \$65,176, which consisted of \$50,799 from the Town and \$14,377 from the law enforcement officers.

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

*Plan Description*

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

*Funding Policy*

The Town contributes an amount equal to three percent of each employee's salary (excluding law enforcement officers), and all amounts contributed are vested immediately. Employees may also make voluntary contributions to the plan. Total contributions for the year ended June 30, 2010 were \$210,136, which consisted of \$126,937 from the Town and \$83,199 from employees.

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

*Plan Description*

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

*Funding Policy*

Plan members are required to contribute \$10 per month to the Fund. The State, a non-employer contributor, funds the plan through appropriations. The Town contributes \$10 per month on behalf of each firefighter employed by the Town and each qualified member of the Nags Head Volunteer Fire Department. The Town's contributions for the three years ended June 30, 2010, 2009, and 2008 were \$3,310, \$3,340, and \$3,200, respectively.

**Town of Nags Head, North Carolina  
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f. Other Post-Employment Benefits

Healthcare Benefits:

*Plan Description*

According to a Town resolution, the Town administers a single-employer defined benefit healthcare plan. This plan provides healthcare 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 50% for retirees with 10 years or more of service, 75% with 15 years, and 100% with 20 years. Also, retirees can purchase coverage for their dependents at the Town's group rates. The Board of Commissioners may amend the benefit provisions. A separate report was not issued for the plan. Membership of the healthcare plan consisted of the following at December 31, 2008, the date of the latest actuarial valuation:

Retired members	7
Active members:	
General Employees	70
Firefighters	30
Law Enforcement	<u>22</u>
Total	<u><u>129</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 \$59 to \$835 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 3.37% of annual covered payroll. For the current year, the Town contributed \$50,581, or .88%, 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 \$33,723 for the year ended June 30, 2010.

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.

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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	\$	193,043
Interest on net OPEB obligation		-
Adjustment to annual required contribution		-
Annual OPEB cost (expense)		193,043
Contributions made		50,581
Increase (decrease) in net OPEB obligation		142,462
Net OPEB obligation, beginning of year		-
Net OPEB obligation, end of year	\$	142,462

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2010 were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2010	\$ 193,043	26.20%	\$ 142,462

Funded Status and Funding Progress. As of December 31, 2008, 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 \$1,737,866. The covered payroll (annual payroll of active employees covered by the plan) was \$5,725,487, and the ratio of the UAAL to the covered payroll was 30.40%. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**Town of Nags Head, North Carolina**  
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**For the Year Ended June 30, 2010**

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

In the December 31, 2008 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 10.50 to 5.00 percent annually. Both rates included a 3.75 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 five-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, 2008 was 30 years.

g. 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, 2010, the Town made contributions to the State for death benefits of \$6,740. The Town's required contributions for employees not engaged in law enforcement and for law enforcement officers represented .08% and .14% of covered payroll, respectively. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount.

**Town of Nags Head, North Carolina  
Notes to the Financial Statements  
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2. Payables

Payables at Exhibit A at June 30, 2010 were as follows:

	<u>Vendors</u>	<u>Salaries and Benefits</u>	<u>Accrued Interest</u>	<u>Customer Deposits</u>	<u>Total</u>
<b>Governmental Activities:</b>					
General Fund	\$ 64,718	\$ 254,748	\$ -	\$ 18,650	\$ 338,116
Beach Nourishment Fund	<u>66,157</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>66,157</u>
Total governmental activities	<u>\$ 130,875</u>	<u>\$ 254,748</u>	<u>\$ -</u>	<u>\$ 18,650</u>	<u>\$ 404,273</u>
<b>Business-Type Activities:</b>					
Water Fund	\$ 125,471	\$ 16,180	\$ -	\$ 378,596	\$ 520,247
Storm Water Fund	<u>4,062</u>	<u>659</u>	<u>-</u>	<u>-</u>	<u>4,721</u>
Total business-type activities	<u>\$ 129,533</u>	<u>\$ 16,839</u>	<u>\$ -</u>	<u>\$ 378,596</u>	<u>\$ 524,968</u>

3. Deferred/Unearned Revenues

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

	<u>Deferred Revenues</u>	<u>Unearned Revenues</u>
Prepaid taxes and privilege licenses (General Fund)	\$ -	\$ 32,302
Taxes and privilege licenses receivable (General Fund)	45,675	-
Capital Lease for YMCA (General Fund)	1,005,000	-
Special assessment receivable (General Fund)	-	-
Circuit breaker deferred receivable (General Fund)	643	-
Miscellaneous accounts receivable (General Fund)	523	-
Prepaid rent (General Fund)	-	31,635
Prepaid impact fees (Water Fund)	-	<u>220,000</u>
Total	<u>\$ 1,051,841</u>	<u>\$ 283,937</u>

4. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in self-funded risk-financing pools administered by the North Carolina League of Municipalities. Through these pools, the Town obtains general liability and auto liability coverage of \$2 million per occurrence, property coverage up to the total insurance values of the property policy, and workers' compensation coverage up to statutory limits. The pools are reinsured through commercial companies for single occurrence claims against general liability, auto liability, and property in excess of \$500,000 and \$300,000 up to statutory limits for workers' compensation. The property liability pool has an aggregate limit for the total property losses in a single year, with the reinsurance limit based upon a percentage of the total insurance values.

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

The Town carries flood insurance through the National Flood Insurance Plan (NFIP). Because the Town owns property in an area of the State that has been mapped and designated an "AE, A03, A04, C, 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 and has purchased commercial flood insurance for up to \$5,000,000 of coverage per structure for properties in C and X designated areas. The Town has also purchased commercial excess flood insurance in the amount of \$2,868,502 for its Town Hall structure and \$955,000 for its newest fire station.

In accordance with G.S. 159-29, the City's employees that have access to \$100 or more at any given time of the City'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.

5. Claims and Judgments

At June 30, 2010, the Town was a defendant to various lawsuits. In the opinion of the Town's management and the Town's Attorney, the ultimate effect of these legal matters will not have a material adverse effect on the Town's financial position.

6. Long-Term Debt

a. Capital Leases and Installment Finance Contracts

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

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

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For the Year Ended June 30, 2010**

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

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

The Town 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 Town currently has six leases outstanding for various vehicles and equipment. Annual payments range from \$12,984 to \$99,677. Expiration dates range from April 2011 to May 2013. Interest rates vary from 2.49% to 3.69%.

The gross value of all assets recorded under capital leases and installment finance contracts is \$7,045,984. The following is an analysis of the assets recorded under capital leases and installment finance contracts in the Town at June 30, 2010:

<u>Classes of Property</u>	<u>Cost</u>
Building	\$ 4,000,000
Land	500,000
Vehicles and equipment	<u>2,545,984</u>
Total	<u>\$ 7,045,984</u>

**Town of Nags Head, North Carolina  
Notes to the Financial Statements  
For the Year Ended June 30, 2010**

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

	<b>General Long-Term Debt</b>			<b>General Long-Term Debt</b>		<b>Current Portion</b>
	<b>July 1, 2009</b>	<b>Increases</b>	<b>Decreases</b>	<b>June 30, 2010</b>		
By Type of Debt:						
Finance contract	\$ 2,934,226	\$ -	\$ (545,320)	\$ 2,388,906	\$ 448,537	
Capital leases	808,578	105,900	(391,205)	523,273	249,728	
Post-employment benefits	-	128,899	-	128,899	-	
Net pension obligation	(24,662)	25,621	-	959	-	
Compensated absences	402,434	268,992	(258,439)	412,987	268,992	
Total	<u>\$ 4,120,576</u>	<u>\$ 529,412</u>	<u>\$ (1,194,964)</u>	<u>\$ 3,455,024</u>	<u>\$ 967,257</u>	

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

	<b>General Long-Term Debt</b>			<b>General Long-Term Debt</b>		<b>Current Portion</b>
	<b>July 1, 2009</b>	<b>Increases</b>	<b>Decreases</b>	<b>June 30, 2009</b>		
By Type of Debt:						
Finance contract	\$ 767,125	\$ -	\$ (64,762)	\$ 702,363	\$ 66,817	
Capital leases	50,329	-	(11,907)	38,422	12,346	
Post-employment benefits	-	13,563	-	13,563	-	
Compensated absences	35,844	31,907	(32,594)	35,157	31,907	
Total	<u>\$ 853,298</u>	<u>\$ 45,470</u>	<u>\$ (109,263)</u>	<u>\$ 789,505</u>	<u>\$ 111,070</u>	

**Town of Nags Head, North Carolina  
Notes to the Financial Statements  
For the Year Ended June 30, 2010**

b. Changes in Long-Term Liabilities

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

	<u>Balance July 1, 2009</u>	<u>Earned</u>	<u>Used</u>	<u>Balance June 30, 2010</u>
General Fund:				
General Government	\$ 99,899	\$ 68,767	\$ 61,651	\$ 107,015
Public Safety	209,158	135,144	127,944	216,358
Public Works/Transportation	68,126	42,872	43,381	67,617
Environmental Protection	25,251	22,209	25,463	21,997
Total	<u>\$ 402,434</u>	<u>\$ 268,992</u>	<u>\$ 258,439</u>	<u>\$ 412,987</u>
Proprietary Fund	<u>\$ 35,844</u>	<u>\$ 31,907</u>	<u>\$ 32,594</u>	<u>\$ 35,157</u>

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 698,265	\$ 177,786
2011	473,099	142,752
2012	390,538	113,926
2013	295,046	87,168
2014	295,046	63,816
2015 - 2019	<u>760,185</u>	<u>71,691</u>
Total	<u>\$ 2,912,179</u>	<u>\$ 657,139</u>

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 79,163	\$ 28,475
2012	82,192	25,447
2013	85,335	22,303
2014	74,836	19,039
2015	77,717	16,158
2016 - 2020	<u>341,542</u>	<u>33,954</u>
Total	<u>\$ 740,785</u>	<u>\$ 145,376</u>

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2010**

Amortization of assets acquired under capital leases in Enterprise Funds is included in depreciation. At June 30, 2010, the Town of Nags Head, North Carolina, has a legal debt margin of \$243,851,735.

7. 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, 2010 are as follows:

<u>Year Ended June 30</u>	<u>Amount</u>
2011	\$ 5,925
2012	5,925
2013	5,925
2014	5,925
2015	<u>5,431</u>
Total	<u>\$ 29,131</u>

During the year ended June 30, 2010, the total amount expended by the Town under the above operating lease was \$991 including both minimum monthly rentals and per copy charges.

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

Total minimum lease payments for the remaining term of the contract at June 30, 2010, are as follows:

<u>Year Ended June 30</u>	<u>Amount</u>
2011	\$ 2,904
2012	2,904
2013	2,904
2009	<u>742</u>
Total	<u>\$ 9,454</u>

**Town of Nags Head, North Carolina  
Notes to the Financial Statements  
For the Year Ended June 30, 2010**

During the year ended June 30, 2010, the total amount expended by the Town under the above operating lease was \$4,008 including both minimum monthly rentals and overage per copy charges. The Town leases office and laboratory space to North Carolina University Systems for a period of ten years beginning in May 2005 through December 2013 for an annual rental amount of \$35,000. During the year ending June 30, 2009, this was increased for a one-time reimbursement of \$34,500 for leasehold improvements to the office space. Of the \$34,500, \$30,000 was for improvement costs incurred in FY 08-09 with the remaining \$4,500 for completion in FY 09-10. The total earned under this lease in the year ended June 30, 2010 was \$39,500.

The Town also leases space on the water tower in south Nags Head and the newly constructed cell tower at Town Hall. Under a construction services and structure license agreement with AT&T dated February 6, 2008, AT&T agreed to construct a cell tower at their cost to be transferred to the Town of Nags Head upon completion in exchange for reduced monthly rentals for leased space on the tower for the length of time needed to abate the full cost of construction. The costs to construct the tower to which the Town took ownership in the year ended June 30, 2009 was \$279,577. The amount earned for the year ended June 30, 2010 was \$6,873 with rent abatement in the amount of \$20,627. The total amount of rental abatement to date is \$40,475. AT&T also leases space on the water tower in south Nags Head through June 2012 which earned \$26,291 for the year ending June 30, 2010. Additional space leased on the cell tower at Town Hall with Verizon through August 2014 and with Ntelos through June 2010 earned \$27,823 and \$27,012, respectively, for the year ended June 30, 2010.

**8. Interfund Balances and Activity**

The balance sheet for Government Funds shows a liability in the General Fund of \$101,029 and a corresponding receivable in the Capital Reserve Fund. The original advance amount of \$438,481 represents reimbursement of funds collected in the Capital Reserve Fund originally intended to offset the cost of the municipal complex. Instead, these funds were used to pay off the higher interest rate Fire Station debt. This amount is to be paid back from the General Fund to the Capital Reserve Fund with fire facility fee revenues. The amounts and timing of the repayments will be determined by availability of collected fees and decided by the Board of Commissioners. During the current year, repayment was made in the amount of \$24,000.

Transfers to/from other funds for the year ended June 30, 2010 consisted of the following:

From the General Fund to the Capital Reserve Fund for future capital purchases	\$ 26,377
From the General Fund to the Beach Nourishment Fund for current year capital purchases	145,000
From the Capital Reserve Fund to the General Fund for current year capital purchases	<u>231,131</u>
Total	<u><u>\$ 402,508</u></u>

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2010**

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

For the fiscal year ended June 30, 2010, the Town has recognized on-behalf payments for pension contributions made by the State as a revenue and an expenditure of \$3,416 for the 12 volunteer firemen who perform firefighting duties for the Town's Fire Department. The volunteers and employees elected to be members of the Firemen and Rescue Squad Workers' Pension Fund, a cost-sharing, multiple-employer public employee retirement system established and administered by the State of North Carolina. The plan is funded by a \$10 monthly contribution paid by each member, investment income, and a State appropriation.

**V. Joint Ventures**

The Town and the members of the Town's fire department each appoint two members to the five-member local board of trustees for the Firemen's Relief Fund. The State Insurance Commissioner appoints one additional member to the local board of trustees. The Firemen's Relief Fund is funded by a portion of the fire and lightening insurance premiums that insurers remit to the State. The State passes these monies to the local board of the Firemen's Relief Fund. The funds are used to assist firefighters in various ways. The participating governments do not have any equity interest in the joint venture, so no equity has been reflected in the financial statements at June 30, 2010. The Firemen's Relief Fund does not issue separate audited financial statements. Instead, the local board of trustees files an annual financial report with the State Firemen's Association. This report can be obtained from the Association at 323 West Jones Street, Suite 401, Raleigh, North Carolina 27603.

On November 14, 2008, the Town acquired a 17.949% interest in property owned jointly with the Outer Bank's Visitor's 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 Visitor's Bureau. A memorandum of understanding formalizing the cost and revenue sharing for the property was signed during the current fiscal year. Costs incurred during the year ended June 30, 2010 for insurance, utilities, and maintenance reimbursed under the terms of the memorandum of understanding from the rental revenues received for the property.

**VI. 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 monies 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 monies.

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2010**

**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. Design plans for the renovation of the property are complete and construction began in the spring of 2009 with expected completion by May of 2011.

**C. Municipal Waste Management Agreement**

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

On December 3, 2008, the Town approved a Municipal Waste Management Agreement with Dare County, a member of the Albemarle Regional Solid Waste Authority, for disposal of solid waste as contracted through Republic Services. The contract extends for 26 years and became effective when signed by all parties to the agreement as of May 1, 2009. Charges are based on the Town's actual tonnage of solid waste; the rate in effect in the 2009-2010 year was \$69.07 per ton.

**D. Volunteer Fire Department Agreement**

The Board of Commissioners maintains an agreement with the Nags Head Volunteer Fire Department (NHVFD) that calls for incentive pay based on an individual member's qualifications and call response. Billing for the incentive is based on the twelve-month period of November through October each year. Under the agreement, it is the obligation of NHVFD to provide an accurate accounting of the incentive earned at various intervals during the year including the Town's fiscal year-end. The amount expended under this agreement in the current fiscal year was \$3,057. 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, 2009 was \$2,870 plus an additional \$187 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.

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2010**

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, 2010, accumulated amortization totaled \$2,124,814.

On August 21, 1996, the Town approved a revised agreement with Dare County and the Town of Kill Devil Hills which allocates 3,500,000 gallons per day of water from the system capacity, inclusive of expansions. The Town of Nags Head will bear all costs and expenses associated with expansions requested or required by the Town. This agreement was signed on October 4, 1996.

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

**F. Water Impact Fees**

The Town entered into a letter of understanding with the Ammons-Dare Corporation (its successors and assigns) for the provision of water to the Village of Nags Head Development. The Town guarantees 1,000 water consumption units (WCU) will be available for the development. Ammons-Dare Corporation has agreed to pay an impact fee of \$2,000 per WCU in advance in the form of an irrevocable letter of credit in the amount of \$2,000,000. As of June 30, 2009, 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 694 WCU's which are guaranteed by the Town and are valued at \$1,384,000. The Town reimbursed Ammons-Dare Corporation for 100 unused WCU's in the amount of \$200,000 during the fiscal year ending June 30, 1992, 50 unused WCU's in the amount of \$100,000 during the fiscal year ending June 30, 1993, 15 units in the amount of \$30,000 during the fiscal year ending June 30, 1995, and 31 units in the amount of \$62,000 in the year ended June 30, 1996. The remaining 110 WCU's in the amount of \$220,000 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.

**Town of Nags Head, North Carolina  
Notes to the Financial Statements  
For the Year Ended June 30, 2010**

For the year ended June 30, 2010, the following Facility Fee Revenue (including interest) was collected in the General Fund:

Administration	\$	6,378
Fire		3,925
Police		5,842
Sanitation		5,836
Recreation		4,396
Total		\$ 26,377

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, 2010, 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, 2010, administration facility fees in the amount of \$31,500 and police facility fees in the amount of \$13,500 were used toward the municipal complex debt. Police facility fees of \$11,533 were used for a portion of new police vehicle debt. Fire facility fees of \$24,000 were used toward the interfund loan used to satisfy the previous fire station debt. There was \$22,000 in sanitation facility fees used toward the debt for new equipment

As of June 30, 2010, the following balances of facility fees remained, and are included in the Capital Reserve Fund:

Administration	\$	89,663
Fire		7,077
Police		153,542
Sanitation		9,977
Recreation		44,021
Total		\$ 304,280

**Town of Nags Head, North Carolina  
Notes to the Financial Statements  
For the Year Ended June 30, 2010**

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

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

	<u>Administration</u>	<u>Fire</u>	<u>Police</u>	<u>Sanitation</u>	<u>Recreation</u>	<u>Total</u>
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 08-09	6,378	3,925	5,842	5,836	4,396	26,377
<b>Total</b>	<u>\$ 666,524</u>	<u>\$ 502,787</u>	<u>\$ 552,210</u>	<u>\$ 375,123</u>	<u>\$ 250,385</u>	<u>\$ 2,347,029</u>

**Town of Nags Head, North Carolina  
Notes to the Financial Statements  
For the Year Ended June 30, 2010**

**Facility Fees Used:**

	<u>Administration</u>	<u>Fire</u>	<u>Police</u>	<u>Sanitation</u>	<u>Recreation</u>	<u>Total</u>
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 08-09	<u>31,500</u>	<u>24,000</u>	<u>25,033</u>	<u>22,000</u>	<u>-</u>	<u>102,533</u>
Total	<u>576,861</u>	<u>495,710</u>	<u>398,668</u>	<u>365,146</u>	<u>206,364</u>	<u>2,042,749</u>
Remaining	<u>\$ 89,663</u>	<u>\$ 7,077</u>	<u>\$ 153,542</u>	<u>\$ 9,977</u>	<u>\$ 44,021</u>	<u>\$ 304,280</u>

**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 on December 20, 2006 to increase the total estimated costs of the project to \$32,700,000 with \$24,000,000 funded by bond proceeds, \$8,000,000 funded by contribution from Dare County, and the remaining \$700,000 funded by a transfer from the General Fund. The project ordinance was further amended December 2, 2009, to increase the total cost of the project to \$32,720,000 with increased funding from the contribution from General Fund increasing to \$720,000. The project ordinance was amended a second time this fiscal year on June 16, 2010 to increase the total project costs by \$125,000 to \$32,845,000 with an increase in funding from the contribution from General Fund to \$845,000. Additionally, funding from Dare County was increased by \$10,000,000, from \$8,000,000 to \$18,000,000, and funding from bond proceeds was decreased by the same amount from \$24,000,000 to \$14,000,000 with the intent to use revenue bonds rather than general obligation bond funding.

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2010**

The initial phase of that project is a contract for the engineering and construction oversight in the amount of \$1,592,500. The contract allows for cancellation at any time by either party upon payment of costs incurred through the date of cancellation. The bond referendum held during April 2007 was not approved by all districts as required for the issuance of bonds to fund the project. It is the intent of the Board to continue through completion of the permitting process with costs incurred through that date funded by the transfer from the General Fund. The total amount expended under this contract at June 30, 2006 was \$200,347. During the year ended June 30, 2007, an additional \$206,117 was expended under this contract, in addition to \$21,701 in attorney's fees related to the project and the referendum. During the year ended June 30, 2008, an additional \$60,535 was expended under this contract. During the year ended June 30, 2009, an additional \$144,751 was expended under this contract, in addition to \$475 for permit fees. During the year ended June 30, 2010, an additional \$276,679 was expended under this contract. Total costs incurred through June 30, 2010 include \$888,429 for engineering and construction oversight and \$22,176 in attorneys' fees and other costs.

The Town is proceeding with the procurement of permits for the project with the intent of starting the project in spring of 2011.

**Town of Nags Head, North Carolina**  
**Law Enforcement Officers' Special Separation Allowance**  
**Required Supplementary Information**  
**Schedule of Funding Progress**  
**For the Fiscal Year Ended June 30, 2010**

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	224,885	370,148	145,264	60.76%	956,725	15.18%

\* 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  
For the Fiscal Year Ended June 30, 2010**

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Year Ended June 30	Annual Required Contribution	Percentage Contributed
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%

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**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	12/31/2009
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	21 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	5.00%
Projected salary increases *	4.5 - 12.3%
* Includes inflation at	3.75%
Cost-of-living adjustments	N/A

**Town of Nags Head, North Carolina  
Other Post-Employment Benefits  
Required Supplementary Information  
Schedule of Funding Progress  
For the Fiscal Year Ended June 30, 2010**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll [(b-a)/c]
12/31/2008	\$ -	\$ 1,737,866	\$ 1,737,866	0.00%	#####	30.40%

**Town of Nags Head, North Carolina  
Other Post-Employment Benefits  
Required Supplementary Information  
Schedule of Employer Contributions  
For the Fiscal Year Ended June 30, 2010**

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2010	\$ 193,043	0.00%

**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	12/31/2008
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	10.50 - 5.00%
Year of Ultimate trend rate	2016
* Includes inflation at	3.75%

**Town of Nags Head, North Carolina**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual - General Fund**  
**For the Fiscal Year Ended June 30, 2010**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
<b>REVENUES</b>			
Ad Valorem Taxes:			
Current year		\$ 4,504,468	
Discounts		(27,082)	
Prior year		12,686	
DMV current year		44,755	
DMV prior year		1,782	
Penalties and interest		<u>12,613</u>	
Total	<u>\$ 4,507,824</u>	<u>4,549,222</u>	<u>\$ 41,398</u>
Other Taxes and Licenses:			
Occupancy tax		1,748,369	
Land transfer tax		382,123	
Local governmental sales tax		788,670	
1/2% sales tax revenue		595,956	
Privilege licenses		36,455	
Mixed beverage tax		29,762	
Privilege license penalties		<u>1,393</u>	
Total	<u>3,608,000</u>	<u>3,582,728</u>	<u>(25,272)</u>
Intergovernmental Revenues:			
Unrestricted:			
Utility franchise tax		317,334	
Telecommunications tax		61,411	
Natural gas franchise fee		687	
Solid waste disposal fees		2,149	
Video programming tax/franchise fees		174,600	
Cable franchise - PEG Fund fees		19,173	
Beer and wine		4,410	
ABC revenue		<u>9,649</u>	
Total	<u>536,500</u>	<u>589,413</u>	<u>52,913</u>
Restricted:			
NCEM reimbursement		126,294	
Contributions from governmental units		6,951	
State Street Aid allocation		116,195	
DCTB Grant		81,685	
Dare County Sandfencing reimbursement		27,815	
Drug Fund revenue		23,096	
GHSP Grant		13,413	
CAMA reimbursement		<u>12,955</u>	
Total	<u>362,939</u>	<u>408,404</u>	<u>45,465</u>
Total	<u>899,439</u>	<u>997,817</u>	<u>98,378</u>

**Town of Nags Head, North Carolina**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual - General Fund**  
**For the Fiscal Year Ended June 30, 2010**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Permits and Fees:			
Building permits		151,172	
Facility fees		26,377	
Inspection and review fees		10,725	
Beach driving permits		8,704	
CAMA permits		23,200	
Motor vehicle licenses		537	
	<hr/>	<hr/>	<hr/>
Total	335,150	220,715	(114,435)
	<hr/>	<hr/>	<hr/>
Sales and Services:			
Court costs and fees	8,000	4,494	
	<hr/>	<hr/>	<hr/>
Total	8,000	4,494	(3,506)
	<hr/>	<hr/>	<hr/>
Investment Earnings	145,000	192,335	47,335
	<hr/>	<hr/>	<hr/>
Other Revenues:			
YMCA rents		200,217	
Other rents		135,100	
Sale of materials		19,933	
Miscellaneous		29,206	
Sale of assets		30,822	
Damage recovery		29,369	
Civil penalties		9,200	
Contributions to Police, Fire, and Rescue Benevolent Fund		7,320	
	<hr/>	<hr/>	<hr/>
Total	553,219	461,167	(92,052)
	<hr/>	<hr/>	<hr/>
Total Revenues	10,056,632	10,008,478	(48,154)

**EXPENDITURES**

General Government:		
Governing Body:		
Fees paid to elected officials		33,592
FICA expense		2,570
Contracted services		26,804
Contracted services - Beach Nourishment		7,875
Professional fees		2,500
Department supplies and materials		3,496
Special events		389
Dues and subscriptions		5,049
Printing		2,488
Travel		883
Training		445
Equipment rental		176
Employee incentive		275

**Town of Nags Head, North Carolina**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual - General Fund**  
**For the Fiscal Year Ended June 30, 2010**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Contribution to Nags Head Woods		14,000	
Contribution to Government Access Channel		30,483	
Contributions, miscellaneous		100	
Capital outlay, other		12,000	
<b>Total</b>	<u>189,061</u>	<u>143,125</u>	<u>(45,936)</u>
Special Projects:			
YMCA principal pass-through		185,000	
YMCA interest pass-through		15,217	
<b>Total</b>	<u>317,510</u>	<u>200,217</u>	<u>(117,293)</u>
Administration:			
Salaries and wages		328,429	
FICA expense		23,949	
Group insurance		52,314	
Group insurance - retiree		6,749	
Retirement		16,178	
401(k) account		9,853	
Contracted services		7,278	
Travel		4,259	
Advertising		3,811	
Departmental supplies		4,496	
Dues and subscriptions		2,662	
Equipment rental		4,008	
Telephone		4,499	
Employee training		2,349	
Postage		933	
Repairs and maintenance, equipment		76	
Repairs and maintenance, vehicles		105	
Automotive supplies		234	
Other supplies		1,243	
Reimbursement from Water Fund		(67,587)	
<b>Total</b>	<u>442,058</u>	<u>405,838</u>	<u>(36,220)</u>
Administrative Services:			
Salaries and wages		288,312	
FICA expense		21,172	
Group insurance expense		35,747	
Retirement		13,555	
401(k) account		7,440	
Unemployment expense		8,255	
Insurance		245,194	
Contracted services		9,501	
Employee training		1,436	

**Town of Nags Head, North Carolina**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual - General Fund**  
**For the Fiscal Year Ended June 30, 2010**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Professional services		28,900	
Departmental supplies and materials		7,994	
Postage		8,420	
Telephone		3,015	
Travel		3,056	
Equipment rental		4,097	
Printing		3,492	
Repairs and maintenance, equipment		124	
Wellness Program		(487)	
Personnel Committee		1,293	
Special contracted services		624	
Dues and subscriptions		752	
Purchases for resale		1,366	
Advertising		837	
Repairs and maintenance, vehicles		1,128	
Automotive supplies		763	
Reimbursement from Water Fund		(143,596)	
Debt service, capital lease		213,274	
Debt service, interest		13,012	
	<u>830,113</u>	<u>778,676</u>	<u>(51,437)</u>
Information Technology:			
Salaries and wages		85,183	
FICA expense		6,416	
Group insurance		5,109	
Retirement		3,478	
401(k) account		2,093	
Contracted services		3,421	
Contracted services, GIS		1,700	
Contracted services, website		1,158	
Contracted services, annual contracts		42,231	
Professional services		269	
Departmental supplies		12,341	
Advertising		54	
Telephone		4,176	
Postage		49	
Repairs and maintenance, equipment		3,935	
Other supplies		3,272	
Internet costs		8,386	
Employee training		228	
Equipment rental		14,402	
Dues and subscriptions		149	
Reimbursement from Water Fund		(14,227)	
Capital outlay, equipment		7,279	
	<u>216,295</u>	<u>191,102</u>	<u>(25,193)</u>

**Town of Nags Head, North Carolina**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual - General Fund**  
**For the Fiscal Year Ended June 30, 2010**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Planning and Development:			
Salaries and wages		547,811	
FICA expense		40,678	
Group insurance		63,190	
Group insurance - retiree		4,972	
Retirement		26,988	
401(k) account		16,434	
Planning Board, Board of Adjustment		8,800	
Contracted services		40	
Professional services		10,675	
Departmental supplies		5,819	
Travel		2,026	
Advertising		7,641	
Telephone		5,261	
Postage		2,450	
Repairs and maintenance, vehicles		1,615	
Repairs and maintenance, equipment		4,514	
Other supplies		5,226	
Uniforms		973	
Automotive supplies		3,510	
Employee training		930	
Equipment rental		1,246	
Dues and subscriptions		1,744	
Reimbursement from Water Fund		(76,954)	
Debt service, capital lease		7,985	
Debt service, interest		439	
	<hr/>	<hr/>	<hr/>
Total	717,952	694,013	(23,939)
	<hr/>	<hr/>	<hr/>
Legal Services:			
Professional services		135,165	
Reimbursement from Water Fund		(3,972)	
	<hr/>	<hr/>	<hr/>
Total	142,028	131,193	(10,835)
	<hr/>	<hr/>	<hr/>
Total General Government	2,855,017	2,544,164	(310,853)
	<hr/>	<hr/>	<hr/>
Public Safety:			
Police Department:			
Salaries and wages		1,077,510	
FICA expense		80,178	
Group insurance		161,614	
Group insurance - retiree		9,447	
Retirement		52,888	
401(k) account		52,030	
Automotive supplies		50,163	
Departmental supplies		24,201	

**Town of Nags Head, North Carolina**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual - General Fund**  
**For the Fiscal Year Ended June 30, 2010**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Repairs and maintenance, vehicles		16,352	
Repairs and maintenance, equipment		20,228	
Telephone		14,776	
Other supplies		2,976	
Uniforms		13,199	
Equipment rental		7,000	
Travel		3,409	
Professional services		7,301	
Employee training		1,339	
Special investigations		(78)	
Repairs and maintenance, range		2,276	
Postage		1,458	
Dues and subscriptions		743	
Advertising		38	
Contracted services		951	
Grant, NC Division of Soil and Water		2,601	
Reimbursement from Water Fund		(6,827)	
Capital outlay, equipment		142,400	
Capital outlay, Governor's Crime Commission		13,413	
Debt service, capital lease		35,132	
Debt service, interest		631	
	<u>1,872,884</u>	<u>1,787,349</u>	<u>(85,535)</u>
<b>Total</b>			
Drug Forfeiture:			
Department supplies			
Other supplies		1,295	
	<u>1,295</u>	<u>1,295</u>	<u>-</u>
<b>Total</b>			
Fire Department:			
Salaries and wages		1,252,464	
FICA expense		90,069	
Group insurance		234,942	
Retirement expense		64,005	
401(k) account		37,567	
Departmental supplies		30,383	
Repairs and maintenance, vehicles		25,692	
Uniforms		12,440	
Repairs and maintenance, equipment		8,049	
Automotive supplies		12,619	
Telephone		6,815	
Employee training		226	
OSHA compliance		1,332	
Travel		(131)	
Safety training		1,910	
Other supplies		3,407	
Equipment rental		836	

**Town of Nags Head, North Carolina**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual - General Fund**  
**For the Fiscal Year Ended June 30, 2010**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Dues and subscriptions		2,353	
Professional services		9,264	
Postage		255	
Contracted services		7,926	
Printing		591	
Capital outlay, equipment		5,745	
Debt service, capital lease		165,389	
Debt service, interest		47,731	
	<u>2,095,311</u>	<u>2,021,879</u>	<u>(73,432)</u>
Volunteer Fire:			
Incentive pay		3,860	
FICA expense		166	
Uniforms		1,334	
Dues and subscriptions		287	
Training		20	
Travel		22	
Professional services		5,577	
Retirement		4,371	
Department supplies		5,449	
	<u>24,541</u>	<u>21,086</u>	<u>(3,455)</u>
Ocean Rescue:			
Salaries and wages		352,419	
FICA expense		18,669	
Group insurance		5,109	
Retirement expense		2,754	
401(k) account		1,680	
Departmental supplies		19,968	
Uniforms		8,893	
Automotive supplies		7,920	
Repairs and maintenance, equipment		5,419	
Travel		1,033	
Repairs and maintenance, vehicles		724	
Professional fees		2,943	
Telephone		1,565	
Printing		709	
Dues and subscriptions		1,090	
Postage		107	
Debt service, capital lease		10,493	
Debt service, interest		577	
	<u>488,556</u>	<u>442,072</u>	<u>(46,484)</u>

**Town of Nags Head, North Carolina**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual - General Fund**  
**For the Fiscal Year Ended June 30, 2010**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Animal Control:			
Salaries and wages		40,094	
FICA expense		2,995	
Group insurance		5,109	
Retirement		1,965	
401(k) account		2,005	
Automotive supplies		1,680	
Departmental supplies		713	
Repairs and maintenance, vehicles		458	
Professional fees		325	
Equipment rental		144	
Travel		609	
Telephone		1,155	
Uniforms		790	
Dues and subscriptions		30	
	<hr/>	<hr/>	<hr/>
Total	64,234	58,072	(6,162)
	<hr/>	<hr/>	<hr/>
Total Public Safety	4,546,821	4,331,753	(215,068)
	<hr/>	<hr/>	<hr/>
Environmental Protection:			
Sanitation:			
Salaries and wages		369,362	
FICA expense		26,727	
Group insurance		68,606	
Group insurance - retiree		1,099	
Retirement		17,007	
401(k) account		10,376	
Repairs and maintenance, vehicles		114,990	
Automotive supplies		81,308	
Department supplies		23,138	
Uniforms		4,149	
Contracted services		20,500	
Recycling		1,187	
Repairs and maintenance, equipment		6,292	
Professional fees		112	
Advertising		602	
Dues and subscriptions		145	
Capital outlay, equipment		18,685	
Debt service, capital lease		225,539	
Debt service, interest		12,727	
	<hr/>	<hr/>	<hr/>
Total	1,054,873	1,002,551	(52,322)
	<hr/>	<hr/>	<hr/>
Solid Waste:			
Tipping fees		644,022	
	<hr/>	<hr/>	<hr/>
Total	656,460	644,022	(12,438)
	<hr/>	<hr/>	<hr/>
Total Environmental Protection	1,711,333	1,646,573	(64,760)

**Town of Nags Head, North Carolina**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual - General Fund**  
**For the Fiscal Year Ended June 30, 2010**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Public Works:			
Administration:			
Salaries and wages		271,536	
FICA expense		20,062	
Group insurance		33,674	
Group insurance - retiree		16,857	
Retirement		13,375	
401(k) account		8,146	
Contracted services		2,093	
Purchase for resale		20,047	
Telephone		8,022	
Departmental supplies		2,425	
Other supplies		2,486	
Advertising		240	
Travel		13	
Equipment rental		243	
Automotive supplies		2,449	
Employee training		200	
Dues and subscriptions		923	
Postage		313	
Repairs and maintenance, vehicles		105	
Uniforms		466	
Professional fees		373	
Reimbursement from Water Fund		(142,965)	
Debt service, capital lease		8,187	
Debt service, interest		215	
	<u>276,511</u>	<u>269,485</u>	<u>(7,026)</u>
<b>Total</b>			
Public Facilities Maintenance:			
Salaries and wages		296,253	
FICA expense		21,632	
Group insurance		65,837	
Group insurance, retiree		86	
Retirement		14,535	
401(k) account		8,853	
Repairs and maintenance, facilities		20,119	
Utilities		172,034	
Contracted services		49,325	
Department supplies		15,029	
Repairs and maintenance, equipment		32,415	
Signs		5,151	
Automotive supplies		16,273	
Repairs and maintenance, other		7,456	
Other supplies		14,805	
Professional services		5,328	
Uniforms		3,547	
Repairs and maintenance, vehicles		6,708	

**Town of Nags Head, North Carolina**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual - General Fund**  
**For the Fiscal Year Ended June 30, 2010**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Employee training		155	
Special projects		27,815	
Special projects		12,430	
Special projects		6,400	
Street supplies		15,917	
Dues and subscriptions		50	
Reimbursement from Water Fund		(50,112)	
Capital outlay, Multi-Use Path Grant		81,685	
Capital outlay, other		4,500	
Capital outlay, equipment		29,357	
Capital outlay, other Powell Bill		129,644	
Debt service, capital lease		85,527	
Debt service, interest		18,043	
		<u>18,043</u>	
Total	<u>1,225,129</u>	<u>1,116,797</u>	<u>(108,332)</u>
Maintenance Garage:			
Salaries and wages		183,423	
FICA account		13,639	
Group insurance		28,417	
Group insurance, retiree		5,619	
Retirement		9,036	
401(k) account		5,502	
Other supplies		6,224	
Departmental supplies		12,673	
Uniforms		2,007	
Contracted services		238	
Automotive supplies		1,092	
Repairs and maintenance, vehicles		300	
Employee training		387	
Repairs and maintenance, equipment		599	
Travel		208	
Reimbursement from Water Fund		(8,760)	
		<u>(8,760)</u>	
Total	<u>266,083</u>	<u>260,604</u>	<u>(5,479)</u>
Total Public Works	1,767,723	1,646,886	(120,837)
Contingency	<u>125,000</u>	<u>-</u>	<u>(125,000)</u>
Total Expenditures	<u>11,005,894</u>	<u>10,169,376</u>	<u>(836,518)</u>
Revenues Over (Under) Expenditures	<u>(949,262)</u>	<u>(160,898)</u>	<u>788,364</u>

**Town of Nags Head, North Carolina**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual - General Fund**  
**For the Fiscal Year Ended June 30, 2010**

	Budget	Actual	Variance Over/Under
<b>Other Financing Sources (Uses):</b>			
Proceeds from capital lease	105,900	105,900	-
Transfers from Capital Projects Funds (Net)	4,131	59,754	55,623
Appropriated fund balance	839,231	-	(839,231)
Other financing sources (uses), net	949,262	165,654	(783,608)
Net change in fund balance	\$ -	4,756	\$ 4,756
Fund Balance:			
Beginning of year - July 1		8,999,672	
End of year - June 30		\$ 9,004,428	

**Town of Nags Head, North Carolina**  
**Beach Nourishment Project Fund**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual**  
**From Inception and for the Fiscal Year Ended June 30, 2010**

	Project Authorization	Prior Years	Actual Current Year	Total to Date	Variance Under/Over
<b>REVENUES</b>					
Investment earnings	\$ -	\$ 31,254	\$ 207	\$ 31,461	\$ 31,461
Restricted intergovernmental	18,000,000	-	-	-	(18,000,000)
Total revenues	<u>18,000,000</u>	<u>31,254</u>	<u>207</u>	<u>31,461</u>	<u>(17,968,539)</u>
<b>EXPENDITURES</b>					
Capital construction oversight	1,592,500	611,750	276,679	888,429	(704,071)
Pumping costs	28,147,150	-	-	-	(28,147,150)
Mobilization	1,500,000	-	-	-	(1,500,000)
Contingency	905,350	-	-	-	(905,350)
Other costs	700,000	22,176	-	22,176	(677,824)
Total expenditures	<u>32,845,000</u>	<u>633,926</u>	<u>276,679</u>	<u>910,605</u>	<u>(31,934,395)</u>
Revenues over (under) expenditures	<u>(14,845,000)</u>	<u>(602,672)</u>	<u>(276,472)</u>	<u>(879,144)</u>	<u>13,965,856</u>
Other Financing Sources (Uses):					
Bond proceeds issued	14,000,000	-	-	-	(14,000,000)
Transfers from other funds	845,000	700,000	145,000	845,000	-
Total other financing sources (uses)	<u>14,845,000</u>	<u>700,000</u>	<u>145,000</u>	<u>845,000</u>	<u>(14,000,000)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 97,328</u>	<u>(131,472)</u>	<u>\$ (34,144)</u>	<u>\$ (34,144)</u>
Fund Balance:					
Beginning of year - July 1			<u>97,328</u>		
End of year - June 30			<u>\$ (34,144)</u>		

**Town of Nags Head, North Carolina**  
**Beach and Sound Accesses Project Fund**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual**  
**From Inception and for the Fiscal Year Ended June 30, 2010**

	Project Authorization	Prior Years	Actual Current Year	Total to Date	Variance Over (Under)
<b>REVENUES</b>					
Restricted intergovernmental	\$ 306,858	\$ 278,492	\$ -	\$ 278,492	\$ (28,366)
Total revenues	<u>306,858</u>	<u>278,492</u>	<u>-</u>	<u>278,492</u>	<u>(28,366)</u>
<b>EXPENDITURES</b>					
Baltic Street Access	153,208	130,880	-	130,880	(22,328)
June Street Access	51,000	49,179	-	49,179	(1,821)
Indigo Street Access	50,000	45,142	-	45,142	(4,858)
Bittern Street Access	26,100	26,743	-	26,743	643
Town Hall Access	35,400	35,398	-	35,398	(2)
Total expenditures	<u>315,708</u>	<u>287,342</u>	<u>-</u>	<u>287,342</u>	<u>(28,366)</u>
Revenues over (under) expenditures	<u>(8,850)</u>	<u>(8,850)</u>	<u>-</u>	<u>(8,850)</u>	<u>-</u>
Other Financing Sources (Uses):					
Transfer from Capital Reserve Fund	8,850	8,850	-	8,850	-
Total other financing sources (uses)	<u>8,850</u>	<u>8,850</u>	<u>-</u>	<u>8,850</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>\$ -</u>
Fund Balance:					
Beginning of year - July 1			<u>-</u>		
End of year - June 30			<u>\$ -</u>		

**Town of Nags Head, North Carolina**  
**Water Fund**  
**Schedule of Revenues and Expenditures**  
**Budget and Actual (Non-GAAP)**  
**For the Fiscal Year Ended June 30, 2010**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
<b>REVENUES</b>			
Operating Revenues:			
Water sales		\$ 2,027,983	
Tap and connection fees		12,585	
Late payment penalties and interest		24,299	
Water cut-off tag fees		11,667	
Miscellaneous		<u>6,387</u>	
Total	<u>\$ 2,070,677</u>	<u>2,082,921</u>	<u>\$ 12,244</u>
Non-Operating Revenues:			
Interest earned on investments		11,095	
Impact fees		<u>90,000</u>	
Total	<u>50,425</u>	<u>101,095</u>	<u>50,670</u>
Total revenues	<u>2,121,102</u>	<u>2,184,016</u>	<u>62,914</u>
<b>EXPENDITURES</b>			
Administration:			
Salaries and wages		61,465	
FICA expense		4,243	
Group insurance		19,383	
Retirement expense		3,022	
401(k) account		1,840	
Reimburse General Fund administrative expenses		71,404	
Contracted services		2,073	
Postage		8,716	
Supplies and materials		<u>1,025</u>	
Total	<u>182,387</u>	<u>173,171</u>	<u>(9,216)</u>
Septic Health:			
Salaries and wages		48,027	
FICA expense		3,295	
Group insurance		8,026	
Retirement		2,289	
401(k) account		1,394	
Contracted services		58,565	
Reimburse General Fund administrative expenses		107,471	

**Town of Nags Head, North Carolina**  
**Water Fund**  
**Schedule of Revenues and Expenditures**  
**Budget and Actual (Non-GAAP)**  
**For the Fiscal Year Ended June 30, 2010**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Inspection rebates		4,838	
Postage		1,528	
Telephone		507	
Printing		2,298	
Employee training		30	
Automotive supplies		531	
Repairs and maintenance, vehicles		16	
Departmental supplies		59	
		<u>          </u>	
Total	<u>257,444</u>	<u>239,984</u>	<u>(17,460)</u>
Operations:			
Salaries and wages		175,418	
FICA expense		13,059	
Group insurance		35,489	
Group insurance - retirees		5,752	
Retirement		8,818	
401(k) account		5,376	
Purchases for resale		882,505	
Reimburse General Fund administrative expenses		190,077	
Insurance		38,829	
Utilities		43,971	
Contracted services		8,373	
Departmental supplies		22,177	
Professional fees		16,732	
Other supplies		1,905	
Repairs and maintenance, equipment		30,516	
Postage		1,549	
Telephone		4,655	
Uniforms		1,282	
Dues and subscriptions		2,230	
Equipment rental		670	
Printing		2,489	
Automotive supplies		5,128	
Employee training		10	
Travel		1,445	
Repairs and maintenance, vehicles		991	
		<u>          </u>	
Total	<u>1,550,232</u>	<u>1,499,446</u>	<u>(50,786)</u>

**Town of Nags Head, North Carolina**  
**Water Fund**  
**Schedule of Revenues and Expenditures**  
**Budget and Actual (Non-GAAP)**  
**For the Fiscal Year Ended June 30, 2010**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Operations Distribution:			
Salaries and wages		222,668	
FICA expense		15,635	
Group insurance		50,459	
Retirement		10,896	
401(k) account		6,637	
Reimburse General Fund administrative expenses		146,048	
Contracted services		830	
Other supplies		10,138	
Repairs and maintenance, other		17,111	
Insurance		4,793	
Automobile supplies		6,114	
Departmental supplies		3,774	
Uniforms		2,098	
Repairs and maintenance, vehicles		2,791	
Telephone		2,356	
Dues and subscriptions		1,179	
Advertising		521	
Repairs and maintenance, equipment		1,491	
Travel		719	
Employee training		80	
Total	<u>532,125</u>	<u>506,338</u>	<u>(25,787)</u>
Budgetary Appropriations:			
Appropriated retained earnings	(603,760)		
Interest	29,534	29,113	
Debt principal	64,340	64,762	
Septic Health loans	32,000	16,775	
Principal repayments Septic Health loans	(10,000)	(14,091)	
Increase (decrease) in:			
Inventory	-	(4,662)	
(Increase) decrease in:			
Compensated absences	-	687	
Capital outlay:			
Other	36,800	-	
Contingency	50,000	-	
Total	<u>(401,086)</u>	<u>92,584</u>	<u>493,670</u>
Total expenditures	<u>2,121,102</u>	<u>2,511,523</u>	<u>390,421</u>
Revenues over (under) expenditures	<u>\$ -</u>	<u>\$ (327,507)</u>	<u>\$ (327,507)</u>

**Town of Nags Head, North Carolina**  
**Water Fund**  
**Schedule of Revenues and Expenditures**  
**Budget and Actual (Non-GAAP)**  
**For the Fiscal Year Ended June 30, 2010**

	Budget	Actual	Variance Over/Under
<b>RECONCILIATION OF MODIFIED ACCRUAL BASIS TO FULL ACCRUAL BASIS</b>			
Revenues over (under) expenditures		\$ (327,507)	
Reconciling items:			
Septic Health loans		16,775	
Principal repayments Septic Health loans		(14,091)	
Payment of debt principal		64,762	
(Increase) decrease in inventory		(4,662)	
Increase (decrease) in accrued OPEB liability		(13,563)	
Depreciation and amortization		(273,966)	
(Increase) decrease in accrued vacation and compensation pay		687	
Change in net assets		\$ (551,565)	

**Town of Nags Head, North Carolina**  
**Storm Water Fund**  
**Schedule of Revenues and Expenditures**  
**Budget and Actual (Non-GAAP)**  
**For the Fiscal Year Ended June 30, 2010**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
<b>REVENUES</b>			
Operating Revenues:			
Storm Water fees	\$ 112,056	\$ 112,612	\$ 556
OBVB Grant	<u>60,000</u>	<u>63,509</u>	<u>-</u>
Total	<u>172,056</u>	<u>176,121</u>	<u>4,065</u>
Non-Operating Revenues:			
Interest earned on investments	<u>-</u>	<u>816</u>	<u>816</u>
Total	<u>-</u>	<u>816</u>	<u>816</u>
Total revenues	<u>112,056</u>	<u>176,937</u>	<u>64,881</u>
<b>EXPENDITURES</b>			
Salaries and wages	19,064	19,503	439
FICA expense	1,454	1,415	(39)
Group insurance	4,845	(57)	(4,902)
Retirement	928	956	28
401K	570	583	13
Fuel	1,950	1,876	(74)
Department supplies	9,250	792	(8,458)
Repairs, maintenance, and equipment	<u>3,000</u>	<u>544</u>	<u>(2,456)</u>
Total	<u>41,061</u>	<u>25,612</u>	<u>(10,988)</u>
Budgetary Appropriations:			
Appropriated retained earnings	(200,000)	-	-
Interest	1,857	1,857	-
Debt principal	11,907	11,907	-
Capital outlay, other	<u>317,231</u>	<u>168,897</u>	<u>-</u>
Total	<u>130,995</u>	<u>182,661</u>	<u>51,666</u>
Total expenditures	<u>172,056</u>	<u>208,273</u>	<u>36,217</u>
Revenues over (under) expenditures	<u>\$ -</u>	<u>\$ (31,336)</u>	<u>\$ (31,336)</u>
<b>RECONCILIATION OF MODIFIED ACCRUAL BASIS TO FULL ACCRUAL BASIS</b>			
Revenues over (under) expenditures		\$ (31,336)	
Capital outlay		168,897	
Payment of debt principal		11,907	
Depreciation		<u>(10,630)</u>	
Change in net assets		<u>\$ 138,838</u>	

**Town of Nags Head, North Carolina  
Nags Head Leasing  
Schedule of Revenues and Expenditures  
Budget and Actual (Non-GAAP)  
For the Fiscal Year Ended June 30, 2010**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
<b>REVENUES</b>			
Non-Operating Revenues:			
Interest earned on investments	<u>\$ -</u>	<u>\$ 2</u>	<u>\$ 2</u>
Total revenues	<u>-</u>	<u>2</u>	<u>2</u>
Revenues over (under) expenditures	<u><u>\$ -</u></u>	<u><u>\$ 2</u></u>	<u><u>\$ 2</u></u>

**Town of Nags Head, North Carolina**  
**Schedule of Ad Valorem Taxes Receivable**  
**June 30, 2010**

Fiscal Year	Uncollected Balance July 1, 2009	Additions	Collection And Credits	Adjustments	Uncollected Balance June 30, 2010
2009-2010	\$ -	\$ 4,491,360	\$ 4,549,223	\$ 72,620	\$ 14,757
2008-2009	15,806	-	14,036	(474)	1,296
2007-2008	1,771	-	282	-	1,489
2006-2007	964	-	10	-	954
2005-2006	1,880	-	14	-	1,866
2004-2005	2,706	-	93	-	2,613
2003-2004	2,728	-	19	-	2,709
2002-2003	1,752	-	-	-	1,752
2001-2002	1,770	-	16	-	1,754
2000-2001	1,644	-	-	-	1,644
1999-2000	2,822	-	2,822	-	-
<b>Total</b>	<b>\$ 33,843</b>	<b>\$ 4,491,360</b>	<b>\$ 4,566,515</b>	<b>\$ 72,146</b>	<b>30,834</b>

Less: Allowance for uncollectible ad valorem taxes receivable 10,000

Ad Valorem Taxes Receivable, net \$ 20,834

Reconciliation with Revenues:

Taxes, ad valorem , General Fund	\$ 4,549,222
Amounts written off for tax year 98-99	626
DMV written off	2,196
Amounts written off <\$1	2
Plus discounts taken	27,082
Less penalties and interest	<u>(12,613)</u>

Total \$ 4,566,515

**Town of Nags Head, North Carolina**  
**Analysis of Current Tax Levy**  
**Town - Wide Levy**  
**For the Fiscal Year Ended June 30, 2010**

	Town-Wide		Total Levy		
	Property Valuation	Rate	Total Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
<b>Original Levy</b>					
Property taxed at current year's rate	\$ 3,044,100,133	0.1475	\$ 4,490,052	\$ 4,490,052	\$ -
Penalties	-		1,308	1,308	-
<b>Total</b>	<u>3,044,100,133</u>		<u>4,491,360</u>	<u>4,491,360</u>	<u>-</u>
<b>Discoveries</b>					
Current year taxes	50,714,794		74,768	26,372	48,396
Penalties	-		(7)	(7)	
<b>Total</b>	<u>50,714,794</u>		<u>74,761</u>	<u>26,365</u>	<u>48,396</u>
<b>Releases</b>	<u>(1,006,180)</u>		<u>(2,141)</u>	<u>(1,193)</u>	<u>(948)</u>
Total property valuation	<u>\$ 3,093,808,747</u>				
<b>Net Levy</b>			4,563,980	4,516,532	47,448
Uncollected taxes at June 30, 2010			<u>(14,757)</u>	<u>(12,064)</u>	<u>(2,693)</u>
<b>Current Year Taxes Collected</b>			<u>\$ 4,549,223</u>	<u>\$ 4,504,468</u>	<u>\$ 44,755</u>
<b>Current Levy Collection Percentage</b>			<u>99.68%</u>	<u>99.73%</u>	<u>94.32%</u>