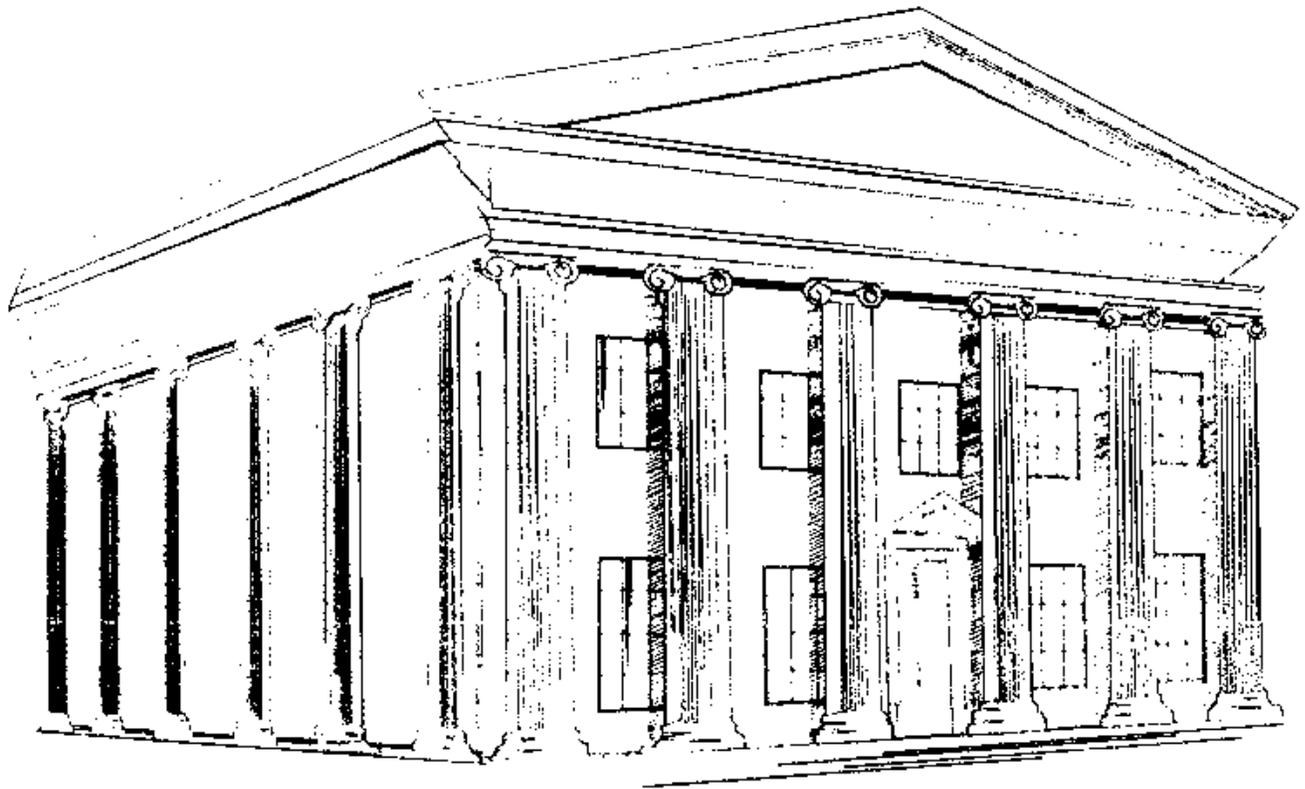


TOWN OF NAGS HEAD NORTH CAROLINA

**BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**



Martin Starnes & Associates, CPAs, P.A.

A Professional Association of Certified Public Accountants and Management Consultants

**TOWN OF NAGS HEAD, NORTH CAROLINA
BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town of Nags Head, North Carolina as of and for the year ended June 30, 2007, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Nags Head, North Carolina's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the general fund, each major fund, and the aggregate remaining fund information of the Town of Nags Head, North Carolina as of June 30, 2007, 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 October 8, 2007 on our consideration of the Town of Nags Head'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 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion thereon.

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

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.

October 8, 2007

Town of Nags Head, North Carolina Management Discussion and Analysis

As management of the Town of Nags Head, we offer readers of our financial statements this narrative overview and analysis of the financial activities of the Town of Nags Head for the fiscal year ended June 30, 2007. The Management Discussion and Analysis (MD&A) section is designed to assist the reader in focusing on significant financial issues, provide an overview of the Town's financial activity, identify changes in the Town's financial condition, identify material deviations from the financial budget, and identify individual fund issues or concerns.

FINANCIAL HIGHLIGHTS

The assets of the Town of Nags Head exceeded its liabilities at the close of the fiscal year by \$33,701,582 (net assets).

The Town's net assets increased by \$1,912,243 over the prior year. The governmental net assets increased by \$935,545 (+4.45%). The business-type net assets increased by \$976,878 (+6.28%).

At the end of the current fiscal year, the total unreserved fund balance for the General Fund was \$6,859,833 which was down slightly by \$210,082 (-2.97%) from the prior year. The decrease is due primarily to increases in both Fund Balance Reserved for Encumbrances and Fund Balance Reserved for Restricted assets related to capital purchases funded and encumbered in fiscal year 06/07 that were not completed as of June 30, 2007. This unreserved fund balance represents 64.15% of total general fund expenditures for the fiscal year up from 53.43% in the prior year. The increase is due to a significant decrease in expenditures.

The Town of Nags Head's total debt decreased by \$391,389 (-5.71%) during the current fiscal year.

The General Fund budget for the fiscal year ended June 30, 2007 was adopted with a tax rate of \$.1475 per \$100 assessed valuation reflecting no change from the prior year. Total assessed valuation increased from \$2,970,977,582 as of June 30, 2006 to \$3,031,041,982 as of June 30, 2007 an increase of \$60,064,400 (+2.02).

General Fund budget amendments during fiscal year 2006-2007 increased the adopted budget by just under \$772,000 with individual increases (decreases) by functional area noted below:

- General Government decreased by \$268,261 for reimbursements from the Water Fund for administrative oversight through the allocation of indirect costs.
- Public Safety increased by \$728,429 to fund capital purchases budgeted at the first year debt payment amount including replacement police vehicles and a replacement fire truck.
- Environmental Protection increased by \$261,833 due to capital purchases budgeted at the first year debt payment amount.
- Public Works increased by \$54,538 from grant funding of the west side multi-use path improvements partially offset by reimbursements from the Water Fund for administrative oversight through the allocation of indirect costs.
- Contingency decreased by \$4,603 to provide funding in Public Works for costs associated with land acquisition.

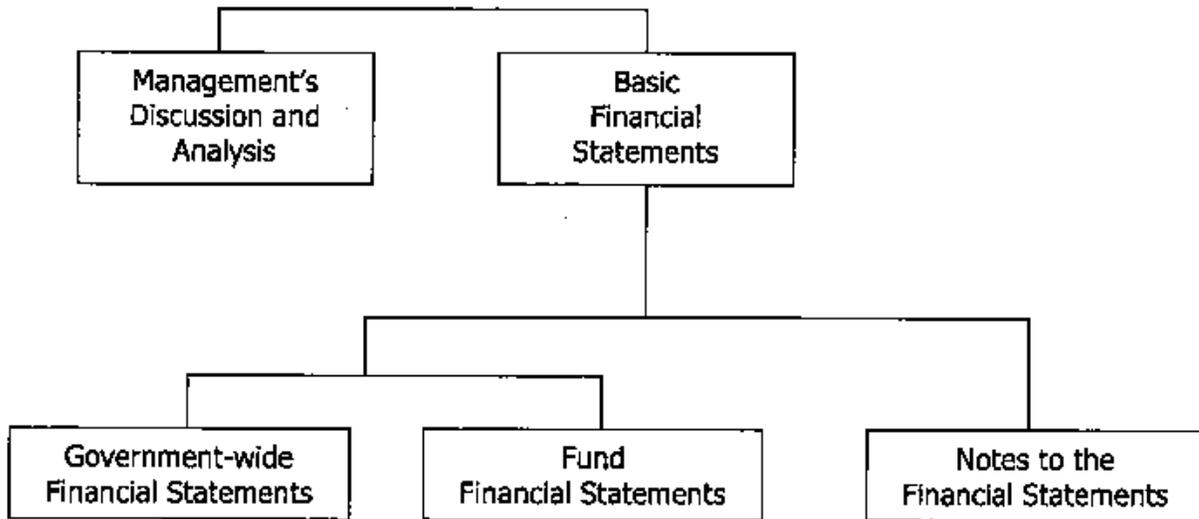
Key Ratios

% Debt to General Governmental Expenses	54.30%
% Property Tax Collection	99.96%

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Figure 1 – Required Components of Annual Financial Report



A. Government-Wide Financial Statements

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

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

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

Business-Type Activities – the Town charges fees to customers to cover the costs of certain services it provides. The Town's water system is included. Also included here is the Town's one

blended component unit – Nags Head Leasing. Although legally separate, “component units” are important because of certain financial transactions that exist between the entities and the Town.

B. Fund Financial Statements

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

The Town has three types of funds:

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

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

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

C. Notes to the Financial Statements

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

D. Required Supplementary Information

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

E. Other Supplementary Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town of Nags Head, assets exceeded liabilities by \$33,075,488 at the close of the fiscal year ended June 30, 2007. A large portion of the Town of Nags Head's net assets \$19,068,565 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 \$977,795 represents resources that are subject to restrictions on how they may be used. The remainder of \$13,029,128 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	
	2007	2006	2007	2006	2007	2006
Current and Other Assets	\$ 13,213,240	\$ 12,820,681	\$ 5,003,978	\$ 6,473,053	\$ 18,217,218	\$ 19,293,734
Capital Assets, Net	14,594,873	14,421,240	8,760,433	6,248,972	23,355,306	20,670,212
Total Assets	<u>27,808,113</u>	<u>27,241,921</u>	<u>13,764,411</u>	<u>12,722,025</u>	<u>41,572,524</u>	<u>39,963,946</u>
Long-Term Debt Outstanding	5,373,029	5,705,330	1,091,183	1,150,271	6,464,212	6,855,601
Other Liabilities	492,104	529,156	914,626	790,030	1,406,730	1,319,186
Total Liabilities	<u>5,865,133</u>	<u>6,234,486</u>	<u>2,005,809</u>	<u>1,940,301</u>	<u>7,870,942</u>	<u>8,174,787</u>
Net Assets	<u>\$ 21,942,980</u>	<u>\$ 21,007,435</u>	<u>\$ 11,758,602</u>	<u>\$ 10,781,724</u>	<u>\$ 33,701,582</u>	<u>\$ 31,789,159</u>
Investment in Capital Assets, Net of Related Debt	11,989,318	11,273,798	7,705,341	5,130,179	19,694,659	16,403,977
Restricted	977,795	133,310	-	-	977,795	133,310
Unrestricted	8,975,867	9,600,327	4,053,261	5,651,545	13,029,128	15,251,872
Total Net Assets	<u>\$ 21,942,980</u>	<u>\$ 21,007,435</u>	<u>\$ 11,758,602</u>	<u>\$ 10,781,724</u>	<u>\$ 33,701,582</u>	<u>\$ 31,789,159</u>

See Exhibit 1

Town of Nags Head's Changes in Net Assets

	Governmental Activities		Business - Type Activities		Total	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>

Revenues:

Program Revenues:

Charges for Services	\$ 639,682	\$ 605,719	\$ 2,741,918	\$ 2,663,177	\$ 3,381,600	\$ 3,268,896
Operating Grants	39,090	1,000,671	29,900	-	68,990	1,000,671
Capital Grants	218,213	354,585	-	-	218,213	354,585
General Revenues:						
Property Taxes	4,482,309	4,452,450	-	-	4,482,309	4,452,450
Other Taxes	4,092,110	4,431,297	-	-	4,092,110	4,431,297
Investment Income	599,034	371,338	236,896	183,864	835,930	555,202
Other	802,237	616,951	882,217	334,324	1,584,454	951,275
Total Revenues	<u>\$ 10,872,675</u>	<u>\$ 11,833,011</u>	<u>\$ 3,890,931</u>	<u>\$ 3,181,365</u>	<u>\$ 14,763,606</u>	<u>\$ 15,014,376</u>

Expenses:

General Government	2,216,074	2,268,425	-	-	2,216,074	2,268,425
Public Safety	4,310,009	4,185,344	-	-	4,310,009	4,185,344
Public Works/Transportation	1,621,662	1,472,469	-	-	1,621,662	1,472,469
Environmental Protection	1,529,948	1,725,256	-	-	1,529,948	1,725,256
Interest on Long Term Debt	217,671	220,646	-	-	217,671	220,646
Water Utility	-	-	2,955,819	2,930,590	2,955,819	2,930,590
Total Expenses	<u>9,895,364</u>	<u>9,872,140</u>	<u>2,955,819</u>	<u>2,930,590</u>	<u>12,851,183</u>	<u>12,802,730</u>

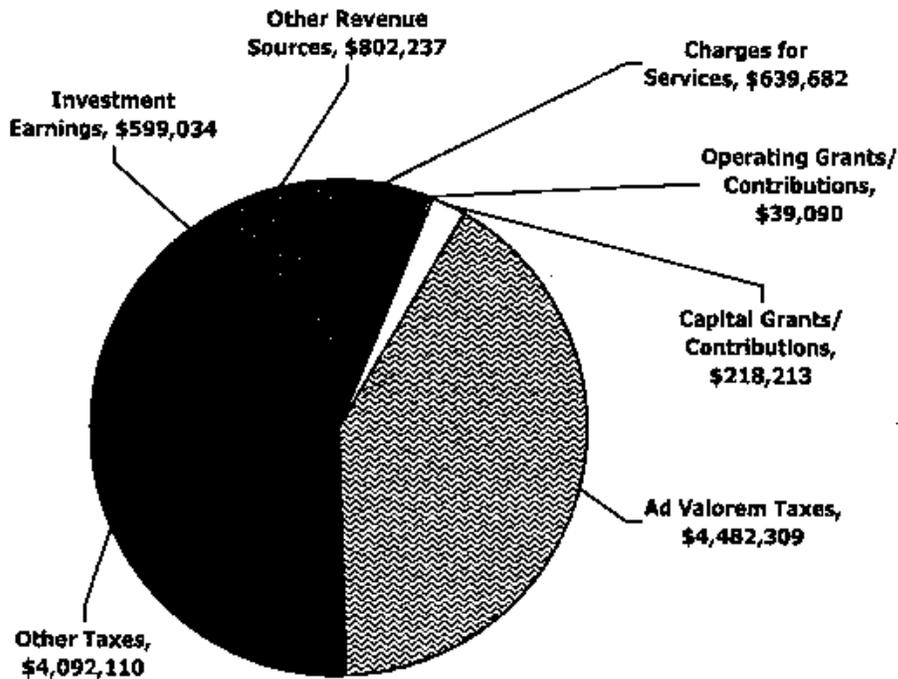
Net Increase in Net Assets Before Transfers	977,311	1,960,871	935,112	250,775	1,912,423	2,211,646
Transfers	(41,766)	(100,000)	41,766	100,000	-	-
Net Assets - July 1	<u>21,007,435</u>	<u>19,146,564</u>	<u>10,781,724</u>	<u>10,430,949</u>	<u>31,789,159</u>	<u>29,577,513</u>
Net Assets - June 30	<u>\$ 21,942,980</u>	<u>\$ 21,007,435</u>	<u>\$ 11,758,602</u>	<u>\$ 10,781,724</u>	<u>\$ 33,701,582</u>	<u>\$ 31,789,159</u>

A. Governmental Activities

Governmental activities increased the Town of Nags Head's net assets by \$935,545. The governmental activities revenue decreased by \$960,336, which included a decrease in FEMA reimbursement revenue from \$980,648 in the prior year to zero in the current fiscal year. Ad valorem tax revenue was up by \$29,859 with other taxes down by \$339,187. Investment earnings increased by \$227,696 due to continued diversification of invested funds and an improved rate of return. Building permits were down for the fourth year in a row with a decrease of \$26,313.

Without the FEMA revenue in the prior year, total governmental revenues increased by \$20,312 (+.19%).

During the year, the Town's governmental expenses were \$9,895,364 an increase of \$23,224 (+.24%).

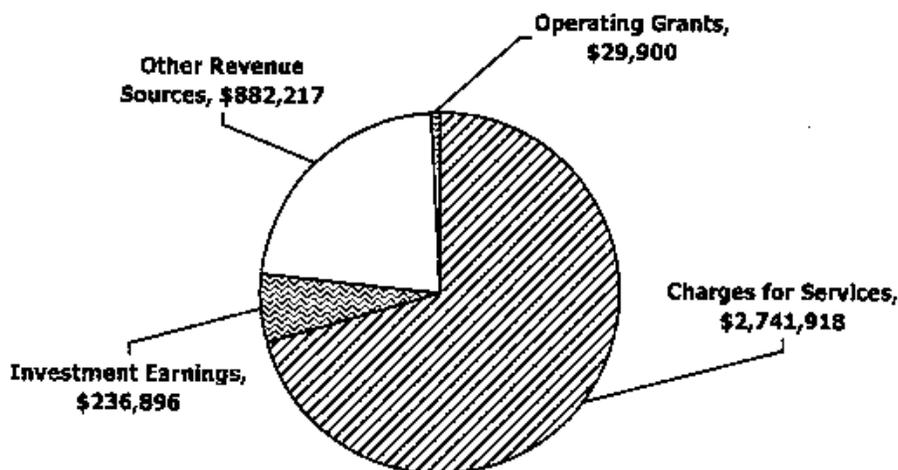


Revenues by Source for Governmental Type Activities

B. Business Type Activities

Business type activities increased the Town of Nags Head's net assets by \$976,878. There are three separate and distinct operations accounted for in the Enterprise Funds: the Water Utility Operations, the Storm Water Fund, and Nags Head Leasing. Charges for service in the Water Fund increased in both the Water Operations Fund and the Storm Water Fund by \$77,817 and \$924, respectively, as compared to the preceding year.

Revenues by Source for Business Type Activities



FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

A. Governmental Funds

As noted earlier, the Town of Nags Head uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the Town of Nags Head's governmental funds is

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

The general fund is the chief operating fund of the Town of Nags Head. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$6,859,833, while total fund balance reached \$9,945,933. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents 64.15% of total General Fund expenditures compared with 53.44 % for the prior year. Note that unreserved fund balance is down from the prior year unreserved fund balance of \$7,069,915 by \$210,082 (-2.697%) while total fund balance is up by \$1,119,381 (+12.68%). The decrease in unreserved fund balance relative to the prior year is a result of reserved fund balances for encumbrances and restricted assets for prior year capital items that were not complete as of the end of the fiscal year and were still encumbered, in addition to, undistributed loan proceeds held in escrow to be used for the purchase costs when complete.

As of June 30, 2007, the governmental funds of the Town of Nags Head reported combined fund balance of \$10,976,421, a 7.41 % increase over last year. Included in this change in fund balance are increases in fund balance in the General fund partially offset by decreases in fund balance in the Capital Reserve Fund, Beach Nourishment Project Fund, and newly created Beach & Sound Access Project 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 \$3,812,587. This represents a decrease of \$1,667,501 from the prior year primarily as a result of the acquisition of real property. This decrease is partially offset by an increase in unrestricted net assets for the Storm Water Fund of \$69,198.

C. Capital Assets

The Town of Nags Head's investment in capital assets for its governmental and business-type activities as of June 30, 2007, totals \$23,355,306 (net of accumulated depreciation). 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 additions (there were no significant demolitions or disposals):

- Acquisition of land by the Water Fund with the Dare County Tourism Board for future development at a cost to the Town of \$1,617,953. The Town acquired a 34.783% interest in the property with the remaining 65.217% acquired by the Dare County Tourism Board. The seller also donated a portion of the property valued at \$1,800,000 (\$626,094 for the Town's share) for a total acquisition value of \$6,400,000 plus related legal and closing costs.

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

	Governmental Activities		Business - Type Activities		Total	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Land	\$ 5,025,411	\$ 5,020,808	\$ 2,448,252	\$ 204,205	\$ 7,473,663	\$ 5,225,013
Construction in Progress	539,369	509,749	136,650	-	676,019	509,749
Buildings	5,339,638	5,171,568	3,072,409	2,886,888	8,412,047	8,058,256
Other Improvements	976,297	621,181	-	-	976,297	621,181
Equipment	615,694	671,673	644,858	575,372	1,260,552	1,247,045
Vehicles	2,098,464	2,426,261	59,101	76,759	2,157,565	2,503,020
Intangibles	-	-	2,399,163	2,505,948	2,399,163	2,505,948
Total	\$ 14,594,873	\$ 14,421,240	\$ 8,760,433	\$ 6,248,972	\$ 23,355,306	\$ 20,670,212

See Exhibit 1

D. Long Term Debt

As of June 30, 2007, the Town of Nags Head had no bonded debt. The Town's total debt decreased by \$391,389 for the year.

Town of Nags Head's Outstanding Debt

	Governmental Activities		Business - Type Activities		Total	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Finance Contracts	\$ 3,604,684	\$ 4,214,715	\$ 888,738	\$ 950,688	\$ 4,493,422	\$ 5,165,403
Capital Leases	1,376,813	1,134,231	166,354	168,105	1,543,167	1,302,336
Compensated Absences	391,532	356,384	36,091	31,478	427,623	387,862
	<u>\$ 5,373,029</u>	<u>\$ 5,705,330</u>	<u>\$ 1,091,183</u>	<u>\$ 1,150,271</u>	<u>\$ 6,464,212</u>	<u>\$ 6,855,601</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The level of unemployment in Dare County ranged from 2.6% to 10.2% compared to the seasonally adjusted statewide average of 4.8%.

Construction in fiscal year 2006 decreased overall in the Town of Nags Head by \$13,820,442 (-32.41%) from the previous year. This was due to a slight increase in commercial construction of \$733,000 and a decrease in residential and other construction of \$14,553,442. Both building permit fees and review fees were also down in fiscal year 2006-2007, the fourth straight decrease in annual revenues for building permit fees.

The property tax base increased by 2.02% to \$3,031,041,982 in the fiscal year ended June 30, 2007. Occupancy tax exhibited continued strong growth for the Town in fiscal year 2006-2007 and was up in each of the twelve months relative to the same month in the prior year. Results from sales taxes were mixed with increases in revenues from Article 40 and 42 taxes and decreased revenues from Article 39 and 44 taxes. Land transfer tax revenues decreased even further from the significant reduction in revenues experienced during the prior year with the continuing softening of the real estate market.

The Town's adopted budget for the fiscal year ending June 30, 2007 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 2007-2008 budget decreased by \$763,257 (-5.88%) over the 2006-2007 amended budget and increased only \$8,679 (+.07%) over the adopted budget for 2006-2007.

BUDGET HIGHLIGHTS FOR THE FISCAL YEAR ENDING June 30, 2008

Governmental Activities: The adopted budget for fiscal year 2007-2008 is based on the estimated increased property valuation of \$3,025,919,536 up 2.01% from the prior year valuation of \$2,966,256,884 allowing the tax rate to remain steady at \$.1475/\$100. The adopted budget reflects a slight increase of \$8,679 from the prior year's adopted budget. Decreases in projected funding include a reduction of \$210,000 in land transfer tax revenues, a reduction of \$111,000 in combined sales tax revenues, a reduction in building permit fees of \$60,000, reduced rents from the YMCA pass-through of \$83,500, and a reduction in transfers from the Capital Reserve Fund of \$18,000. These are partially offset by increases in projected revenues from investment interest of \$67,500, revenues from occupancy tax of \$240,000, and grant revenue for the west side multi-use path project of \$132,000.

Budgeted expenditures in the General Fund are generally flat with the exception of funding for Public Works Facilities Maintenance which is up by \$114,000 due to the inclusion of the west-side multi-use path project costs of \$151,000. Excluding that project, departmental costs for Public Works Facilities Maintenance are down by \$37,000. Funds budgeted for Administration are also down by \$84,000 due to allocating the Manager's salary and benefits between Administration and Police and the contract costs for a part-time Deputy Manager position versus full time funding in the previous fiscal year. The pass-through debt payments for the YMCA debt are also down by \$83,500. Departments with projected increases include Information Technology that added a full time position in place of a part-time position, Public Works Sanitation which increased by \$78,000 over the prior year due to increased funding for fuel increases of \$20,000 and increased debt service costs of \$54,000 to finance prior year capital purchases, and increased funding for Contingency from \$75,000 to \$125,000.

Business -Type Activities: The water rates in the Town will remain the same with projected growth in gallons purchased of 2.9%. Appropriated retained earnings will be used to fund the debt service on the new water tank, water line improvement projects, the Town's share of Fresh Pond capital projects, and to match any grant funds received for sand bottom septic tank replacement.

Requests for Information

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

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Town of Nags Head, North Carolina
Statement of Net Assets
June 30, 2007

Exhibit 1

	Primary Government		Total
	Governmental Activities	Business-type Activities	
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 6,709,763	\$ 4,372,229	\$ 11,081,992
Investments	2,761,793	-	2,761,793
Taxes receivable (net)	10,899	-	10,899
Accounts receivable (net)	148,553	416,009	564,562
Accrued interest receivable	76,323	-	76,323
Due from other governments	878,373	166,121	1,044,494
Inventories	73,175	49,619	122,794
Special assessments	577	-	577
Prepaid Items	10,872	-	10,872
Total current assets	<u>10,670,328</u>	<u>5,003,978</u>	<u>15,674,306</u>
Restricted assets:			
Cash and cash equivalents	<u>823,912</u>	<u>-</u>	<u>823,912</u>
Non-current assets:			
Capital Lease Receivable	1,719,000	-	1,719,000
Capital Assets (Note 4):			
Land, non-depreciable improvements and construction in progress	5,564,780	2,584,902	8,149,682
Other capital assets, net of depreciation	<u>9,030,093</u>	<u>6,175,531</u>	<u>15,205,624</u>
Total capital assets	<u>14,594,873</u>	<u>8,760,433</u>	<u>23,355,306</u>
Total Assets	<u>\$ 27,808,113</u>	<u>\$ 13,764,411</u>	<u>\$ 41,572,524</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 225,085	\$ 249,872	\$ 474,957
Accrued liabilities	169,269	25,918	195,187
Unearned revenue	40,384	257,765	298,149
Bonds and deposits	56,566	381,071	437,637
Due to other governments	800	-	800
Long-term liabilities:			
Due within one year	1,366,617	158,715	1,525,332
Due in more than one year	<u>4,006,412</u>	<u>932,468</u>	<u>4,938,880</u>
Total liabilities	<u>5,865,133</u>	<u>2,005,809</u>	<u>7,870,942</u>
NET ASSETS			
Invested in capital assets, net of related debt	11,989,318	7,705,341	19,694,659
Restricted for:			
Powell bill expenditures	145,478	-	145,478
Public safety enforcement	9,540	-	9,540
Capital (unexpended debt)	822,777	-	822,777
Unrestricted	<u>8,975,867</u>	<u>4,053,261</u>	<u>13,029,128</u>
Total net assets	<u>\$ 21,942,980</u>	<u>\$ 11,758,602</u>	<u>\$ 33,701,582</u>

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

Town of Nags Head, North Carolina
Statement of Activities
For the Year Ended June 30, 2007

Functions/Programs	Program Revenues			
Primary Government:	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental Activities				
General Government	\$ 2,216,074	\$ 575,591	\$ 19,752	\$ -
Public Safety	4,310,009	64,091	18,839	-
Public Works/Transportation	1,621,662	-	499	218,213
Environmental Protection	1,529,948	-	-	-
Interest on long-term debt	217,671	-	-	-
Total governmental activities (See Note 1)	<u>9,895,364</u>	<u>639,682</u>	<u>39,090</u>	<u>218,213</u>
Business-type activities:				
Water	2,848,477	2,630,198	-	210,000
Storm Water	107,342	111,720	29,900	-
Nags Head Leasing	-	-	-	-
Total business-type activities	<u>2,955,819</u>	<u>2,741,918</u>	<u>29,900</u>	<u>210,000</u>
Total primary government	<u>\$ 12,851,183</u>	<u>\$ 3,381,600</u>	<u>\$ 68,990</u>	<u>\$ 428,213</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

Capital Contributions

Transfers

Total general revenues, special items and transfers

Total change in net assets

Net assets - beginning

Net assets - ending

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

Exhibit 2

<u>Net (Expense) Revenue and changes in Net Assets</u>		
<u>Primary Government</u>		
<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ (1,620,731)	\$ -	\$ (1,620,731)
(4,227,079)	-	(4,227,079)
(1,402,950)	-	(1,402,950)
(1,529,948)	-	(1,529,948)
<u>(217,671)</u>	<u>-</u>	<u>(217,671)</u>
<u>(8,998,379)</u>	<u>-</u>	<u>(8,998,379)</u>
-	(8,279)	(8,279)
-	34,278	34,278
-	-	-
-	<u>25,999</u>	<u>25,999</u>
<u>(8,998,379)</u>	<u>25,999</u>	<u>(8,972,380)</u>
4,482,309	-	4,482,309
1,770,246	-	1,770,246
652,435	-	652,435
1,628,612	-	1,628,612
40,817	-	40,817
358,843	-	358,843
599,034	236,896	835,930
233,043	5,813	238,856
210,351	666,404	876,755
<u>(41,766)</u>	<u>41,766</u>	<u>-</u>
<u>9,933,924</u>	<u>950,879</u>	<u>10,884,803</u>
935,545	976,878	1,912,423
<u>21,007,435</u>	<u>10,781,724</u>	<u>31,789,159</u>
<u>\$ 21,942,980</u>	<u>\$ 11,758,602</u>	<u>\$ 33,701,582</u>

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

Town of Nags Head, North Carolina
Balance Sheet
Governmental Funds
June 30, 2007

Exhibit 3

	Major Funds				Total
	General	Capital Reserve	Beach/Sound Accesses	Beach Nourishment	
ASSETS					
Cash and cash equivalents	\$ 5,754,942	\$ 656,350	\$ -	\$ 298,471	\$ 6,709,763
Investments	2,761,793	-	-	-	2,761,793
Taxes receivable (net)	10,899	-	-	-	10,899
Accounts receivable (net)	78,923	-	69,630	-	148,553
Accrued interest receivable	76,323	-	-	-	76,323
Due from other governments	878,373	-	-	-	878,373
Due from other funds	73,776	156,548	-	-	230,324
Inventories	73,175	-	-	-	73,175
Special assessments	577	-	-	-	577
Prepaid items	10,872	-	-	-	10,872
Capital lease receivable	1,719,000	-	-	-	1,719,000
Restricted assets:					
Cash and cash equivalents	823,912	-	-	-	823,912
Total assets	<u>\$ 12,262,565</u>	<u>\$ 812,898</u>	<u>\$ 69,630</u>	<u>\$ 298,471</u>	<u>\$ 13,443,564</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 148,350	\$ -	\$ 68,050	\$ 8,685	\$ 225,085
Accrued expenses	169,269	-	-	-	169,269
Bonds and deposits	56,566	-	-	-	56,566
Due to other funds	156,548	-	73,776	-	230,324
Due to other governments	800	-	-	-	800
Deferred revenue	1,744,715	-	-	-	1,744,715
Unearned revenue	40,384	-	-	-	40,384
Total liabilities	<u>2,316,632</u>	<u>-</u>	<u>141,826</u>	<u>8,685</u>	<u>2,467,143</u>
Fund balances:					
Reserved for:					
Encumbrances	929,967	-	-	1,186,035	2,116,002
Inventories	73,175	-	-	-	73,175
State statute	1,093,156	156,548	-	-	1,249,704
Streets - Powell bill	145,478	-	-	-	145,478
Prepays	10,872	-	-	-	10,872
Drug enforcement	9,540	-	-	-	9,540
Restricted assets	823,912	-	-	-	823,912
Unreserved	6,249,288	-	(72,196)	(896,249)	5,280,843
Designated for future capital	-	497,671	-	-	497,671
Designated for next year budget	610,545	158,679	-	-	769,224
Total fund balances	<u>9,945,933</u>	<u>812,898</u>	<u>(72,196)</u>	<u>289,786</u>	<u>10,976,421</u>
Total liabilities and fund balances	<u>\$ 12,262,565</u>	<u>\$ 812,898</u>	<u>\$ 69,630</u>	<u>\$ 298,471</u>	<u>\$ 13,443,564</u>

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

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

14,594,873

Liabilities for earned but deferred revenues in the fund statements.

 Deferred capital lease receivable

1,719,000

 Deferred taxes receivable

25,715

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.

(5,373,029)

Net assets of governmental activities

\$ 21,942,980

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, 2007

	Major Funds				Total
	General Fund	Capital Reserve	Beach/Sound Accesses	Beach Nourishment	
REVENUES					
Ad valorem taxes	\$ 4,482,387	\$ -	\$ -	\$ -	\$ 4,482,387
Other taxes and licenses	4,129,003	-	-	-	4,129,003
Unrestricted Intergovernmental	321,950	-	-	-	321,950
Restricted intergovernmental	232,799	-	69,630	-	302,429
Permits and fees	531,441	-	-	-	531,441
Sales and services	6,331	-	-	-	6,331
Investment earnings	556,768	25,793	-	16,473	599,034
Miscellaneous	617,827	-	-	-	617,827
Total revenues	<u>10,878,506</u>	<u>25,793</u>	<u>69,630</u>	<u>16,473</u>	<u>10,990,402</u>
EXPENDITURES					
Current:					
General Government	\$ 2,129,079	\$ -	\$ -	\$ -	\$ 2,129,079
Public Safety	4,041,289	-	-	-	4,041,289
Environmental Protection	1,431,457	-	-	-	1,431,457
Public Works	1,287,557	-	-	-	1,287,557
Debt service:					
Principal	1,247,975	-	-	-	1,247,975
Interest and other charges	217,671	-	-	-	217,671
Capital outlay	337,951	-	150,676	227,818	716,445
Total expenditures	<u>10,692,979</u>	<u>-</u>	<u>150,676</u>	<u>227,818</u>	<u>11,071,473</u>
Excess (deficiency) of revenues over expenditures	185,527	25,793	(81,046)	(211,345)	(81,071)
OTHER FINANCING SOURCES (USES)					
Transfers from other funds	180,042	84,948	8,850	-	273,840
Transfers to other funds	(126,714)	(188,892)	-	-	(315,606)
Installment purchase obligations issued	880,526	-	-	-	880,526
Total other financing sources (uses)	<u>933,854</u>	<u>(103,944)</u>	<u>8,850</u>	<u>-</u>	<u>838,760</u>
Net change in fund balance	1,119,381	(78,151)	(72,196)	(211,345)	757,689
Fund balances - beginning	8,826,552	891,049	-	501,131	10,218,732
Fund balances - ending	<u>\$ 9,945,933</u>	<u>\$ 812,898</u>	<u>\$ (72,196)</u>	<u>\$ 289,786</u>	<u>\$ 10,976,421</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, 2007

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

Net changes in fund balances - total governmental funds \$ 757,689

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

Contributed Infrastructure	\$ 210,351	
Capital Outlay	716,445	
Depreciation	<u>(753,163)</u>	173,633

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

Change in deferred revenue for tax revenues	(78)
Change in deferred capital lease receivable	<u>(328,000)</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	(\$880,526)	
Increase in compensated absences	(35,148)	
Principal Repayments	<u>1,247,975</u>	<u>332,301</u>

Total changes in net assets of governmental activities \$ 935,545

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

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Town of Nags Head, North Carolina
General Fund and Annually Budgeted Capital Reserve Fund
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
For the Fiscal Year Ended June 30, 2007

	General Fund			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
Revenues:				
Ad valorem taxes	\$ 4,363,353	\$ 4,363,353	\$ 4,482,387	\$ 119,034
Other taxes and licenses	4,254,500	4,149,500	4,129,003	(20,497)
Unrestricted intergovernmental	354,500	354,500	321,950	(32,550)
Restricted intergovernmental	227,770	385,965	232,799	(153,166)
Permits and fees	614,150	614,150	531,441	(82,709)
Special assessments	500	500	499	(1)
Sales and services	9,000	9,000	6,331	(2,669)
Investment earnings	405,000	510,000	556,768	46,768
Miscellaneous	698,810	737,721	617,328	(120,393)
Total revenues	<u>10,927,583</u>	<u>11,124,689</u>	<u>10,878,506</u>	<u>(246,183)</u>
Expenditure:				
Current:				
General Government	2,772,633	2,504,372	2,187,826	316,546
Public Safety	4,498,092	5,094,288	4,128,189	966,099
Environmental Protection	1,547,580	1,751,086	1,493,863	257,223
Public Works	1,741,409	1,795,947	1,417,455	378,492
Debt service:				
Principal	1,079,926	1,270,486	1,247,975	22,511
Interest and other charges	360,511	360,511	217,671	142,840
Contingency	75,000	70,397	-	70,397
Total expenditures	<u>12,075,151</u>	<u>12,847,087</u>	<u>10,692,979</u>	<u>2,154,108</u>
Revenues over (under) expenditures	<u>(1,147,568)</u>	<u>(1,722,398)</u>	<u>185,527</u>	<u>1,907,925</u>
Other financing sources (uses):				
Transfers from other funds	692,075	210,042	180,042	(30,000)
Transfers to other funds	(134,000)	(134,000)	(126,714)	7,286
Installment purchase obligations issued		880,526	880,526	-
Appropriated Fund Balance	589,493	765,830	-	(765,830)
Total other financing sources (uses)	<u>1,147,568</u>	<u>1,722,398</u>	<u>933,854</u>	<u>(788,544)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>1,119,381</u>	<u>\$ 1,119,381</u>
Fund balances, beginning of year			8,826,552	
Prior period adjustment			-	
Fund balances, end of year			<u>\$ 9,945,933</u>	

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

Capital Reserve Fund			
Original	Final	Actual Amounts	Variance with Final Budget - Positive (Negative)
\$ -	\$ -	\$ -	\$ -
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	25,793	25,793
-	-	-	-
<u>-</u>	<u>-</u>	<u>25,793</u>	<u>25,793</u>
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	-	-
-	-	-	-
<u>-</u>	<u>-</u>	<u>25,793</u>	<u>25,793</u>
100,000	100,000	84,948	(15,052)
(196,300)	(229,267)	(188,892)	40,375
-	-	-	-
<u>96,300</u>	<u>129,267</u>	<u>-</u>	<u>(129,267)</u>
-	-	<u>(103,944)</u>	<u>(103,944)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>(78,151)</u>	<u>\$ (78,151)</u>
		891,049	
		<u>-</u>	
		<u>\$ 812,898</u>	

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

Town of Nags Head, North Carolina
Statement of Net Assets
Proprietary Funds
June 30, 2007

Exhibit 6

	Enterprise Funds			Total
	Major Funds		Non-Major	
	Water Fund	Storm Water Fund	Nags Head Leasing	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 4,169,231	\$ 202,523	\$ 475	\$ 4,372,229
Accounts receivable trade (net)	364,844	7,776	-	372,620
Accounts receivable other (net)	13,489	29,900	-	43,389
Due from other governments	166,121	-	-	166,121
Inventories	49,619	-	-	49,619
Total current assets	<u>4,763,304</u>	<u>240,199</u>	<u>475</u>	<u>5,003,978</u>
Capital assets:				
Land, non-depreciable improvements and construction in progress	2,584,902	-	-	2,584,902
Other capital assets, net of depreciation	<u>6,088,881</u>	<u>86,650</u>	<u>-</u>	<u>6,175,531</u>
Total capital assets (net)	<u>8,673,783</u>	<u>86,650</u>	<u>-</u>	<u>8,760,433</u>
Total Assets	<u>\$ 13,437,087</u>	<u>\$ 326,849</u>	<u>\$ 475</u>	<u>\$ 13,764,411</u>
LIABILITIES				
Current liabilities:				
Accounts payable	249,872	-	-	249,872
Accrued liabilities	25,918	-	-	25,918
Unearned revenue	257,765	-	-	257,765
Customer deposits	381,071	-	-	381,071
Compensated absences - current	30,488	-	-	30,488
Capital leases payable - current	<u>117,153</u>	<u>11,074</u>	<u>-</u>	<u>128,227</u>
Total current liabilities	<u>1,062,267</u>	<u>11,074</u>	<u>-</u>	<u>1,073,341</u>
Noncurrent liabilities:				
Compensated absences - non current	5,603	-	-	5,603
Capital leases payable - non current	<u>865,053</u>	<u>61,812</u>	<u>-</u>	<u>926,865</u>
Total noncurrent liabilities	<u>870,656</u>	<u>61,812</u>	<u>-</u>	<u>932,468</u>
Total liabilities	<u>1,932,923</u>	<u>72,886</u>	<u>-</u>	<u>2,005,809</u>
NET ASSETS				
Invested in capital assets, net of related debt	7,691,577	13,764	-	7,705,341
Unrestricted	<u>3,812,587</u>	<u>240,199</u>	<u>475</u>	<u>4,053,261</u>
Total net assets	<u>\$ 11,504,164</u>	<u>\$ 253,963</u>	<u>\$ 475</u>	<u>\$ 11,758,602</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, 2007

	Enterprise Funds			Total
	Major Funds		Non-Major	
	Water Fund	Storm Water Fund	Nags Head Leasing	
OPERATING REVENUES				
Charges for services	\$ 2,071,593	\$ 111,720	\$ -	\$ 2,183,313
Contribution to Fresh Pond	363,528	-	-	363,528
Charges to other governmental units	43,922	-	-	43,922
Rents	105,961	-	-	105,961
DEHNR Grant	-	29,900	-	29,900
Tap and connection fees	15,835	-	-	15,835
Late payment penalties	18,982	-	-	18,982
Water Tag Fees	10,377	-	-	10,377
Miscellaneous	5,813	-	-	5,813
Total operating revenues	<u>2,636,011</u>	<u>141,620</u>	<u>-</u>	<u>2,777,631</u>
OPERATING EXPENSES				
Administration	170,019	-	-	170,019
Septic Health	245,872	-	-	245,872
Operations	1,278,162	-	-	1,278,162
Fresh Pond Operations	272,269	-	-	272,269
Distribution	536,214	-	-	536,214
Storm Water	-	107,342	-	107,342
Depreciation and amortization	303,036	-	-	303,036
Total operating expenses	<u>2,805,572</u>	<u>107,342</u>	<u>-</u>	<u>2,912,914</u>
Total operating income	(169,561)	34,278	-	(135,283)
NONOPERATING REVENUES (EXPENSES)				
Investment earnings	229,959	6,918	19	236,896
Interest expense	(42,905)	-	-	(42,905)
Total nonoperating revenue (expenses)	<u>187,054</u>	<u>6,918</u>	<u>19</u>	<u>193,991</u>
Income (loss) before contributions and transfers	17,493	41,196	19	58,708
Capital contributions from impact fees	210,000	-	-	210,000
Capital contributions from infrastructure	40,310	-	-	40,310
Capital contributions from donations	626,094	-	-	626,094
Transfer from General Fund	-	41,766	-	41,766
Change in net assets	893,897	82,962	19	976,878
Total net assets - beginning	<u>10,610,267</u>	<u>171,001</u>	<u>456</u>	<u>10,781,724</u>
Total net assets - ending	<u>\$ 11,504,164</u>	<u>\$ 253,963</u>	<u>\$ 475</u>	<u>\$ 11,758,602</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, 2007

	Business-Type Activities Enterprise Funds			Total
	Major Funds		Non-Major	
	Water Fund	Storm Water	Nags Head Leasing	
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 2,394,507	\$ 108,161	\$ -	\$ 2,502,668
Cash paid for goods and services	(1,748,190)	(128,171)	-	(1,876,361)
Cash paid to or on behalf of employees for services	(728,348)	-	-	(728,348)
Customer deposits returned	(3,390)	-	-	-
Other operating revenues	<u>112,386</u>	<u>-</u>	<u>-</u>	<u>112,386</u>
Net cash provided (used) by operating activities	<u>26,965</u>	<u>(20,010)</u>	<u>-</u>	<u>6,955</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Initial Impact fees received	210,000	-	-	210,000
Transfer from General Fund	-	41,766	-	41,766
Proceeds from financing capital assets	-	86,650	-	86,650
Interest paid on debt financing	(42,905)	-	-	(42,905)
Septic Loans Issued	(9,350)	-	-	(9,350)
Repayment of septic loans	10,501	-	-	10,501
Principal paid on debt financing	(136,587)	(13,764)	-	(150,351)
Acquisition of capital assets	<u>(1,940,895)</u>	<u>(86,650)</u>	<u>-</u>	<u>(2,027,545)</u>
Net cash provided (used) by capital and related financing activities	<u>(1,909,236)</u>	<u>28,002</u>	<u>-</u>	<u>(1,881,234)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest	<u>229,959</u>	<u>6,918</u>	<u>19</u>	<u>236,896</u>
Net increase (decrease) in cash and cash equivalents	(1,652,312)	14,910	19	(1,637,383)
Balances - beginning of the year	<u>5,821,543</u>	<u>187,613</u>	<u>456</u>	<u>6,009,612</u>
Balances - end of the year	<u>\$ 4,169,231</u>	<u>\$ 202,523</u>	<u>\$ 475</u>	<u>\$ 4,372,229</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, 2007

	Business-Type Activities			Total
	Enterprise Funds			
	Major Funds	Non-Major		
Water Fund	Storm Water	Nags Head Leasing		
Reconciliation of operating income to net cash provided by operating activities				
Operating income	(169,561)	34,278	-	(135,283)
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization	303,036	-	-	303,036
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable	(129,730)	(33,459)	-	(163,189)
(Increase) decrease in inventories	(6,390)	-	-	(6,390)
(Increase) decrease in prepaids	-	120	-	-
Increase (decrease) in accounts payable	8,511	(20,949)	-	(12,438)
Increase (decrease) in accrued liabilities	23,876	-	-	23,876
Increase (decrease) in customer deposits	(3,390)	-	-	(3,390)
Increase (decrease) in deferred revenue	613	-	-	613
Total adjustments	196,526	(54,288)	-	142,238
Net cash provided by operating activities	\$ 26,965	\$ (20,010)	\$ -	\$ 6,955

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, 2007

	<u>Pension Trust</u>
ASSETS	
Cash and cash equivalents	\$ 250,546
Total Assets	<u>250,546</u>
LIABILITIES	
Accrued benefits payable	<u>635</u>
Total Liabilities	<u>635</u>
NET ASSETS	
Held in trust for pension benefits	<u>\$ 249,911</u>

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

Town of Nags Head, North Carolina
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2007

Additions	<u>Pension Trust</u>
Employer Contributions	\$ 36,656
Investment Earnings	<u>10,223</u>
Total investment earnings	10,223
 Total additions	 46,879
 Deductions	
Benefits	18,265
Total deductions	<u>18,265</u>
Change in net assets	28,614
Net assets - beginning of the year	<u>221,297</u>
Net assets - end of the year	<u>\$ 249,911</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, 2007**

I. Summary of Significant Accounting Policies

The accounting policies of the Town of Nags Head conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies.

A. Reporting Entity

The Town of Nags Head is a municipal corporation, which is governed by an elected mayor and four commissioners. As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. The blended component unit has a June 30 year end.

Blended Component Unit – Nags Head Leasing is a not for profit corporation formed and operated for the purpose of providing financial assistance to the Town of Nags Head and to enable the Town to acquire water system improvements or other capital items. Nags Head Leasing Corporation is reported as an Enterprise fund.

B. Basis of Presentation

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

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

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

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

**Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Year Ended June 30, 2007**

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 & 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 non-major enterprise funds:

Nags Head Leasing. This is a Blended Component Unit.

The Town reports the following fiduciary fund types:

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

C. Measurement Focus and Basis of Accounting

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

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

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

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Year Ended June 30, 2007

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

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

The Town considers all revenues available if they are collected within 60 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of January 1, 1993, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, Dare County is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts in the County, including the Town of Nags Head. For motor vehicles registered under the staggered system, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, the Town's vehicle taxes for vehicles registered in Dare County from March 2006 through February 2007 apply to the fiscal year ended June 30, 2007. Uncollected taxes that were billed during this period are shown as a receivable on these financial statements. In addition, as of January 1, 2006, State law implemented a staggered expiration date system for annually registered vehicles as part of the conversion into the staggered registration.

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.

**Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Year Ended June 30, 2007**

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 & 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, 2007, \$929,967 of open purchase orders and contracts were outstanding in the General Fund. These encumbrances outstanding are reported as "Reserved for encumbrances" in the fund balance section of the balance sheet for the General Fund and will be re-appropriated in the subsequent year's budget. The Beach Nourishment Capital Project Fund had \$1,186,035 in outstanding encumbrances at June 30, 2007. The Water Fund had \$59,258 in encumbrances outstanding at June 30, 2007. There were no open purchase orders in any of the other Town funds.

E. Assets, Liabilities, and Fund Equity

1. Deposits and Investments

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

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

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Year Ended June 30, 2007

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

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

2. Cash and Cash Equivalents

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

3. Restricted Assets

The unexpended debt proceeds of the General Fund and the Water Fund are classified as restricted assets because their use is completely restricted to the purpose for which the debt was originally issued.

4. Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2006.

5. Allowances for Doubtful Accounts

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

6. Inventory and Prepaid Items

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

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

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

**Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Year Ended June 30, 2007**

7. Capital Assets

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

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

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

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

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.

**Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Year Ended June 30, 2007**

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.

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.

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Year Ended June 30, 2007

Unreserved:

Designated for subsequent year's expenditures - portion of the total fund balance available for appropriation that has been designated for the adopted 2007 – 2008 budget ordinance.

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

II. Stewardship, Compliance, and Accountability

A. Deficit Fund Balances

The following funds had deficit fund balances in the current year:

Beach & Sound Access Project Fund	\$72,196
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The deficit fund balance was the result of timing differences in the incurrence of costs for the projects and reimbursement of funds from grantors. The Town expects to correct the Beach & Sound Project Access Fund deficit upon receipt of grant funds during the following fiscal year.

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, 2007, the Town's deposits had a carrying amount of \$7,544,903 and a bank balance of \$7,987,107. Of the bank balance, \$4,099,689 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. At June 30, 2007, the Town's petty cash fund totaled \$250.

**Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Year Ended June 30, 2007**

2. Investments

At June 30, 2007, the Town's investments were as follows:

Investment Type	Fair Value	Less than 6 Months	6-12 Months	1-3 Years	3-7 Years
US Government Obligations	1,638,824	339,120	376,949	922,755	
US Government Agencies	1,122,969	274,903	213,579	387,875	246,612
NC Capital Management Trust - Cash Portfolio*	4,611,297		4,611,297		
Total:	7,373,090	614,023	5,201,825	1,310,630	246,612

* 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 in U.S. Treasury Obligations are rated TSY and all other Government Obligations and Agencies are rated AAA by Standard & Poor's as of June 30, 2007. 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, 2007.

Concentration of Credit Risk. The Town's policy prohibits the investment off all long term securities with a single institution. There is no limit on the amount the Town may invest in any one issuer. The Town has more than 5% invested in Federal Home Loan Mortgage securities, Federal Home Loan Bank securities, and Federal National Mortgage Association securities. These investments are 8.55%, 17.14%, and 8.38%, respectively, of the Town's total investments.

**Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Year Ended June 30, 2007**

3. Receivables

The receivables shown in Exhibit A at June 30, 2007 were as follows:

	<u>Accounts</u>	<u>Taxes</u>	<u>Due from other Governments</u>	<u>Interest Receivable</u>	<u>Total</u>
Governmental Activities:					
General	148,553	20,899	878,373	76,323	1,124,148
Other governmental					0
Allowance for doubtful accounts		(10,000)			(10,000)
Total governmental activities	<u>148,553</u>	<u>10,899</u>	<u>878,373</u>	<u>76,323</u>	<u>1,114,148</u>
Business-type Activities:					
Water	396,402		166,121		562,523
Stormwater	37,676				37,676
Allowance for doubtful accounts	(18,069)				(18,069)
					0
Total business type activities	<u>416,009</u>	<u>0</u>	<u>166,121</u>	<u>0</u>	<u>582,130</u>

Due from other governments consisted of the following:

Occupancy tax	\$331,629
Land transfer tax	180,967
Sales taxes	253,812
Tax reimbursement	86,304
Ocean rescue services	19,987
Grants	1,000
Other	4,674
Total	\$878,373

Capital Lease receivable

The Town assisted the Outer Banks Family YMCA in obtaining tax exempt financing for the YMCA property located within the Town of Nags Head. The Town acquired title to the YMCA property and borrowed funds from the Bank of America in the amount of \$3,721,000. The Town has entered into an agreement to lease the property to the YMCA for the total of the amount due under the financing arrangement and has no financial responsibility beyond lease payments. The total payments received under this lease for the fiscal year ended June 30, 2007 were \$415,838 and the payments made were \$328,000 in principal and \$87,838 in interest.

**Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Year Ended June 30, 2007**

4. Capital Assets

Capital asset activity for the Primary Government for the year ended June 30, 2007, was as follows:

	Beginning Balances	Increases	Decreases/ Transfers	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 5,020,808	\$ 4,603	\$ -	\$ 5,025,411
Construction in progress	509,748	338,912	(309,291)	539,369
Total capital assets not being depreciated	<u>5,530,556</u>	<u>343,515</u>	<u>(309,291)</u>	<u>5,564,780</u>
Capital assets being depreciated:				
Buildings	6,774,157	5,784	305,505	7,085,446
Other improvements	668,248	386,827		1,055,075
Equipment	1,388,450	110,769	(39,236)	1,459,983
Vehicles and motorized equipment	5,349,179	79,901	(391,517)	5,037,563
Total capital assets being depreciated	<u>14,180,034</u>	<u>583,281</u>	<u>(125,248)</u>	<u>14,638,067</u>
Less accumulated depreciation for:				
Buildings	1,602,588	147,006	(3,786)	1,745,808
Other improvements	47,066	31,712		78,778
Equipment	716,777	166,748	(39,236)	844,289
Vehicles and motorized equipment	2,922,919	407,697	(391,517)	2,939,099
Total accumulated depreciation	<u>5,289,350</u>	<u>753,163</u>	<u>(434,539)</u>	<u>5,607,974</u>
Total capital assets being depreciated, net	<u>8,890,684</u>			<u>9,030,093</u>
Governmental activity capital assets, net	<u>14,421,240</u>			<u>14,594,873</u>

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

General Government	\$ 65,007
Public Safety	254,835
Public Works/Transportation	245,057
Environmental Protection	188,264
Total Depreciation expense	<u>753,163</u>

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Year Ended June 30, 2007

Capital asset activities for the Business-type activities for the year ended June 30, 2007 was as follows:

	Beginning Balances	Increases	Decreases/ Transfers	Ending Balances
Business-type activities:				
Enterprise Funds				
Capital assets not being depreciated:				
Land	\$ 204,205	\$ 2,244,047	\$ -	\$ 2,448,252
Construction in Progress	-	136,650		136,650
Total capital assets not being depreciated	<u>204,205</u>	<u>2,380,697</u>	<u>-</u>	<u>2,584,902</u>
Capital assets being depreciated:				
Plant	5,924,239	332,130		6,256,369
Equipment	990,096	101,670	(9,416)	1,082,350
Vehicles	144,861			144,861
Intangibles	4,203,620			4,203,620
Total capital assets being depreciated	<u>11,262,816</u>	<u>433,800</u>	<u>(9,416)</u>	<u>11,687,200</u>
Less accumulated depreciation for:				
Plant	3,037,551	146,409		3,183,960
Equipment	414,725	32,183	(9,416)	437,492
Vehicles	68,102	17,658		85,760
Intangibles	1,697,671	106,786		1,804,457
Total accumulated depreciation	<u>5,218,049</u>	<u>303,036</u>	<u>(9,416)</u>	<u>5,511,669</u>
Total capital assets being depreciated, net	<u>6,044,767</u>			<u>6,175,531</u>
Fund capital assets, net	<u>6,248,972</u>			<u>8,760,433</u>
Business-type activities capital assets, net	<u>6,248,972</u>			<u>8,760,433</u>

The government has active construction projects as of June 30, 2007. At year-end, the government's estimated commitments to projects ongoing are as follows:

Project	Spent-to-date	Remaining Commitment
Beach Nourishment	\$ 428,165	\$ 1,186,035
Baltic Street access	4,146	149,062
June Street access	44,006	11,094
Indigo Street access	40,406	9,594
West side multi use path	10,153	151,306
Waterline improvements	136,650	32,975
Total	<u>663,526</u>	<u>1,540,066</u>

**Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Year Ended June 30, 2007**

B. Liabilities

1. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

Plan Description

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

Funding Policy

Plan members are required to contribute six percent of their annual covered salary. The Town is required to contribute at an actuarially determined rate. For the Town, the current rate for employees not engaged in law enforcement and for law enforcement officers is 4.88% and 4.78%, respectively, of annual covered payroll. The contribution requirements of members and of the Town of Nags Head are established and may be amended by the North Carolina General Assembly. The Town's contributions to LGERS for the years ended June 30, 2007, 2006, and 2005 were \$249,502, \$240,884, and 208,997, respectively. The contributions made by the Town equaled the required contributions for each year.

b. Law Enforcement Officers Special Separation Allowance

Plan Description

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

All full time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2006 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	<u>21</u>
Total	<u>23</u>

A separate report was not issued for the plan.

**Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Year Ended June 30, 2007**

Summary of Significant Accounting Policies

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

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

Contributions

The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the benefit payments on a pay as you go basis through appropriations made in the General Fund operating budget. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. There were no contributions made by employees.

The annual required contribution for the current year was determined as part of the December 31, 2005 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 7.25% investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 4.5% to 12.3% per year. Item (b) included an inflation component of 3.75%. The assumptions did not include post-employment benefit increases. The actuarial value of assets was determined using the market value of investments. The unfunded actuarial accrued liabilities are being amortized as a level dollar amount on a closed basis. The remaining amortization period at December 31, 2006 was 24 years.

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

Annual required contribution	\$ 16,393
Interest on net pension obligation	(1,001)
Adjustment to annual required contribution	813
Annual pension cost	16,205
Contributions made	(36,656)
Increase (decrease) in net pension obligation	(20,451)
Net pension obligation beginning of year	(13,806)
Net pension obligation end of year	(34,257)

For Year Ended June 30	3 Year Trend Information		
	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2005	\$ 18,769	168.6%	\$ (5,653)
2006	20,734	139.3%	(13,806)
2007	16,205	226.2%	(34,257)

**Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Year Ended June 30, 2007**

c. Supplemental Retirement Income Plan for Law Enforcement Officers

Plan Description

The Town contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to law enforcement officers employed by the Town. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

Funding Policy

Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2007 were \$67,253, which consisted of \$53,277 from the Town and \$13,976 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, 2007 were \$20,979, which consisted of \$122,073 from the Town and \$86,906 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.

**Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Year Ended June 30, 2007**

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, 2007, 2006 and 2005 were \$3,823, \$3,855, and \$3,740, respectively.

f. Other Post-employment Benefits

According to a Town resolution, the Town provides post-employment health care benefits to retirees of the Town, provided they participate in the North Carolina Local Governmental Employees' Retirement System (System) and have at least ten years of creditable service with the Town. The Town contributes towards the cost of coverage for these benefits according to the following scale: ten years or more at 25%, fifteen years or more at 50%, twenty years or more at 75%, and twenty-five years or more at 100%. Also, the Town's retirees can purchase coverage for their dependents at the Town's group rates. Currently 10 retirees are eligible for post-employment health benefits. For the fiscal year ended June 30, 2007, the Town made payments for post-employment health benefit premiums of \$29,643. The Town obtains health care coverage through private insurers.

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, 2006, the Town made contributions to the State for death benefits of \$4,747. 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
For the Year Ended June 30, 2007**

2. Payables

Payables at Exhibit A at June 30, 2007 were as follows:

	Vendors	Salaries and Benefits	Accrued Interest	Customer Deposits	Total
Governmental Activities					
General	148,350	169,269		56,566	374,185
Beach/Sound Access Fund	68,050				68,050
Beach Nourishment Fund	8,685				8,685
Total Governmental activities	225,085	169,269		56,566	450,920
Business-type Activities					
Water	249,872	25,918		381,079	656,869
Stormwater					
Total Business-type activities	249,872	25,918		381,079	656,869

3. Deferred / Unearned Revenues

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

	Deferred Revenue	Unearned Revenue
Prepaid taxes and privilege licenses (General Fund)		\$ 40,384
Taxes and privilege licenses receivable (General Fund)	24,615	-
Capital Lease for YMCA (General Fund)	1,719,000	-
Special assessment receivable (General Fund)	577	-
Miscellaneous accounts receivable (General Fund)	523	-
Prepaid rent (Water Fund)	-	31,765
Prepaid impact fees (Water Fund)	-	226,000
Total	1,744,715	298,149

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
Notes to the Financial Statements
For the Year Ended June 30, 2007

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, A036, 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 \$1,956,853 for its Town Hall structure and \$455,000 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, 2007 the Town was a defendant to various lawsuits. In the opinion of the Town's management and the Town attorney, the ultimate effect of these legal matters will not have a material adverse effect on the Town's financial position.

6. Long-Term Debt

a. Capital Leases and Installment Finance Contracts

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

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

The Town entered into a fifteen year installment financing contract in 2005 with RBC Centura for the construction of the fire/police facility in south Nags Head. The amount borrowed was \$1,600,000 at an interest rate of 3.82% and is secured by the property. Originally payments were due in annual installments of \$106,666.67 plus accrued interest with final payment due on May 30, 2019. The Town

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Year Ended June 30, 2007

prepaid \$125,068 during the fiscal year ending June 30, 2006 from unused escrow funds and the remaining principal was reamortized with payments due in annual installments of \$97,046 plus accrued interest through May 17, 2019.

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

The Town currently has seven leases outstanding for various vehicles and equipment. Annual payments range from \$42,065 to \$141,532. Expiration dates range from March 2008 to May 2013. Interest rates vary from 2.94% to 3.82%.

The gross value of all assets recorded under capital leases and installment finance contracts is \$7,202,768. The following is an analysis of the assets recorded under capital leases and installment finance contracts in the Town's at June 30, 2007:

Classes of Property	Cost
Building	\$ 4,000,000
Vehicles and equipment	3,202,768
Total	<u>7,202,768</u>

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

	Outstanding July 1, 2006	Increases	Decreases	Outstanding June 30, 2007	Current Portion
BY TYPE OF DEBT					
Finance Contract	\$4,214,715		(\$610,031)	\$3,604,684	\$572,018
Capital Leases	1,131,231	880,526	(634,944)	1,376,813	502,920
Compensated Absences	356,384	291,679	(256,531)	391,532	291,679
	<u>5,705,330</u>	<u>1,172,205</u>	<u>(1,501,506)</u>	<u>5,373,029</u>	<u>1,366,617</u>

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

	General Long-term Debt July 1, 2006	Increases	Decreases	General Long-term Debt June 30, 2007	Current Portion
BY TYPE OF DEBT					
Finance Contract	\$ 950,688		\$ (61,950)	\$ 888,738	\$ 59,658
Capital Leases	168,105	86,650	(88,401)	166,354	68,569
Compensated Absences	31,478	30,488	(25,875)	36,091	30,488
	<u>1,150,271</u>	<u>117,138</u>	<u>(176,226)</u>	<u>1,091,183</u>	<u>158,715</u>

**Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Year Ended June 30, 2007**

b. Changes in Long-Term Liabilities

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

	Balance July 1, 2006	Earned	Used	Balance July 1, 2007
General Fund				
General Government	\$91,744	\$75,984	\$54,001	\$113,727
Public Safety	181,895	138,625	124,736	195,784
Public Works/Transportation	28,815	51,367	28,917	51,265
Environmental Protection	53,930	25,703	48,877	30,756
	<u>\$356,384</u>	<u>\$291,679</u>	<u>\$256,531</u>	<u>\$391,532</u>
Proprietary Fund	<u>\$31,478</u>	<u>\$30,488</u>	<u>\$25,875</u>	<u>\$36,091</u>

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

Year Ending June 30	Principal	Interest
2008	\$ 1,074,938	\$ 316,621
2009	905,948	254,009
2010	731,304	201,559
2011	516,176	156,366
2012	324,953	126,683
2013 - 2017	1,234,086	285,546
2018 - 2022	194,092	11,121
Total	<u>4,981,497</u>	<u>1,351,905</u>

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

Year Ending June 30	Principal	Interest
2008	\$ 128,227	\$ 40,050
2009	109,412	35,435
2010	76,247	31,391
2011	79,163	28,475
2012	82,192	25,447
2013 - 2017	402,414	80,723
2018 - 2022	177,437	10,312
Total	<u>1,055,092</u>	<u>251,833</u>

**Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Year Ended June 30, 2007**

Amortization of assets acquired under capital leases in Enterprise Funds is included in depreciation. At June 30, 2007 the Town of Nags Head, North Carolina, has a legal debt margin of \$236,446,770.

7. Operating Leases

The Town entered into an operating lease for the lease of six copiers effective November 19, 2004 for a period of 60 months. The lease calls for minimum monthly rental payments and per copy maintenance charges based on actual usage.

Total minimum lease payments for the remaining term of the contract at June 30, 2007, are as follows:

2008	\$ 6,808
2009	6,808
2010	<u>2,269</u>
Total	<u>\$15,885</u>

During the year ended June 30, 2007, the total amount expended by the Town under the above operating lease was \$9,247 including both minimum monthly rentals and per copy charges.

Under a separate lease agreement effective August 30, 2003, the Town leases one copier for a period of 60 months in the amount of \$213 per month plus monthly copy charges of \$115 per month which includes up to 11,500 copies. Copies in excess of that amount are additional.

Total minimum lease payments for the remaining term of the contract at June 30, 2007, are as follows:

2008	\$3,933
2009	<u>656</u>
Total	<u>\$4,589</u>

During the year ended June 30, 2007, the total amount expended by the Town under the above operating lease was \$3,971 including both minimum monthly rentals and overage per copy charges.

The Town assisted the Outer Banks Family YMCA in obtaining tax exempt financing for the YMCA property located within the Town of Nags Head. The Town acquired title to the YMCA property and borrowed funds from the Bank of America in the amount of \$3,721,000. The terms of the loan call for varying quarterly principal payments over fifteen years with interest determined quarterly as 65% of London Interbank Offering Rate (LIBOR) plus 1.14% per annum. The Town has entered into an agreement to lease the property to the YMCA for the total of the amount due under the financing arrangement and has no financial responsibility beyond lease payments. The total payments received under this operating lease for the fiscal year ended June 30, 2006 were \$415,838 and the payments made were \$328,000 in principal and \$87,838 in interest.

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Year Ended June 30, 2007

8. Interfund Balances and Activity

The balance sheet for Government Funds shows a liability in the General Fund of \$156,548 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 \$45,225.

The balance sheet for the Government Funds shows an asset in the General Fund of \$73,776 and a corresponding payable in the Beach and Sound Access Project Fund. These funds were used for construction costs for access projects and will be reimbursed by grant funds for the project costs when received.

Transfers to/from other funds for the year ended June 30, 2007 consisted of the following:

From the General Fund to the Capital Reserve Fund for future capital purchases	\$ 84,948
From the General Fund to the Storm Water Fund for additional funding for start up costs	41,766
From the Capital Reserve Fund to the General Fund for current year capital purchases	180,042
From the Capital Reserve Fund to the Beach & Sound Access Project Fund for current year capital purchases	8,850
Total	<u>\$ 315,606</u>

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

For the fiscal year ended June 30, 2007, the Town has recognized on-behalf payments for pension contributions made by the State as a revenue and an expenditure of \$9,822 for the 42 volunteer firemen who perform fire fighting duties for the Town's fire department and on-behalf payments of \$9,822 as a revenue and an expenditure. The volunteers and employees elected to be members of the Firemen and Rescue Squad Workers' Pension Fund, a cost-sharing, multiple-employer public employee retirement system established and administered by the State of North Carolina. The plan is funded by a \$10 monthly contribution paid by each member, investment income, and State appropriation.

**Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Year Ended June 30, 2007**

IV. Joint Ventures

The Town and the members of the Town's fire department each appoint two members to the five-member local board of trustees for the Firemen's Relief Fund. The State Insurance Commissioner appoints one additional member to the local board of trustees. The Firemen's Relief Fund is funded by a portion of the fire and lightning insurance premiums that insurers remit to the State. The State passes these moneys to the local board of the Firemen's Relief Fund. The funds are used to assist fire fighters in various ways. The participating governments do not have any equity interest in the joint venture, so no equity has been reflected in the financial statements at June 30, 2006. The Firemen's Relief Fund does not issue separate audited financial statements. Instead, the local board of trustees files an annual financial report with the State Firemen's Association. This report can be obtained from the Association at Post Office Box 188, Farmville, NC 27828.

V. Summary Disclosure of Commitments and Contingencies

A. Federal and State Assisted Programs

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

B. Jennette's Pier

During the year ending June 30, 2003 the Town agreed conceptually to participate in the acquisition by The North Carolina Aquarium Society of the Jennette's Pier property by making a one time contribution of \$300,000, based on a mutually agreed to Memorandum of Understanding between and among various agencies of North Carolina State Government, Dare County and The Town of Nags Head. This was recorded as a payable at that time. As of October 7, 2005 a Memorandum of Understanding was entered into between The Town, Dare County, the North Carolina Aquarium Society, The North Carolina Aquariums, and the Clean Water Management Trust and payment of the \$300,000 was made to Clean Water Management Trust at that time. The transfer of this property from the North Carolina Aquarium Society to the North Carolina Aquariums is anticipated to take place in the fall of 2007. Design plans for the renovation of the property are complete and construction could begin as early as the spring of 2008 with completion by the spring of 2010.

C. Municipal Waste Management Agreement

On December 23, 1993, the Town entered into a Municipal Waste Management Agreement with Dare County, a member of the Albemarle Regional Solid Waste Authority, for disposal of solid waste. The contract extends for twenty years. Charges are based on the Town's actual tonnage of solid waste; the rate in effect in the 2006-2007 year was \$61.16 per ton.

D. Volunteer Fire Department Agreement

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

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Year Ended June 30, 2007

earned at various intervals during the year including the Town's fiscal year end. The amount expended under this agreement in the current fiscal year was \$19,682. The method of calculation of incentive pay was amended by the Board of Commissioners during the fiscal year ending June 30, 2006 as was the twelve month period for calculation to coincide with the Town's fiscal year from July through June. The amount expended under this agreement for the partial year of December 2005 through June 2006 was \$2,750. The amount expended under this agreement for the full year ending June 30, 2007 was \$8,500 plus an additional \$650 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 \$589,620 were incurred for the Town's share of additional projects including well field expansions. The Town has the right to water produced from the R.O. plant. Presently, the Town's share is 1,000,000 gallons per day.

The intangible water rights are being amortized over 40 years. This time period corresponds to the estimated useful life of the R.O. water desalination plant. At June 30, 2006, accumulated amortization totaled \$1,804,457.

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

F. Fresh Pond Operations

As part of the agreement with Dare County and the Town of Kill Devil Hills, the Town of Nags Head operates the Fresh Pond surface water facility for the regional system. The terms of the agreement require the Town to provide an annual accounting to the Regional Water System and to settle any difference in water revenues and expenses. Pursuant to the Regional Water System agreement, Fresh Pond Capital as of June 1996 is to be used for capital expenditures of Fresh Pond. After this amount is exhausted, Dare County, Kill Devil Hills and the Town will share in capital expenditures evenly. All funds previously set aside for capital expenditures under this agreement have been expended as of June 30, 2007. In the case of capital expenditures in excess of \$100,000, each entity must agree to fund their share or accept a reduction in their allocation from the Fresh Pond water supply. During the fiscal year ending June 30, 2007 the Town received \$181,748 from the Regional Water System in reimbursement of excess operating costs from the prior fiscal year and an additional \$90,890 from both Dare County and Kill Devil Hills for their share of Fresh Pond capital expenditures.

G. Water Impact Fees

The Town entered into a letter of understanding with the Ammons-Dare Corporation (its successors and assigns) for the provision of water to the Village of Nags Head Development. The Town guarantees 1,000 water consumption units (WCU) will be available for the development. Ammons-Dare Corporation has agreed to pay an impact fee of \$2,000 per WCU in advance in the form of an irrevocable letter of credit in the amount of \$2,000,000. As of June 30, 2006, draws in the amount of \$2,000,000 have been made by the Town on this letter of credit, and Ammons-Dare Corporation has utilized 691 WCU's which are

**Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Year Ended June 30, 2007**

guaranteed by the Town and are valued at \$1,382,000. The Town reimbursed Ammons-Dare Corporation for 100 unused WCU's in the amount of \$200,000 during the fiscal year ending June 30, 1992, 50 unused WCU's in the amount of \$100,000 during the fiscal year ending June 30, 1993, 15 units in the amount of \$30,000 during the fiscal year ending June 30, 1995, and 31 units in the amount of \$62,000 in the year ended June 30, 1996. The remaining 113 WCU's in the amount of \$226,000 represent the balance due under the letter of understanding and are included in the Water Fund balance sheet as unearned revenue. Should any of the remaining WCU's be unused, the Town agrees to reimburse Ammons-Dare Corporation, its successors and assigns, at any time after September 4, 1991.

H. Facility Fees

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

For the year ended June 30, 2007, the following Facility Fee Revenue (including interest) was collected in the General Fund:

Administration	\$	15,490
Fire		16,598
Police		27,048
Sanitation		14,878
Recreation		10,935
Total		84,949

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, 2007, 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, 2007, 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 \$45,225 were used toward the interfund loan used to satisfy the previous fire station debt. There was \$9,000 in sanitation facility fees used toward the debt for new equipment. Lastly, \$8,850 in recreation facility fees was used for partial funding of the town hall beach access project in the Beach and Sound Access Project Fund.

**Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Year Ended June 30, 2007**

As of June 30, 2007, the following balances of facility fees remained, and are included in the Capital Reserve Fund:

Administration	\$	143,548
Fire		31,519
Police		187,116
Sanitation		15,164
Recreation		19,603
Total		396,950

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

Facility Fees Collected (inclusive of interest):

	Admin.	Fire	Police	Sanitation	Recreation	Total
FY 89-90	\$ 29,114	\$ 19,035	\$ 7,179	\$ 16,548	\$ -	\$ 71,876
FY 90-91	17,704	15,761	6,293	10,194	-	49,952
FY 91-92	24,115	27,159	11,204	15,236	-	77,714
FY 92-93	24,392	16,237	6,509	12,473	-	59,611
FY 93-94	23,758	24,740	10,317	12,476	-	71,291
FY 94-95	25,965	27,202	11,743	17,074	-	81,984
FY 95-96	28,330	28,125	12,570	19,832	-	88,857
FY 96-97	22,811	11,699	5,322	9,682	-	49,514
FY 97-98	34,009	15,243	15,749	10,406	-	75,407
FY 98-99	45,061	23,584	28,535	19,367	-	116,547
FY 99-00	45,953	31,970	43,067	24,461	14,473	159,924
FY 00-01	64,457	66,526	102,658	47,078	41,911	322,630
FY 01-02	64,532	34,245	43,293	30,466	42,338	214,874
FY 02-03	63,155	36,834	50,102	33,571	38,719	222,381
FY 03-04	39,368	16,606	18,221	10,109	28,633	112,937
FY 04-05	33,300	45,226	75,807	23,782	23,479	201,594
FY 05-06	24,395	14,920	20,474	13,677	23,030	96,496
FY 06-07	15,490	16,598	27,048	14,878	10,935	84,949
Total	\$ 625,909	\$ 471,710	\$ 496,091	\$ 341,310	\$ 223,518	\$ 2,158,538

**Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Year Ended June 30, 2007**

Facility Fees Used:

	Admin.	Fire	Police	Sanitation	Recreation	Total
FY 89-90						
FY 90-91						
FY 91-92		\$ 30,000		\$ 20,000		\$ 50,000
FY 92-93			\$ 6,520			6,520
FY 93-94		26,247	4,097			30,344
FY 94-95		26,247	4,097			30,344
FY 95-96		75,765				75,765
FY 96-97	\$ 160,000		40,000	5,000		205,000
FY 97-98	10,000		5,000	5,000		20,000
FY 98-99	35,000		16,120			51,120
FY 99-00	31,500	26,942	28,434	18,864		105,740
FY 00-01	31,500	23,584	13,500	19,818	\$ 7,065	95,467
FY 01-02	31,500	31,970	48,227	71,677	44,000	227,374
FY 02-03	31,500	66,526	13,500	36,716	25,000	173,242
FY 03-04	56,861	40,591	60,601	50,999	42,000	251,052
FY 04-05	31,500	30,667	18,648	52,356	25,000	158,171
FY 05-06	31,500	16,427	25,198	36,716	52,000	161,841
FY 06-07	31,500	45,225	25,033	9,000	8,850	119,608
Total	482,361	440,191	308,975	326,146	203,915	1,761,588
Remaining	143,548	31,519	187,116	15,164	19,603	396,950

I. Hurricane Recovery

The Town of Nags Head entered into agreements to complete infrastructure repairs/replacements necessitated by Hurricane Isabel in September 2003. As of June 30, 2007, all contracts for the emergency berm project, the road repair project and the beach emergency berm project had been completed and reimbursement had been received except for \$280,914 for the costs of sprigging the emergency berm. This reimbursement was initially denied by FEMA and subsequently appealed by the Town. No final decision has yet been received. The costs were reported as expenditures in the year incurred and no receivable or revenue has been recorded by the Town related to reimbursement of these costs.

J. Beach Nourishment

On November 2, 2005, the Town adopted a capital project ordinance for Beach Nourishment with an estimated cost of \$27,697,850 to be funded by bond proceeds in the amount of \$26,997,850 and a contribution from the General Fund in the amount of \$700,000. 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 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 attorneys fees related to the project and the referendum.

**Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Year Ended June 30, 2007**

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Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Year Ended June 30, 2007

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Projected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll [(b-a)/c]
12/31/1997	49,502	66,480	16,978	74.46%	571,738	2.97%
12/31/1998	62,331	83,495	21,164	74.65%	656,523	3.22%
12/31/1999	71,819	81,751	9,932	87.85%	579,505	1.71%
* 12/31/2000	88,268	145,789	57,521	60.55%	673,137	8.55%
12/31/2001	90,229	178,317	88,088	50.60%	771,135	11.42%
12/31/2002	90,891	182,538	91,647	49.79%	815,534	11.24%
12/31/2003	151,541	212,074	60,533	71.46%	915,380	6.61%
12/31/2004	184,675	250,217	65,542	73.81%	1,026,938	6.38%
12/31/2005	217,715	241,698	23,983	90.08%	1,021,727	2.35%
12/31/2006	256,998	301,636	44,638	85.20%	1,058,590	4.22%

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

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

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
1997	5,310	100.00%
1998	7,398	82.62%
1999	8,503	74.46%
2000	10,300	74.65%
2001	8,148	87.85%
2002	15,773	60.55%
2003	18,854	50.60%
2004	17,883	49.79%
2005	7,225	71.46%
2006	(5,653)	73.81%
2007	(13,806)	90.08%

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	12/31/2006
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	25 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	7.25%
Projected salary increases *	4.5 - 12.3%
* Includes inflation at	3.75%
Cost-of-living adjustments	N/A

TOWN OF NAGS HEAD, NORTH CAROLINA
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - General Fund For the Year Ended June 30, 2007

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
REVENUES			
Ad Valorem Taxes:			
Current year		\$ 4,414,669	
Prior year		(428)	
DMV current year		58,362	
DMV prior year		(628)	
Penalties and interest		<u>10,412</u>	
Total	<u>4,363,353</u>	<u>4,482,387</u>	<u>119,034</u>
Other Taxes and Licenses:			
Occupancy tax		1,770,246	
Land Transfer tax		652,435	
Local governmental sales tax		886,005	
1/2% sales tax revenue		742,607	
Privilege licenses		38,995	
Mixed beverage tax		36,893	
Privilege license penalties		<u>1,822</u>	
Total	<u>4,149,500</u>	<u>4,129,003</u>	<u>(20,497)</u>
Intergovernmental Revenues:			
Unrestricted:			
Utility/Telecommunications Franchise tax		293,464	
Beer and wine		14,121	
ABC revenue		<u>14,365</u>	
Total	<u>354,500</u>	<u>321,950</u>	<u>(32,550)</u>
Restricted:			
Contributions from governmental units		57,760	
State Street Aid allocation		132,433	
DCM Grant		29,322	
Drug Fund revenue		6,704	
CAMA Reimbursement		<u>6,580</u>	
Total	<u>385,965</u>	<u>232,799</u>	<u>(153,166)</u>
Total Intergovernmental Revenues	<u>740,465</u>	<u>554,749</u>	<u>(185,716)</u>
Permits and Fees:			
Building permits		231,999	
Facility fees		84,948	
Inspection and review fees		59,070	
Cable franchise fees		<u>121,766</u>	

TOWN OF NAGS HEAD, NORTH CAROLINA
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - General Fund For the Year Ended June 30, 2007

	<u>Budget</u>	<u>Actual</u>	Variance Over (Under)
Beach driving permits		12,189	
CAMA permits		21,200	
Motor vehicle licenses		<u>269</u>	
Total	<u>614,150</u>	<u>531,441</u>	<u>(82,709)</u>
 Special Assessments:			
Pond Island Project		<u>499</u>	
Total	<u>500</u>	<u>499</u>	<u>(1)</u>
 Sales and Services:			
Court costs and fees		<u>6,331</u>	
Total	<u>9,000</u>	<u>6,331</u>	<u>(2,669)</u>
 Investment Earnings	<u>510,000</u>	<u>556,768</u>	<u>46,768</u>
 Other Revenues:			
YMCA Rents		450,838	
Sale of materials		20,604	
Miscellaneous		59,914	
Sale of assets		53,425	
Damage recovery		11,262	
Civil Penalties		9,150	
Contributions to Police, Fire & Rescue Benevolent Fund		<u>12,135</u>	
Total	<u>737,721</u>	<u>617,328</u>	<u>(120,393)</u>
 Total Revenues	<u>11,124,689</u>	<u>10,878,506</u>	<u>(246,183)</u>
 EXPENDITURES			
General Government:			
Governing Body:			
Fees paid to elected officials		26,443	
FICA expense		2,022	
Contracted services		49,968	
Contracted services - beach nourishment		7,398	
Other supplies, computers		1,427	
Capital outlay, art		109	
Department supplies and materials		9,459	
Special events		2,856	
Dues and subscriptions		3,918	
Printing		3,150	
Travel		3,444	
Telephone		568	

TOWN OF NAGS HEAD, NORTH CAROLINA
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - General Fund For the Year Ended June 30, 2007

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Training		964	
Equipment rental		381	
Employee incentive		275	
Contribution to YMCA		5,000	
Contribution to Nags Head Woods		14,000	
Contribution to Wright Flight		1,000	
Contribution OB Critical Incident Debriefing		500	
Contributions, miscellaneous		<u>100</u>	
Total	<u>207,772</u>	<u>132,982</u>	<u>74,790</u>
Special Projects:			
YMCA principal passthrough		328,000	
YMCA interest passthrough		<u>87,838</u>	
Total	<u>554,710</u>	<u>415,838</u>	<u>138,872</u>
Administration:			
Salaries and wages		299,745	
FICA expense		20,427	
Group insurance		38,171	
Group insurance - retiree		4,723	
Retirement		11,313	
401(k) account		8,002	
Contracted services		50,435	
Travel		4,099	
Advertising		5,213	
Departmental supplies		9,269	
Dues and subscriptions		2,372	
Equipment rental		3,971	
Telephone		3,462	
Employee training		1,650	
Postage		609	
Career development		2,845	
Professional fees		25	
Other supplies		1,427	
Reimbursement from Water Fund		<u>(74,225)</u>	
Total	<u>451,363</u>	<u>393,533</u>	<u>57,830</u>
Administrative Services:			
Salaries and wages		306,698	
FICA expense		22,354	
Group insurance expense		44,475	

TOWN OF NAGS HEAD, NORTH CAROLINA
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - General Fund For the Year Ended June 30, 2007

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Retirement		14,410	
401(k) account		8,860	
Unemployment expense		2,832	
Insurance		250,290	
Contracted services		14,458	
Employee training		9,253	
Professional services		34,000	
Departmental supplies and materials		11,473	
Postage		7,149	
Telephone		3,554	
Travel		7,736	
Other supplies		6,998	
Equipment rental		4,820	
Printing		1,942	
Repairs and maintenance, equipment		1,356	
Career development		277	
Wellness program		286	
Personnel Committee		1,652	
Special contracted services		837	
Dues and subscriptions		1,719	
Purchases for resale		962	
Contracted services, website		500	
Advertising		519	
Repairs and maintenance, vehicles		473	
Automotive supplies		1,162	
Reimbursement from Water Fund		(127,056)	
Capital outlay, equipment		12,598	
Debt service, capital lease		184,986	
Debt service, interest		41,300	
Total	<u>947,772</u>	<u>872,873</u>	<u>74,899</u>
Information Technology:			
Salaries and wages		72,528	
FICA expense		5,508	
Group insurance		5,298	
Retirement		3,078	
401(k) account		1,891	
Contracted services		5,310	
Contracted services, GIS		3,991	
Contracted services, website		9,500	
Contracted services, annual contracts		40,625	
Professional services		117	
Departmental supplies		393	
Travel		161	
Advertising		98	
Telephone		4,866	
Postage		71	
Career development, other		1,945	
Repairs and maintenance, equipment		3,837	

TOWN OF NAGS HEAD, NORTH CAROLINA
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - General Fund For the Year Ended June 30, 2007

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Other supplies		15,700	
Internet costs		8,248	
Employee training		4,769	
Equipment rental		15,165	
Dues and subscriptions		311	
Reimbursement from Water Fund		(52,111)	
Capital outlay, equipment		<u>33,424</u>	
Total	<u>209,153</u>	<u>184,723</u>	<u>24,430</u>
Planning and Development:			
Salaries and wages		583,362	
FICA expense		43,100	
Group insurance		72,290	
Group insurance - retiree		3,470	
Retirement		28,487	
401(k) account		17,513	
Planning board, board of adjustment		10,950	
Professional services		10,996	
Departmental supplies		8,658	
Travel		7,573	
Advertising		7,332	
Telephone		5,289	
Postage		1,941	
Repairs and maintenance, vehicles		1,659	
Repairs and maintenance, equipment		708	
Other supplies		3,560	
Uniforms		1,888	
Automotive supplies		5,260	
Employee training		3,999	
Career development, other		420	
Equipment rental		1,617	
Dues and subscriptions		3,069	
Printing		1,157	
Land Use Plan Grant		2,074	
Reimbursement from Water Fund		(71,873)	
Capital outlay, DCM Harvey site		12,616	
Debt service, capital lease		7,338	
Debt service, interest		<u>539</u>	
Total	<u>845,508</u>	<u>774,992</u>	<u>70,516</u>

TOWN OF NAGS HEAD, NORTH CAROLINA
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - General Fund For the Year Ended June 30, 2007

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Legal Services:			
Professional services		65,919	
Reimbursement from Water Fund		<u>(3,033)</u>	
Total	<u>76,967</u>	<u>62,886</u>	<u>14,081</u>
Total General Government	<u>3,293,245</u>	<u>2,837,827</u>	<u>455,418</u>
Public Safety:			
Police Department:			
Salaries and wages		1,086,415	
FICA expense		80,801	
Group insurance		163,804	
Group insurance - retiree		2,286	
Retirement		51,524	
401(k) account		51,806	
Separation allowance		36,656	
Automotive supplies		53,972	
Departmental supplies		45,305	
Repairs and maintenance, vehicles		11,089	
Repairs and maintenance, equipment		21,081	
Telephone		14,785	
Other supplies		6,241	
Uniforms		14,261	
Career development		5,588	
Equipment rental		9,980	
Travel		6,008	
Professional services		10,117	
Employee training		2,709	
Repairs and maintenance, range		490	
Postage		1,431	
Dues and subscriptions		1,237	
Advertising		164	
Contracted services		1,195	
Reimbursement from Wate Fund		<u>(21,946)</u>	
Capital outlay, equipment		79,901	
Debt service, capital lease		123,941	
Debt service, interest		<u>5,454</u>	
Total	<u>2,180,822</u>	<u>1,866,295</u>	<u>314,527</u>
Drug Forfeiture:			
Department supplies		<u>1,621</u>	
Total	<u>6,007</u>	<u>1,621</u>	<u>4,386</u>

TOWN OF NAGS HEAD, NORTH CAROLINA
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - General Fund For the Year Ended June 30, 2007

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Fire Department:			
Salaries and wages		1,180,282	
FICA expense		85,710	
Group insurance		210,259	
Retirement expense		60,136	
401(k) account		35,406	
Departmental supplies		79,670	
Repairs and maintenance, vehicles		18,292	
Uniforms		18,986	
Repairs and maintenance, equipment		13,985	
Automotive supplies		16,748	
Telephone		5,075	
Employee training		4,767	
OSHA Compliance		5,068	
Career development		8,639	
Travel		3,480	
Safety training		10,271	
Other supplies		9,231	
Equipment rental		1,480	
Dues and subscriptions		2,460	
Professional services		8,800	
Postage		455	
Contracted Services		890	
Printing		567	
Advertising		158	
Grant, NCLM Safety		1,000	
Debt service, capital lease		249,682	
Debt service, interest		51,387	
Total	<u>2,684,964</u>	<u>2,082,884</u>	<u>602,080</u>
Volunteer Fire:			
Incentive pay		8,500	
FICA expense		650	
Uniforms		3,041	
Dues and subscriptions		347	
Training		260	
Travel		96	
Professional services		8,734	
Retirement		11,082	
Department supplies		7,138	
Total	<u>47,892</u>	<u>39,848</u>	<u>8,044</u>

TOWN OF NAGS HEAD, NORTH CAROLINA
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - General Fund For the Year Ended June 30, 2007

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Ocean Rescue:			
Salaries and wages		391,994	
FICA expense		19,278	
Group insurance		4,798	
Retirement expense		2,171	
401(k) account		1,345	
Departmental supplies		33,719	
Other supplies		1,427	
Uniforms		10,736	
Automotive supplies		9,988	
Repairs and maintenance, equipment		4,674	
Travel		4,815	
Repairs and maintenance, vehicles		5,961	
Professional fees		1,402	
Telephone		1,306	
Employee training		690	
Printing		386	
Dues and subscriptions		1,009	
Advertising		712	
Postage		20	
Capital outlay, equipment		6,999	
Debt service, capital lease		8,998	
Debt service, interest		<u>661</u>	
Total	<u>564,993</u>	<u>513,089</u>	<u>51,904</u>
Animal Control:			
Salaries and wages		42,318	
FICA expense		3,155	
Group insurance		7,528	
Retirement		2,023	
401(k) account		2,116	
Automotive supplies		2,500	
Departmental supplies		1,467	
Repairs and maintenance, vehicles		1,240	
Professional fees		285	
Equipment rental		241	
Employee training		35	
Travel		20	
Telephone		488	
Uniforms		894	
Printing		<u>265</u>	
Total	<u>71,781</u>	<u>64,575</u>	<u>7,206</u>
Total Public Safety	<u>5,556,459</u>	<u>4,568,312</u>	<u>988,147</u>

TOWN OF NAGS HEAD, NORTH CAROLINA
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - General Fund For the Year Ended June 30, 2007

	<u>Budget</u>	<u>Actual</u>	Variance Over (Under)
Environmental Protection:			
Sanitation:			
Salaries and wages		423,195	
FICA expense		31,192	
Group Insurance		77,653	
Retirement		19,745	
401(k) account		12,139	
Repairs and maintenance, vehicles		127,208	
Automotive supplies		81,952	
Department supplies		25,871	
Other supplies		1,945	
Uniforms		8,244	
Contracted services		18,586	
Recycling		4,347	
Repairs and maintenance, equipment		3,719	
Professional Fees		81	
Travel		1,215	
Employee training		709	
Dues and subscriptions		401	
Capital outlay, building		1,998	
Capital outlay, equipment		57,749	
Capital outlay, other		2,658	
Debt service, capital lease		273,135	
Debt service, interest		<u>25,132</u>	
Total	<u>1,442,179</u>	<u>1,198,874</u>	<u>243,305</u>
Solid Waste:			
Tipping fees		<u>593,256</u>	
Total	<u>611,600</u>	<u>593,256</u>	<u>18,344</u>
Total Environmental Protection	<u>2,053,779</u>	<u>1,792,130</u>	<u>261,649</u>

TOWN OF NAGS HEAD, NORTH CAROLINA
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - General Fund For the Year Ended June 30, 2007

	<u>Budget</u>	<u>Actual</u>	Variance Over (Under)
Public Works:			
Administration:			
Salaries and wages		246,344	
FICA expense		18,017	
Group insurance		31,408	
Group insurance - retiree		10,728	
Retirement		11,820	
401(k) account		7,271	
Contracted services		910	
Purchase for resale		18,605	
Telephone		7,552	
Departmental supplies		5,600	
Advertising		189	
Travel		721	
Equipment rental		1,587	
Automotive supplies		2,705	
Employee training		795	
Career development		2,335	
Dues and subscriptions		768	
Postage		376	
Repairs and maintenance, vehicles		358	
Uniforms		1,166	
Professional fees		3,395	
Reimbursement from Water Fund		(104,578)	
Debt service, capital lease		7,748	
Debt service, interest		570	
Total	<u>359,438</u>	<u>276,390</u>	<u>83,048</u>
Public Facilities Maintenance:			
Salaries and wages		328,139	
FICA expense		24,081	
Group insurance		74,027	
Group insurance, retiree		403	
Retirement		15,393	
401(k) account		9,459	
Repairs and maintenance, facilities		22,042	
Utilities		143,316	
Contracted services		64,728	
Department supplies		33,063	
Repairs and maintenance, equipment		29,881	
Signs		6,673	
Automotive supplies		19,265	
Repairs and maintenance, other		21,536	

TOWN OF NAGS HEAD, NORTH CAROLINA
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - General Fund For the Year Ended June 30, 2007

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Career development		671	
Other supplies		7,992	
Professional services		10,466	
Uniforms		4,668	
Repairs and maintenance, vehicles		7,522	
Street supplies		14,493	
Advertising		74	
Dues and subscriptions		69	
Reimbursement from Water Fund		(50,517)	
Capital outlay, Multi use path		10,153	
Capital outlay, land		4,602	
Capital outlay, building		893	
Capital outlay, other Powell Bill		114,250	
Debt service, capital lease		64,148	
Debt service, interest		<u>4,790</u>	
Total	<u>1,243,964</u>	<u>986,280</u>	<u>257,684</u>
Maintenance Garage:			
Salaries and wages		156,619	
FICA account		11,723	
Group insurance		24,995	
Group insurance, retiree		5,015	
Retirement		7,431	
401(k) account		4,421	
Other supplies		9,471	
Departmental supplies		13,421	
Uniforms		3,349	
Contracted services		465	
Automotive supplies		1,515	
Repairs and maintenance, vehicles		598	
Employee training		872	
Repairs and maintenance, equipment		678	
Travel		464	
Advertising		105	
Professional fees		525	
Dues and subscriptions		34	
Reimbursement from Water Fund		<u>(9,661)</u>	
Total	<u>269,805</u>	<u>232,040</u>	<u>37,765</u>

TOWN OF NAGS HEAD, NORTH CAROLINA
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - General Fund For the Year Ended June 30, 2007

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Total Public Works	<u>1,873,207</u>	<u>1,494,710</u>	<u>378,497</u>
Contingency	<u>70,397</u>	<u>-</u>	<u>70,397</u>
Total Expenditures	<u>12,847,087</u>	<u>10,692,979</u>	<u>2,154,108</u>
Revenues Over (Under) Expenditures	<u>(1,722,398)</u>	<u>185,527</u>	<u>1,907,925</u>
Other Financing Sources (Uses):			
Proceeds from capital lease	880,526	880,526	-
Transfers to Capital Projects Funds (Net)	110,042	95,094	(14,948)
Transfer to Storm Water Fund	(34,000)	(41,766)	(7,766)
Appropriated Fund Balance	<u>765,830</u>	<u>-</u>	<u>(765,830)</u>
Other financing sources (uses), net	<u>1,722,398</u>	<u>933,854</u>	<u>(788,544)</u>
Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	<u>-</u>	<u>1,119,381</u>	<u>1,119,381</u>
FUND BALANCE, beginning		<u>8,826,552</u>	
FUND BALANCE, ending		<u>9,945,933</u>	

TOWN OF NAGS HEAD, NORTH CAROLINA
Beach Nourishment Project Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
From Inception and for the Fiscal Year Ended June 30, 2007

	Project Authorization	Prior Years	Actual Current Year	Total to Date	Variance Over (Under)
Revenues					
Investment Earnings	\$ -	\$ 1,478	\$ 16,473	\$ 17,951	\$ 17,951
Restricted Intergovernmental	8,000,000	-	-	-	(8,000,000)
Total revenues	<u>8,000,000</u>	<u>1,478</u>	<u>16,473</u>	<u>17,951</u>	<u>(7,982,049)</u>
Expenditures					
Capital Construction Oversight	1,592,500	200,347	206,117	406,464	1,186,036
Pumping Costs	28,002,150	-	-	-	28,002,150
Mobilization	1,500,000	-	-	-	1,500,000
Contingency	905,350	-	-	-	905,350
Other Costs	700,000	-	21,701	21,701	678,299
Total Expenditures	<u>32,700,000</u>	<u>200,347</u>	<u>227,818</u>	<u>428,165</u>	<u>32,271,835</u>
Revenues over (under) expenditures	<u>(24,700,000)</u>	<u>(198,869)</u>	<u>(211,345)</u>	<u>(410,214)</u>	<u>24,289,786</u>
Other financing sources (uses):					
Bond Proceeds Issued	24,000,000	-	-	-	24,000,000
Transfers from other funds	700,000	700,000	-	700,000	-
Total other financing sources (uses)	<u>24,700,000</u>	<u>700,000</u>	<u>-</u>	<u>700,000</u>	<u>(24,000,000)</u>
Revenues and other sources over expenditures	<u>\$ -</u>	<u>\$ 501,131</u>	<u>(211,345)</u>	<u>\$ 289,786</u>	<u>\$ 289,786</u>
Fund balance, beginning of year			501,131		
Fund balance, end of year			<u>\$ 289,786</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, 2007

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Actual Current Year</u>
Revenues			
Restricted intergovernmental	\$ 306,858	\$ -	\$ 69,630
Total revenues	<u>306,858</u>	<u>-</u>	<u>69,630</u>
Expenditures			
Baltic Street Access	153,208		4,146
June Street Access	51,000		44,006
Indigo Street Access	50,000		40,406
Bittern Street Access	26,100		26,720
Town Hall Access	35,400		35,398
Total Expenditures	<u>315,708</u>	<u>-</u>	<u>150,676</u>
Revenues over (under) expenditures	<u>(8,850)</u>	<u>-</u>	<u>(81,046)</u>
Other financing sources (uses):			
Transfer from Capital Reserve Fund	8,850		8,850
Appropriated fund balance			
Total other financing sources (uses)	<u>8,850</u>	<u>-</u>	<u>8,850</u>
Revenues and other sources over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>(72,196)</u>
Fund balance, beginning of year			
Fund balance, end of year			<u>\$ (72,196)</u>

Schedule 3

<u>Total to Date</u>	<u>Variance Over (Under)</u>
\$ 69,630	\$ (237,228)
<u>69,630</u>	<u>(237,228)</u>
4,146	149,062
44,006	6,994
40,406	9,594
26,720	(620)
35,398	2
<u>150,676</u>	<u>165,032</u>
<u>(81,046)</u>	<u>(72,196)</u>
8,850	-
	-
<u>8,850</u>	-
<u>\$ (72,196)</u>	<u>\$ (72,196)</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, 2007

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
REVENUES			
Operating Revenues:			
Water sales		\$ 2,071,593	
Contribution to Fresh Pond		363,528	
Charges to other governmental units, Dare County		43,922	
Rents		105,961	
Tap and connection fees		15,835	
Late payment penalties and interest		18,982	
Water cutoff tag fees		10,377	
Damage recovery		2,553	
Miscellaneous		<u>3,260</u>	
Total	<u>2,646,738</u>	<u>2,636,011</u>	<u>(10,727)</u>
Non-Operating Revenues:			
Interest earned on investments		229,959	
Impact fees		<u>210,000</u>	
Total	<u>210,000</u>	<u>439,959</u>	<u>229,959</u>
Total Revenues	<u>2,856,738</u>	<u>3,075,970</u>	<u>219,232</u>
EXPENDITURES			
Administration:			
Salaries and wages		51,523	
FICA expense		3,570	
Group insurance		17,043	
Group insurance - retirees		3,020	
Retirement expense		2,512	
401(k) account		1,544	
Reimburse General Fund administrative expenses		60,653	
Contracted services		16,791	
Postage		7,659	
Supplies and materials		1,094	
Employee training		610	
Bad debt		<u>4,000</u>	
Total Administration	<u>183,572</u>	<u>170,019</u>	<u>13,553</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, 2007

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Septic Health:			
Salaries and wages		43,186	
FICA expense		3,177	
Group insurance		7,528	
Retirement		2,118	
401(k) account		1,302	
Contracted services		65,092	
Reimburse General Fund administrative expenses		99,980	
Inspection rebates		14,088	
Pumping credits		1,440	
Postage		1,602	
Travel		127	
Advertising		242	
Telephone		478	
Printing		2,403	
Automotive supplies		375	
Career Development		1,322	
Repairs and maintenance, vehicles		774	
Departmental supplies		488	
Dues and subscriptions		150	
Total Septic Health	<u>282,427</u>	<u>245,872</u>	<u>36,555</u>
Operations:			
Salaries and wages		182,877	
FICA expense		12,678	
Group insurance		45,539	
Retirement		8,741	
401(k) account		5,373	
Purchases for resale		700,738	
Reimburse General Fund administrative expenses		125,926	
Insurance		34,328	
Utilities		40,317	
Contracted services		5,209	
Departmental supplies		42,034	
Professional fees		8,577	
Other supplies		6,547	
Repairs and maintenance, equipment		28,882	
Postage		1,569	
Telephone		4,166	
Repairs and maintenance, buildings		6,696	
Uniforms		2,905	
Dues and subscriptions		1,380	
Equipment rental		1,217	
Printing		1,893	

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, 2007

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Automotive supplies		4,889	
Employee training		850	
Travel		993	
Repairs and maintenance, vehicles		<u>3,638</u>	
Total Operations	<u>1,303,598</u>	<u>1,278,162</u>	<u>25,436</u>
Fresh Pond Operations:			
Salaries and wages		12,204	
FICA expense		847	
Group insurance		2,495	
Retirement		584	
401(k) account		359	
Reimburse General Fund administrative expenses		101,453	
Repairs and maintenance, equipment		17,916	
Other supplies and materials		28,997	
Insurance		6,376	
Contracted services		6,219	
Professional services		75,528	
Departmental supplies		8,001	
Utilities		2,949	
Repairs and maintenance, building		5,498	
Telephone		91	
Employee training		655	
Travel		1,847	
Printing		127	
Postage		<u>123</u>	
Total Fresh Pond Operations	<u>303,497</u>	<u>272,269</u>	<u>31,228</u>
Operations Distribution:			
Salaries and wages		231,712	
FICA expense		16,210	
Group insurance		59,267	
Retirement		11,267	
401(k) account		6,927	
Reimburse General Fund administrative expenses		126,988	
Contracted services		588	
Other supplies		9,227	
Repairs and maintenance, other		36,665	
Insurance		5,031	
Automobile supplies		9,770	
Departmental supplies		5,636	
Uniforms		3,442	
Repairs and maintenance, vehicles		<u>1,192</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, 2007

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Telephone		1,728	
Dues and subscriptions		951	
Advertising		2,532	
Repairs and maintenance, equipment		4,022	
Travel		1,610	
Employee training		744	
Professional fees		225	
Building/equipment rental		<u>480</u>	
Total Operations Distribution	<u>552,683</u>	<u>536,214</u>	<u>16,469</u>
Budgetary Appropriations:			
Appropriated Retained Earnings	(2,081,571)		
Interest	45,538	42,905	
Debt principal	137,569	136,587	
Septic Health Loans	15,000	9,350	
Principal repayments Septic Health Loans	(16,000)	(10,501)	
Increase (decrease) in:			
Inventory		6,390	
(Increase) decrease in:			
Compensated absences		(4,613)	
Capital outlay:			
Land	1,617,850	1,617,953	
Machinery and equipment	20,270	15,020	
Other	486,305	428,469	
Contingency	<u>6,000</u>	<u>-</u>	
Total Budgetary Appropriations	<u>230,961</u>	<u>2,241,560</u>	<u>(2,010,599)</u>
Total Expenditures	<u>2,856,738</u>	<u>4,744,096</u>	<u>(1,887,358)</u>
Revenues Over Expenditures	<u>\$ -</u>	<u>(1,668,126)</u>	<u>\$ (1,668,126)</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, 2007

	Budget	Actual	Variance Over (Under)
RECONCILIATION OF MODIFIED ACCRUAL BASIS TO FULL ACCRUAL BASIS			
Revenues over expenditures		(1,668,126)	
Reconciling Items:			
Septic Health Loans		9,350	
Principal repayments Septic Health Loans		(10,501)	
Payment of debt principal		136,587	
Increase in inventory		6,390	
Capital outlay		2,061,442	
Depreciation and amortization		(303,036)	
Increase in accrued vacation and comp pay		(4,613)	
Capital donations		626,094	
Capital contributions		40,310	
Change in net assets		<u>\$ 893,897</u>	

Storm Water Fund

Schedule of Revenues and Expenditures

Budget and Actual (Non-GAAP) For the Fiscal Year Ended June 30, 2007

	<u>Budget</u>	<u>Actual</u>	Variance Over (Under)
REVENUES			
Operating Revenues:			
Storm Water Fees		\$ 111,720	
Storm water Grant		<u>29,900</u>	
Total		<u>141,620</u>	
Nonoperating Revenues:			
Interest earned on investments		6,918	
Transfer from General Fund		<u>41,766</u>	
Total		48,684	
Total Revenues	<u>175,216</u>	<u>190,304</u>	<u>15,088</u>
EXPENDITURES			
Postage	121	(14)	135
Department Supplies	7,000	966	6,034
Professional Fees	2,500	1,580	920
Contracted Services	<u>249,017</u>	<u>104,810</u>	<u>144,207</u>
Total Expenditures	<u>258,638</u>	<u>107,342</u>	<u>151,296</u>
Budgetary Appropriations:			
Appropriated retained earnings	(97,933)	-	-
Debt Issued	(86,650)	(86,650)	-
Debt Principal	14,511	13,764	-
Capital Outlay Equipment	<u>86,650</u>	<u>86,650</u>	-
Total Budgetary Appropriations	<u>(83,422)</u>	<u>13,764</u>	<u>(97,186)</u>
Total Expenditures	<u>175,216</u>	<u>121,106</u>	<u>54,110</u>
Revenues over Expenditures	<u>\$ -</u>	<u>\$ 69,198</u>	<u>\$ 69,198</u>

RECONCILIATION OF MODIFIED ACCRUAL BASIS
TO FULL ACCRUAL BASIS

Revenues over (under) expenditures	69,198
Debt Issued	(86,650)
Capital Outlay	86,650
Payment of Debt Principal	<u>13,764</u>
Change in net assets	<u>\$ 82,962</u>

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

Schedule 6

**Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP) For the Fiscal Year Ended June 30, 2007**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
REVENUES			
Operating Revenues:			
Other revenues	\$ -	\$ -	\$ -
Total	-	-	-
Nonoperating Revenues:			
Interest Earned on Investments	-	19	19
Total	-	<u>19</u>	<u>19</u>
Total Revenues	-	<u>19</u>	<u>19</u>
EXPENDITURES			
Other expenditures	-	-	-
Total Expenditures	-	-	-
Budgetary Appropriations			
Appropriated retained earnings			
Total Budgetary Appropriations	-	-	-
Total Expenditures	-	-	-
Revenues over Expenditures	<u>\$ -</u>	<u>\$ 19</u>	<u>\$ 19</u>
RECONCILIATION OF MODIFIED ACCRUAL BASIS TO FULL ACCRUAL BASIS			
Revenues over (under) expenditures		19	
Contributions to Water Fund			
Sale of Fixed Assets			
Depreciation			
(Loss) Before Operating Transfers		<u>\$ 19</u>	

TOWN OF NAGS HEAD, NORTH CAROLINA
Schedule of Ad Valorem Taxes Receivable
June 30, 2007

Schedule 7

Fiscal Year	Uncollected Balance June 30, 2006	Additions	Collection And Credits	Adjustments	Uncollected Balance June 30, 2007
2006-2007	\$ -	\$ 4,393,067	\$ 4,473,032	\$ 81,853	\$ 1,888
2005-2006	1,148	-	(1,161)	(67)	2,242
2004-2005	2,961	-	109	-	2,852
2003-2004	2,996	-	74	-	2,922
2002-2003	1,673	-	83	-	1,590
2001-2002	2,178	-	142	-	2,036
2000-2001	1,940	-	44	-	1,896
1999-2000	2,753	-	78	-	2,675
1998-1999	1,698	-	4	-	1,694
1997-1998	1,528	-	424	-	1,104
1996-1997	1,106	-	1,106	-	-
	<u>\$ 19,981</u>	<u>\$ 4,393,067</u>	<u>\$ 4,473,935</u>	<u>\$ 81,786</u>	<u>\$ 20,899</u>

Less allowance for uncollectible
ad valorem taxes receivable

10,000

Ad Valorem Taxes Receivable, net

\$ 10,899

Reconciliation with revenues:

Taxes, ad valorem, General Fund	\$ 4,482,387
Amounts written off for tax year 96-97	587
DMV written off	911
Amounts written off <\$1	1
Refunds paid on taxes	461
Less penalties and interest	<u>(10,412)</u>
	<u>\$ 4,473,935</u>

Town of Nags Head, North Carolina
Analysis of Current Tax Levy
Town - Wide Levy
For the Fiscal Year Ended June 30, 2007

	Town - Wide		Total Levy		
	Property Valuation	Rate	Total Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed at current year's rate	\$ 2,977,393,836	0.1475	\$ 4,391,660	\$ 4,391,660	\$ -
Penalties	-		1,407	1,407	-
Total	<u>2,977,393,836</u>		<u>4,393,067</u>	<u>4,393,067</u>	<u>-</u>
Discoveries:					
Current year taxes	57,865,611		87,622	27,246	60,376
Penalties	-		229	229	-
Total	<u>57,865,611</u>		<u>87,851</u>	<u>27,475</u>	<u>60,376</u>
Abatements	<u>(4,217,465)</u>		<u>(5,998)</u>	<u>(4,963)</u>	<u>(1,035)</u>
Total property valuation	<u>\$ 3,031,041,982</u>				
Net levy			4,474,920	4,415,579	59,341
Uncollected taxes at June 30, 2007			<u>(1,888)</u>	<u>(910)</u>	<u>(978)</u>
Current year taxes collected			\$ 4,473,032	\$ 4,414,669	\$ 58,363
Current levy collection percentage			<u>99.96%</u>	<u>99.98%</u>	<u>98.35%</u>



Martin Starnes & Associates, CPAs, P.A.

A Professional Association of Certified Public Accountants and Management Consultants

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

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

We have audited the basic financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Town of Nags Head, North Carolina, as of and for the year ended June 30, 2007, and have issued our report thereon dated October 8, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Town of Nags Head's internal control over financial reporting as a basis for designing auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Nags Head's financial statements are free of material misstatement, we performed tests of its compliance and other matters with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and

material effect on the determination of financial statement amounts. However, providing an opinion on compliance and other matters with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

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

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
October 8, 2007