

**TOWN OF NAGS HEAD  
NORTH CAROLINA**

**BASIC FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2011**

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**Town of Nags Head, North Carolina**  
**Basic Financial Statements**  
**For the Year Ended June 30, 2011**

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Basic Financial Statements  
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# MARTIN ♦ STARNES & ASSOCIATES, CPAs, P.A.

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

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town of Nags Head, North Carolina, as of and for the year ended June 30, 2011, 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's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town of Nags Head, North Carolina, as of June 30, 2011, the respective changes in financial position and cash flows, where appropriate thereof, and the respective budgetary comparison for the General Fund for the year then ended in 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 31, 2011, 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, 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.

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

Our audit was performed for the purpose of forming an opinion on the basic financial statements that collectively comprise the basic financial statements of the Town of Nags Head, North Carolina, as a whole. The individual fund financial statements, budget and actual schedules, and supplemental ad valorem tax schedules, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements, or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is 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 31, 2011

## **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, 2011. 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 \$53,450,821 (net assets).

The Town's net assets increased by \$17,821,121 over the prior year. The governmental net assets increased by \$18,004,561 (+72.50%). The business-type net assets decreased by \$183,440 (-1.70%).

At the end of the current fiscal year, the Town of Nags Head's governmental funds reported combined ending fund balances of \$37,895,791 with a net increase of \$28,431,810 in fund balance. Approximately 100 percent of this total amount, or \$44,020,484, is non-spendable or restricted due to the Beach Nourishment Project Fund.

At the end of the current fiscal year, unassigned fund balance for the General Fund was \$6,059,788, or 59.31 percent of total General Fund expenditures for the year. The adopted operating budget for FY 2010-2011 included the use of \$792,521 compared with actual used of zero due to freezing vacant positions and close monitoring of expenditures throughout the year.

The Town of Nags Head's total debt increased by \$18,114,932 (+426.78%) during the current fiscal year, primarily as a result of the issuance of special obligation bonds for beach nourishment in the amount of \$18,000,000.

The General Fund budget for the fiscal year ended June 30, 2011 was adopted with a tax rate of \$.1575 per \$100 assessed valuation, reflecting an increase of .01 from the prior year. Total assessed valuation decreased from \$3,093,808,747 as of June 30, 2010 to \$3,093,401,022 as of June 30, 2011, a decrease of \$407,725 (-.01%).

General Fund budget amendments during fiscal year 2010-11 increased the adopted budget by \$978,308 with individual increases (decreases) by functional area noted below:

- General Government decreased by \$61,523 for reimbursements from the Water Fund for administrative oversight through the allocation of indirect costs, partially offset by capital purchases budgeted at the first year of debt payment amount.
- Public Safety increased by \$652,737 to fund capital purchases budgeted at the first year debt payment.
- Environmental Protection increased by \$276,749 for increased funding for capital purchases budgeted at the first year debt payment amount.

- Public Works decreased by \$71,906 due to by the allocation of indirect costs, partially offset by increases in maintenance costs for building, equipment, and vehicles.
- The amount budgeted for Interfund transfers increased by \$182,251 during the year to provide additional funding for engineering costs in the Beach Nourishment Fund due to continued delays in obtaining the permits for the project.

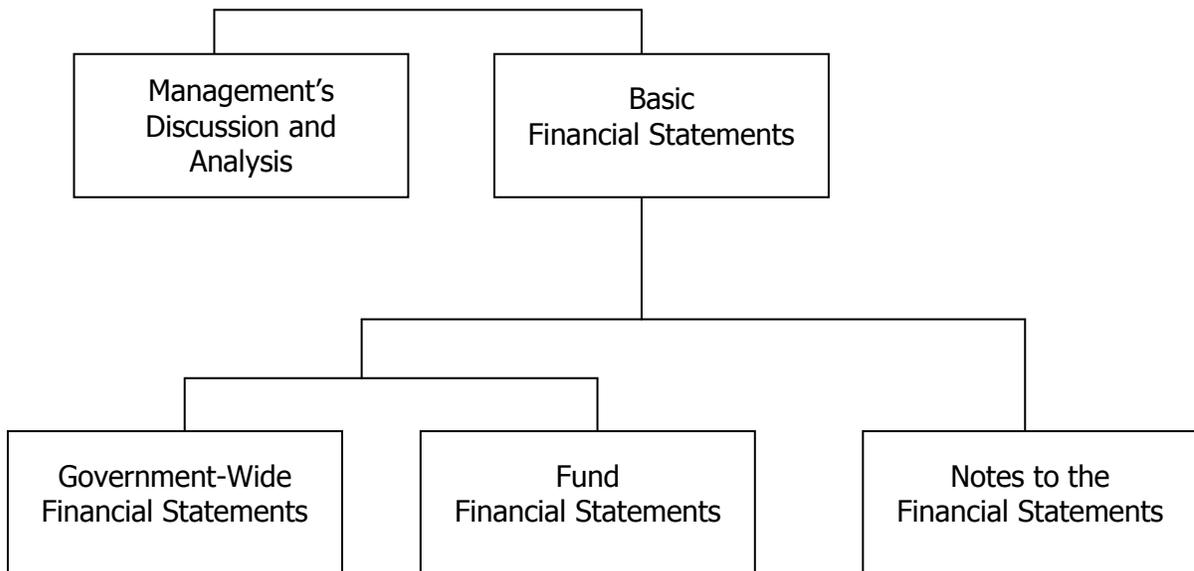
Key Ratios

% Debt to General Governmental Expenses	214.12%
% Property Tax Collection	99.75%
% Decrease in Assessed Property Valuation	-.01%

**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 financial statements 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 also the trustee, or fiduciary, for the Beach Nourishment Trust. The Town is responsible for ensuring that the assets reported in these funds are used only for their intended purposes. The Town’s fiduciary activities are reported in a separate Statement of Fiduciary Net Assets and a Statement of Changes in Fiduciary Net Assets. We exclude these activities from the government-wide financial statements, because the Town cannot use these assets to finance its operations.

**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 \$53,450,821 at the close of the fiscal year ended June 30, 2011. A large portion of the Town of Nags Head’s net assets, \$23,674,462, 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, \$14,772,932, represents resources that are subject to restrictions on how they may be used primarily from unexpended debt and bond proceeds that can only be spent on the items being funded. The remainder of \$15,003,427 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	
	2011	2010	2011	2010	2011	2010
Current and Other Assets	\$ 42,904,538	\$ 10,985,859	\$ 4,423,467	\$ 4,389,226	\$ 47,328,005	\$ 15,375,085
Capital Assets, Net	<u>25,697,134</u>	<u>17,774,367</u>	<u>7,674,079</u>	<u>7,939,782</u>	<u>33,371,213</u>	<u>25,714,149</u>
<b>Total Assets</b>	<u>68,601,672</u>	<u>28,760,226</u>	<u>12,097,546</u>	<u>12,329,008</u>	<u>80,699,218</u>	<u>41,089,234</u>
Long-Term Debt Outstanding	21,616,348	3,455,024	743,114	678,435	22,359,462	4,133,459
Other Liabilities	<u>4,145,598</u>	<u>470,037</u>	<u>743,337</u>	<u>856,038</u>	<u>4,888,935</u>	<u>1,326,075</u>
<b>Total Liabilities</b>	<u>25,761,946</u>	<u>3,925,061</u>	<u>1,486,451</u>	<u>1,534,473</u>	<u>27,248,397</u>	<u>5,459,534</u>
Investment in Capital Assets, Net of Related Debt	16,675,551	15,867,188	6,998,911	7,198,997	23,674,462	23,066,185
Restricted	14,772,932	107,450	-	-	14,772,932	107,450
Unrestricted	<u>11,391,243</u>	<u>8,860,527</u>	<u>3,612,184</u>	<u>3,595,538</u>	<u>15,003,427</u>	<u>12,456,065</u>
<b>Total Net Assets</b>	<u>\$ 42,839,726</u>	<u>\$ 24,835,165</u>	<u>\$ 10,611,095</u>	<u>\$ 10,794,535</u>	<u>\$ 53,450,821</u>	<u>\$ 35,629,700</u>

See Exhibit 1

Town of Nags Head's Changes in Net Assets

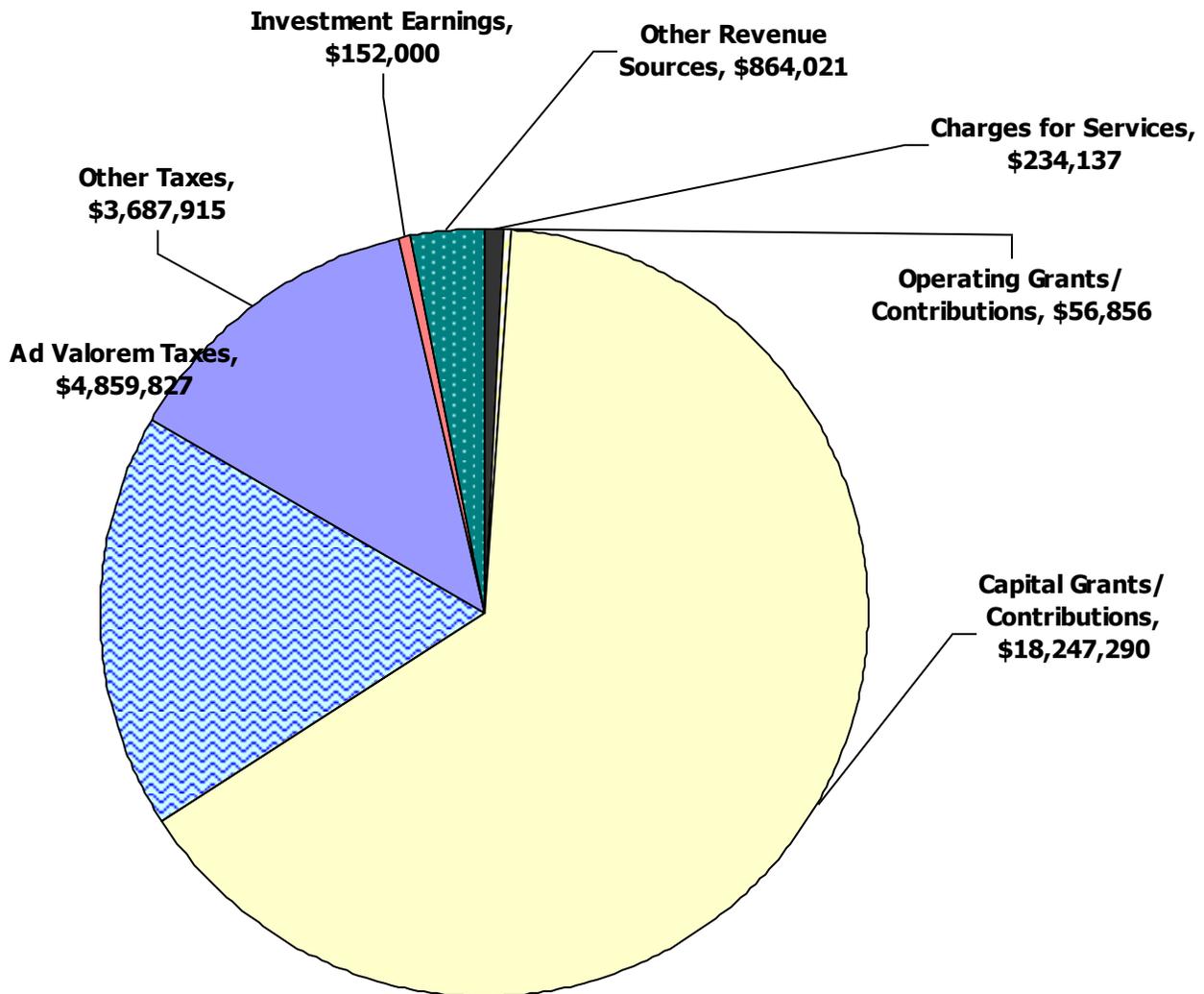
	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program Revenues:						
Charges for Services	\$ 234,137	\$ 273,909	\$ 2,480,126	\$ 2,189,146	\$ 2,714,263	\$ 2,463,055
Operating Grants	54,856	204,431	-	-	54,856	204,431
Capital Grants	18,247,290	211,293	85,000	153,509	18,332,290	364,802
General Revenues:						
Property Taxes	4,859,827	4,550,332	-	-	4,859,827	4,550,332
Other Taxes	3,687,915	3,552,966	-	-	3,687,915	3,552,966
Investment Income	152,000	193,513	5,298	11,913	157,298	205,426
Other	864,051	839,322	2,890	6,387	866,941	845,709
Total Revenues	<u>28,100,076</u>	<u>9,825,766</u>	<u>2,573,314</u>	<u>2,360,955</u>	<u>30,673,390</u>	<u>12,186,721</u>
Expenses:						
General Government	2,312,288	2,180,840	-	-	2,312,288	2,180,840
Public Safety	4,414,594	4,275,197	-	-	4,414,594	4,275,197
Public Works/Transportation	1,692,863	1,618,287	-	-	1,692,863	1,618,287
Environmental Protection	1,595,804	1,662,597	-	-	1,595,804	1,662,597
Interest on Long Term Debt	79,966	108,592	-	-	79,966	108,592
Water Utility	-	-	2,756,754.0	2,773,680.0	2,756,754.0	2,773,680.0
Total Expenses	<u>10,095,515</u>	<u>9,845,513</u>	<u>2,756,754</u>	<u>2,773,680</u>	<u>12,852,269</u>	<u>12,619,193</u>
Net Increase in Net Assets	18,004,561	(19,747)	(183,440)	(412,725)	17,821,121	(432,472)
Net Assets:						
Beginning of year - July 1	<u>24,835,165</u>	<u>24,854,912</u>	<u>10,794,535</u>	<u>11,207,260</u>	<u>35,629,700</u>	<u>36,062,172</u>
End of year - June 30	<u>\$ 42,839,726</u>	<u>\$ 24,835,165</u>	<u>\$ 10,611,095</u>	<u>\$ 10,794,535</u>	<u>\$ 53,450,821</u>	<u>\$ 35,629,700</u>

See Exhibit 2

A. Governmental Activities

Governmental activities increased the Town of Nags Head's net assets by \$18,004,561. The governmental activities revenues increased by \$18,274,310, which included an increase in capital grants and contribution revenue for beach nourishment of \$18,000,000 in the current fiscal year. Ad valorem tax revenue was up by \$309,405, with other taxes also up by \$134,949. Investment earnings decreased by \$41,513 due to declining market rate of return. Building permits were down for the seventh year in a row with, a decrease of \$20,192.

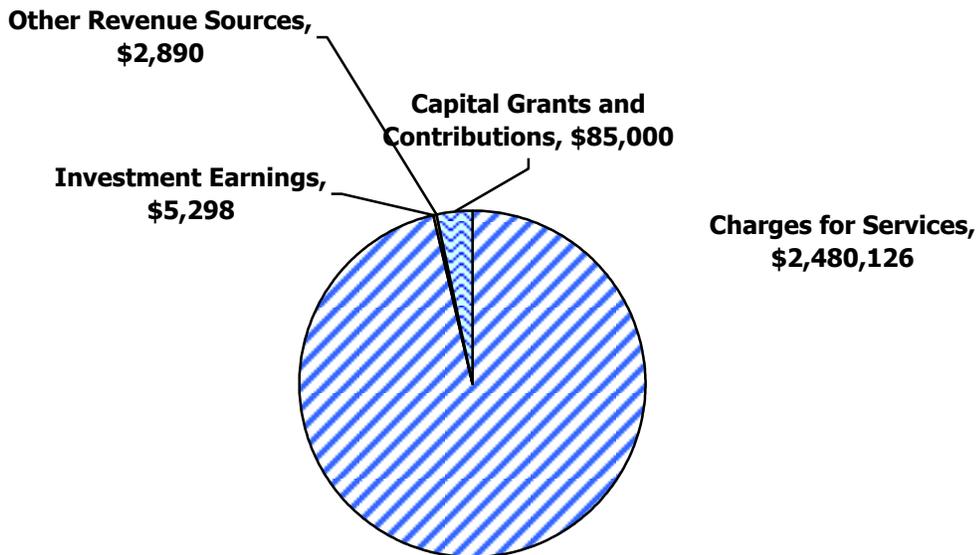
During the year, the Town's governmental expenses were \$10,095,515, an increase of \$250,002 (+2.54%).



**Revenues by Source for Governmental Type Activities**

## Business-Type Activities

Business-type activities decreased the Town of Nags Head's net assets by \$183,440. 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 the Water Operations Fund by \$290,340, as a result of a 10% increase in water rates July 1, 2010 and increased slightly in the Storm Water Fund by \$640, 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, available fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of the Town of Nags Head. At the end of the current fiscal year, fund balance available in the General Fund was \$7,339,082 down from \$7,794,913 as of June 30, 2010. Total fund balance for the General Fund increased by \$407,784 from \$9,004,428 as of June 30, 2010 to \$9,412,212 at June 30, 2011. As a measure of the General Fund's liquidity, it may be useful to compare fund balance available for appropriation to total fund expenditures. Fund balance available for appropriation at June 30, 2011 represents 71.83% of total General Fund expenditures compared with 74.72% for the prior year.

As of June 30, 2011, the governmental funds of the Town of Nags Head reported combined fund balance of \$37,895,791, an increase of \$28,431,181 (+300.42 %) over last year. Included in this change in fund balance are increases in fund balance in the General Fund and Beach Nourishment Project Fund partially offset by a decrease in fund balance in the Capital Reserve Fund.

## B. Proprietary Funds

The Town of Nags Head's proprietary funds provide the same type of information found in the government-wide statement, but in more detail. Unrestricted net assets of the Water Fund at the end of the fiscal year amounted to \$3,268,887. This represents a decrease of \$49,645 (-1.50%). Unrestricted net assets in the Storm Water Fund increased by \$66,291 to \$342,795.

## C. Capital Assets

The Town of Nags Head's investment in capital assets for its governmental and business-type activities as of June 30, 2011 totals \$33,371,213 (net of accumulated depreciation), which represents an increase of \$7,657,064. These assets include buildings, construction in progress, other improvements, land, intangibles, machinery and equipment, and vehicles.

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

- Acquisition of 800 MHZ radio equipment for inoperability with all County agencies included \$160,587 in Police, \$5,932 in Animal Control, \$159,080 in Fire, and \$87,173 in Ocean Rescue for a total cost of \$412,772. Of the total \$126,402 of the costs were funded by grants, with the remainder financed over five years.
- On-going costs for construction engineering for the Town's Beach Nourishment Project increased capital assets by \$9,953,774 during the fiscal year.

(net of depreciation)

	Governmental Activities		Business - Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	\$ 7,857,513	\$ 7,857,513	\$ 2,453,473	\$ 2,453,473	\$ 10,310,986	\$ 10,310,986
Construction in Progress	8,979,948	927,117	23,840	20,770	9,003,788	947,887
Buildings	4,562,409	4,753,100	2,934,656	3,053,471	7,497,065	7,806,571
Other Improvements	1,684,590	1,726,507			1,684,590	1,726,507
Equipment	848,711	368,731	290,091	328,758	1,138,802	697,489
Vehicles	1,763,963	2,141,399	-	4,505	1,763,963	2,145,904
Intangibles	-	-	1,972,019	2,078,805	1,972,019	2,078,805
Total	<u>\$ 25,697,134</u>	<u>\$ 17,774,367</u>	<u>\$ 7,674,079</u>	<u>\$ 7,939,782</u>	<u>\$ 33,371,213</u>	<u>\$ 25,714,149</u>

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

## D. Long-Term Debt

As of June 30, 2011, the Town of Nags Head had \$18,000,000 in bonded debt secured by the pledge of annual occupancy taxes. The Town's total debt increased by \$18,114,932 for the year.

	Governmental Activities		Business - Type Activities		Total	
	2011	2010	2011	2010	2010	2009
Finance Contracts	\$ 19,940,368	\$ 2,388,906	\$ 635,458	\$ 702,364	\$ 20,575,826	\$ 3,091,270
Capital Leases	958,145	523,273	39,710	38,422	997,855	561,695
Other Post-Employment Benefits	246,966	128,899	32,706	13,563	279,672	142,462
Net Pension Obligation	32,018	959			32,018	959
Compensated Absences	438,851	412,987	35,239	35,156	474,090	448,143
Total	<u>\$ 21,616,348</u>	<u>\$ 3,455,024</u>	<u>\$ 743,113</u>	<u>\$ 789,505</u>	<u>\$ 22,359,461</u>	<u>\$ 4,244,529</u>

Additional information regarding the Town of Nags Head's outstanding debt can be found in Note 6 of this report.

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

The level of unemployment in Dare County ranged from 6.4% to 17.7% compared to the seasonally adjusted State-wide average of 9.88% (down from 10.84% in the prior fiscal year).

Construction in fiscal year 2011 decreased overall in the Town of Nags Head by \$1,421,494 (-9.012) from the previous year. The only increase over the prior year was in single family construction, which was up by \$2,027,351. There were decreases in both single family large and miscellaneous of \$1,941,197 and \$903,648, respectively. Also, down was commercial construction by \$604,000. Review fees decreased over the prior year by \$1,520, or 14.17%, and building permit fees decreased by \$20,192 for the seventh consecutive annual decrease.

The property tax base decreased by .01% to \$3,093,808,747 in the fiscal year ended June 30, 2011. Occupancy tax which had been decreasing for the past two years began showing growth again with an increase of \$104,548, or 5.98% above fiscal year 2009-2010. Combined sales tax revenues were also up from the prior year for a combined increase of \$27,552, or 1.99%. Land transfer tax revenues increased slightly for the second time in five years by \$2,534, or .66%. Investment earnings were also down again by \$44,078, relative to the prior year due to the decline in market interest rates.

The Town's adopted budget for the fiscal year ending June 30, 2011 reflects a \$.01 increase in the property tax rate of .1575 per \$100 in assessed valuation compared to the previous year's rate of .1475.

Considering the above indicators when adopting the operating budget for the next fiscal year, the Town's adopted 2011-2012 budget increased by \$3,829,580 (+32.04%) over the 2010-2011 amended budget and increased by \$4,987,888 (+46.20%) over the adopted budget for 2010-2011. The increase was attributable primarily to the debt service costs for special obligation bonds financing beach nourishment costs of \$4,046,400 in fiscal year 2011-2012.

## ***BUDGET HIGHLIGHTS FOR THE FISCAL YEAR ENDING June 30, 2012***

Governmental Activities: The adopted budget for fiscal year 2011-2012 is based on the estimated increased property valuation of \$3,093,202,818, up \$3,266,859 (+.11%) from the prior year valuation of \$3,089,935,959, with an increase in the Town-wide tax rate of .02/\$100 to \$.1775/\$100 to partially fund debt service on the special obligation bonds for beach nourishment costs. The Town also imposed an additional tax rate of \$.16/\$100 in both municipal service districts to provide an additional projected \$2,364,917 for funding debt service costs on the bonds. The adopted budget reflects a increase of \$4,987,888 from the prior year's adopted budget, with \$4,046,400 of that included for annual debt service costs for the special obligation bonds in year one of five. Increases in projected funding include, an increase of \$191,280 in occupancy taxes, an increase in land transfer tax of \$76,000, an increase of \$161,900 in combined sales tax revenues, and an increased contribution from other governments of \$2,000,000 to be used towards annual debt service of the special obligation bonds for the first year of five. Projected use of fund balance has also increased by \$\$209,268 to be used towards funding capital improvements including the extension of the multi-use path and parking and amenities adjacent to the renovated Jennette's Pier.

Budgeted expenditures in the General Fund are generally down in all departments with the exception of those requiring either replacement capital items or new capital items. There were no funds included in the adopted budget for merit and funding for non-law enforcement employees 401(k) funding remained at its previously reduced rate of 1% for the entire fiscal year. Several positions remain frozen and unfunded. Capital replacement was reduced to four police vehicles, replacement of the Knuckleboom truck, upgrade of Microsoft Office products, a server replacement, and street project funded through Powell Bill funds. Funding was included for two new capital projects with extension of the multi-use path and parking and amenities to be added adjacent to the renovated Jennette's Pier.

Business-Type Activities: The adopted budget included a five percent increase in the Town for fiscal year 2011-2012. The water rates in the Town had increased by 10% with the adoption of the operating budget for Fiscal Year 2010-2011 to more adequately match the costs of operations and reduce or eliminate negative operating income and negative cash flow. Projected revenues from water sales are increased by \$176,908 from \$2,233,092 in the prior year to \$2,410,000 for FY 2011-2012. Appropriated retained earnings will be used to fund the debt service on the new water tank of \$93,875, current year contingency in the amount of \$50,000 with funds not spent in the prior fiscal year, and \$106,500 for funding capital equipment and projects for fiscal year 2011-2012. This was increased in July 2011 by \$110,000 for a one time use of fund balance to eliminate the proposed 5% increase in water rates. The Board decided to wait another year to more fully measure the affects of the already increased rates and a reduced wholesale rate combined with an increase in consumption.

### **Requests for Information**

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

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**Town of Nags Head, North Carolina**  
**Statement of Net Assets**  
**June 30, 2011**

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 5,929,447	\$ 3,917,017	\$ 9,846,464
Investments	2,286,267	-	2,286,267
Taxes receivable (net)	19,389	-	19,389
Accounts receivable (net)	35,387	457,919	493,306
Accrued interest receivable	122,146	-	122,146
Due from other governments	18,843,815	-	18,843,815
Inventories	78,829	48,461	127,290
Prepaid items	21,467	70	21,537
Total current assets	<u>27,336,747</u>	<u>4,423,467</u>	<u>31,760,214</u>
Restricted assets:			
Cash and cash equivalents	<u>14,753,791</u>	<u>-</u>	<u>14,753,791</u>
Non-current assets:			
Capital Lease Receivable	<u>814,000</u>	<u>-</u>	<u>814,000</u>
Capital Assets (Note 4):			
Land, non-depreciable improvements, and construction in progress	16,837,461	2,477,313	19,314,774
Other capital assets, net of depreciation	8,859,673	5,196,766	14,056,439
Total capital assets	<u>25,697,134</u>	<u>7,674,079</u>	<u>33,371,213</u>
Total assets	<u>68,601,672</u>	<u>12,097,546</u>	<u>80,699,218</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	3,800,145	125,669	3,925,814
Accrued liabilities	265,023	19,292	284,315
Unearned revenue	66,347	216,000	282,347
Bonds and deposits	13,795	382,376	396,171
Due to other governments	288	-	288
Long-term liabilities:			
Due within one year	4,566,225	120,251	4,686,476
Due in more than one year	17,050,123	622,863	17,672,986
Total liabilities	<u>25,761,946</u>	<u>1,486,451</u>	<u>27,248,397</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	16,675,551	6,998,911	23,674,462
Restricted for:			
Powell bill expenditures	52,844	-	52,844
Stabilization by State statute	43,365,894	-	43,365,894
Public safety enforcement	88,561	-	88,561
Environmental protection capital	292,589	-	292,589
General governmental capital	120,300	-	120,300
Unrestricted	<u>(17,756,013)</u>	<u>3,612,184</u>	<u>(14,143,829)</u>
Total net assets	<u>\$ 42,839,726</u>	<u>\$ 10,611,095</u>	<u>\$ 53,450,821</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, 2011**

<b>Functions/Programs</b>	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government:</b>				
Governmental activities:				
General Government	\$ 2,312,288	\$ 229,014	\$ 8,020	\$ 18,002,904
Public Safety	4,414,594	5,123	23,660	126,402
Public Works/Transportation	1,692,863	-	23,176	117,984
Environmental Protection	1,595,804	-	-	-
Interest on long-term debt	79,966	-	-	-
Total governmental activities (See Note 1)	<u>10,095,515</u>	<u>234,137</u>	<u>54,856</u>	<u>18,247,290</u>
Business-type activities:				
Water	2,708,563	2,366,874	-	85,000
Storm Water	48,191	113,252	-	-
Total business-type activities	<u>2,756,754</u>	<u>2,480,126</u>	<u>-</u>	<u>85,000</u>
Total primary government	<u>\$ 12,852,269</u>	<u>\$ 2,714,263</u>	<u>\$ 54,856</u>	<u>\$ 18,332,290</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

Total general revenues

Total change in net assets

Net assets:

Beginning of year - July 1

End of year - June 30

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

**Exhibit 2**

Net (Expense) Revenue and changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Total
\$ 15,927,650	\$ -	\$ 15,927,650
(4,259,409)	-	(4,259,409)
(1,551,703)	-	(1,551,703)
(1,595,804)	-	(1,595,804)
(79,966)	-	(79,966)
<u>8,440,768</u>	<u>-</u>	<u>8,440,768</u>
-	(256,689)	(256,689)
-	65,061	65,061
<u>-</u>	<u>(191,628)</u>	<u>(191,628)</u>
<u>8,440,768</u>	<u>(191,628)</u>	<u>8,249,140</u>
4,859,827	-	4,859,827
1,852,917	-	1,852,917
384,657	-	384,657
1,412,178	-	1,412,178
38,163	-	38,163
638,200	-	638,200
152,000	5,298	157,298
225,851	2,890	228,741
<u>9,563,793</u>	<u>8,188</u>	<u>9,571,981</u>
18,004,561	(183,440)	17,821,121
<u>24,835,165</u>	<u>10,794,535</u>	<u>35,629,700</u>
<u>\$ 42,839,726</u>	<u>\$ 10,611,095</u>	<u>\$ 53,450,821</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, 2011**

	Major Funds			Total
	General	Capital Reserve	Beach Nourishment	
<b>ASSETS</b>				
Cash and cash equivalents	\$ 5,648,778	\$ 280,669	\$ -	\$ 5,929,447
Investments	2,286,267	-	-	2,286,267
Taxes receivable (net)	19,389	-	-	19,389
Accounts receivable (net)	35,387	-	-	35,387
Accrued interest receivable	122,146	-	-	122,146
Due from other governments	843,815	-	18,000,000	18,843,815
Due from other funds	559,365	101,029	-	660,394
Inventories	78,829	-	-	78,829
Prepaid items	21,467	-	-	21,467
Capital lease receivable	814,000	-	-	814,000
Restricted assets:				
Cash and cash equivalents	535,153	-	14,218,638	14,753,791
Total assets	<u>\$ 10,964,596</u>	<u>\$ 381,698</u>	<u>\$ 32,218,638</u>	<u>\$ 43,564,932</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ 242,753	\$ -	\$ 3,557,392	3,800,145
Accrued expenses	265,023	-	-	265,023
Bonds and deposits	13,795	-	-	13,795
Due to other funds	101,029	-	559,365	660,394
Due to other governments	288	-	-	288
Deferred revenue	863,149	-	-	863,149
Unearned revenue	66,347	-	-	66,347
Total liabilities	<u>1,552,384</u>	<u>-</u>	<u>4,116,757</u>	<u>5,669,141</u>
Fund balances:				
Non-spendable:				
Inventories	78,829	-	-	78,829
Prepays	21,467	-	-	21,467
Restricted:				
Restricted for Stabilization by State Statute	1,972,834	101,029	41,292,031	43,365,894
Restricted for Streets	52,844	-	-	52,844
Restricted for Public Safety	88,561	-	-	88,561
Restricted for Environmental Protection	292,589	-	-	292,589
Restricted for General Government	120,300	-	-	120,300
Committed:				
Committed for Capital Projects	-	280,669	-	280,669
Assigned:				
Subsequent year's expenditures	725,000	-	-	725,000
Unassigned	6,059,788	-	(13,190,150)	(7,130,362)
Total fund balances	<u>9,412,212</u>	<u>381,698</u>	<u>28,101,881</u>	<u>37,895,791</u>
Total liabilities and fund balances	<u>\$ 10,964,596</u>	<u>\$ 381,698</u>	<u>\$ 32,218,638</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.				25,697,134
Liabilities for earned, but deferred, revenues in the fund statements:				
Deferred capital lease receivable				814,000
Deferred taxes receivable				19,389
Deferred miscellaneous receivable				29,760
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.				<u>(21,616,348)</u>
Net assets of governmental activities				<u>\$ 42,839,726</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, 2011**

	Major Funds			Total
	General Fund	Capital Reserve	Beach Nourishment	
<b>REVENUES</b>				
Ad valorem taxes	\$ 4,857,519	\$ -	\$ -	\$ 4,857,519
Other taxes and licenses	3,722,052	-	-	3,722,052
Unrestricted intergovernmental	604,063	-	-	604,063
Restricted intergovernmental	291,709	-	18,000,000	18,291,709
Permits and fees	184,354	-	-	184,354
Sales and services	5,123	-	-	5,123
Investment earnings	148,257	43	3,700	152,000
Miscellaneous	469,044	-	2,904	471,948
Total revenues	<u>10,282,121</u>	<u>43</u>	<u>18,006,604</u>	<u>28,288,768</u>
<b>EXPENDITURES</b>				
Current:				
General Government	2,233,993	-	-	2,233,993
Public Safety	4,019,379	-	-	4,019,379
Environmental Protection	1,370,704	-	-	1,370,704
Public Works	1,309,988	-	-	1,309,988
Debt service:				
Principal	909,871	-	-	909,871
Interest and other charges	79,966	-	-	79,966
Capital outlay	776,432	-	8,052,830	8,829,262
Total expenditures	<u>10,700,333</u>	<u>-</u>	<u>8,052,830</u>	<u>18,753,163</u>
Revenues over (under) expenditures	<u>(418,212)</u>	<u>43</u>	<u>9,953,774</u>	<u>9,535,605</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers from other funds	139,199	27,157	182,251	348,607
Transfers to other funds	(209,408)	(139,199)	-	(348,607)
Bond obligations issued	-	-	18,000,000	18,000,000
Capital lease obligations issued	896,205	-	-	896,205
Total other financing sources (uses)	<u>825,996</u>	<u>(112,042)</u>	<u>18,182,251</u>	<u>18,896,205</u>
Net change in fund balance	407,784	(111,999)	28,136,025	28,431,810
Fund Balances:				
Beginning of year - July 1	<u>9,004,428</u>	<u>493,697</u>	<u>(34,144)</u>	<u>9,463,981</u>
End of year - June 30	<u>\$ 9,412,212</u>	<u>\$ 381,698</u>	<u>\$ 28,101,881</u>	<u>\$ 37,895,791</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, 2011**

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

Net changes in fund balances - total governmental funds \$ 28,431,810

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

Capital outlay	\$ 8,829,262	
Depreciation	<u>(906,495)</u>	7,922,767

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

Change in deferred revenue for tax and miscellaneous revenues	2,308
Change in deferred capital lease receivable	<u>(191,000)</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	\$ (18,896,205)	
Increase in compensated absences	(25,864)	
Increase in net pension obligation	(31,059)	
Increase in other post-employment benefits	(118,067)	
Principal Repayments	<u>909,871</u>	<u>(18,161,324)</u>

Total changes in net assets of governmental activities	<u>\$ 18,004,561</u>
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The notes to the financial statements are an integral part of this statement.

**Town of Nags Head, North Carolina**  
**General Fund**  
**Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual**  
**For the Fiscal Year Ended June 30, 2011**

	<b>General Fund</b>			Variance with Final Budget - Over/ Under
	Original	Final	Actual Amounts	
<b>REVENUES</b>				
Ad valorem taxes	\$ 4,826,816	\$ 4,832,916	\$ 4,857,519	\$ 24,603
Other taxes and licenses	3,386,100	3,416,100	3,722,052	305,952
Unrestricted intergovernmental	570,192	582,185	604,063	21,878
Restricted intergovernmental	127,637	287,192	291,709	4,517
Permits and fees	285,100	286,100	184,354	(101,746)
Sales and services	4,000	4,000	5,123	1,123
Investment earnings	105,000	105,000	148,257	43,257
Miscellaneous	504,987	565,520	469,044	(96,476)
Total revenues	<u>9,809,832</u>	<u>10,079,013</u>	<u>10,282,121</u>	<u>203,108</u>
<b>EXPENDITURES</b>				
Current:				
General Government	2,619,183	2,513,078	2,380,409	132,669
Public Safety	4,144,809	4,656,825	4,520,522	136,303
Environmental Protection	1,499,740	1,711,008	1,370,704	340,304
Public Works	1,610,378	1,538,472	1,438,861	99,611
Debt service:				
Principal	698,298	949,082	909,871	39,211
Interest and other charges	177,786	177,786	79,966	97,820
Contingency	125,000	125,000	-	125,000
Total expenditures	<u>10,875,194</u>	<u>11,671,251</u>	<u>10,700,333</u>	<u>970,918</u>
Revenues over (under) expenditures	<u>(1,065,362)</u>	<u>(1,592,238)</u>	<u>(418,212)</u>	<u>1,174,026</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers from other funds	649,630	177,199	139,199	(38,000)
Transfers to other funds	(100,000)	(282,251)	(209,408)	72,843
Installment purchase obligations issued		898,769	896,205	(2,564)
Appropriated Fund Balance	515,732	798,521		(798,521)
Total other financing sources (uses)	<u>1,065,362</u>	<u>1,592,238</u>	<u>825,996</u>	<u>(766,242)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	407,784	<u>\$ 407,784</u>
Fund Balances:				
Beginning of year - July 1			<u>9,004,428</u>	
End of year - June 30			<u>\$ 9,412,212</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, 2011**

	Enterprise Funds			Total
	Major Funds		Non-Major	
	Water Fund	Storm Water Fund	Nags Head Leasing	
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 3,572,345	\$ 344,170	\$ 502	\$ 3,917,017
Accounts receivable trade (net)	423,275	(610)	-	422,665
Accounts receivable other (net)	35,254	-	-	35,254
Prepays	70	-	-	70
Inventories	48,461	-	-	48,461
Total current assets	<u>4,079,405</u>	<u>343,560</u>	<u>502</u>	<u>4,423,467</u>
Capital assets:				
Land, non-depreciable improvements, and construction in progress	2,463,793	13,520	-	2,477,313
Other capital assets, net of depreciation	4,988,065	208,701	-	5,196,766
Total capital assets (net)	<u>7,451,858</u>	<u>222,221</u>	<u>-</u>	<u>7,674,079</u>
Total Assets	<u>11,531,263</u>	<u>565,781</u>	<u>502</u>	<u>12,097,546</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	125,632	37	-	125,669
Accrued liabilities	18,564	728	-	19,292
Unearned revenue	216,000	-	-	216,000
Customer deposits	376,541	-	-	376,541
Cash bonds	5,835	-	-	5,835
Compensated absences - current	32,951	-	-	32,951
Capital leases payable - current	74,498	12,802	-	87,300
Total current liabilities	<u>850,021</u>	<u>13,567</u>	<u>-</u>	<u>863,588</u>
Non-current liabilities:				
Other post-employment benefits	32,707	-	-	32,707
Compensated absences - non current	2,288	-	-	2,288
Capital leases payable - non current	574,594	13,274	-	587,868
Total non-current liabilities	<u>609,589</u>	<u>13,274</u>	<u>-</u>	<u>622,863</u>
Total liabilities	<u>1,459,610</u>	<u>26,841</u>	<u>-</u>	<u>1,486,451</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	6,802,766	196,145	-	6,998,911
Unrestricted	3,268,887	342,795	502	3,612,184
Total net assets	<u>\$ 10,071,653</u>	<u>\$ 538,940</u>	<u>\$ 502</u>	<u>\$ 10,611,095</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, 2011**

	Enterprise Funds			Total
	Water Fund	Storm Water Fund	Nags Head Leasing	
<b>OPERATING REVENUES</b>				
Charges for services	\$ 2,320,498	\$ 113,252	\$ -	\$ 2,433,750
Tap and connection fees	11,285	-	-	11,285
Late payment penalties	24,824	-	-	24,824
Water tag fees	10,267	-	-	10,267
Miscellaneous	2,890	-	-	2,890
Total operating revenues	<u>2,369,764</u>	<u>113,252</u>	<u>-</u>	<u>2,483,016</u>
<b>OPERATING EXPENSES</b>				
Administration	178,624	-	-	178,624
Septic Health	214,960	-	-	214,960
Operations	1,498,685	-	-	1,498,685
Distribution	519,793	-	-	519,793
Storm Water	-	30,479	-	-
Depreciation and amortization	269,532	16,294	-	285,826
Total operating expenses	<u>2,681,594</u>	<u>46,773</u>	<u>-</u>	<u>2,728,367</u>
Total operating income	<u>(311,830)</u>	<u>66,479</u>	<u>-</u>	<u>(245,351)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
Investment earnings	4,946	352	-	5,298
Interest expense	(26,969)	(1,418)	-	(28,387)
Total non-operating revenue (expenses)	<u>(22,023)</u>	<u>(1,066)</u>	<u>-</u>	<u>(23,089)</u>
Income (loss) before contributions and transfers	(333,853)	65,413	-	(268,440)
Capital contributions from impact fees	<u>85,000</u>	<u>-</u>	<u>-</u>	<u>85,000</u>
Change in net assets	(248,853)	65,413	-	(183,440)
<b>Net Assets:</b>				
Beginning of year - July 1	<u>10,320,506</u>	<u>473,527</u>	<u>502</u>	<u>10,794,535</u>
End of year - June 30	<u>\$ 10,071,653</u>	<u>\$ 538,940</u>	<u>\$ 502</u>	<u>\$ 10,611,095</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, 2011**

	Business-Type Activities Enterprise Funds			Total
	Water Fund	Storm Water	Nags Head Leasing	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash received from customers	\$ 2,327,531	\$ 116,514	\$ -	\$ 2,444,045
Cash paid for goods and services	(1,675,901)	(12,053)	-	(1,687,954)
Cash paid to or on behalf of employees for services	(712,460)	(22,382)	-	(734,842)
Customer deposits received	3,780	-	-	3,780
Other operating revenues	2,890	-	-	2,890
Net cash provided (used) by operating activities	<u>(54,160)</u>	<u>82,079</u>	<u>-</u>	<u>27,919</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Initial impact fees received	81,000	-	-	81,000
Proceeds from financing capital assets	17,053	-	-	17,053
Interest paid on debt financing	(26,969)	(1,418)	-	(28,387)
Septic Loans issued	(24,500)	-	-	(24,500)
Repayment of septic loans	17,602	-	-	17,602
Principal paid on debt financing	(70,324)	(12,346)	-	(82,670)
Acquisition of capital assets	(17,053)	60,439	-	43,386
Net cash provided (used) by capital and related financing activities	<u>(23,191)</u>	<u>46,675</u>	<u>-</u>	<u>23,484</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest	4,946	352	-	5,298
Net increase (decrease) in cash and cash equivalents	(72,405)	129,106	-	56,701
Cash Balances:				
Beginning of year - July 1	<u>3,644,750</u>	<u>215,064</u>	<u>502</u>	<u>3,860,316</u>
End of year - June 30	<u>\$ 3,572,345</u>	<u>\$ 344,170</u>	<u>\$ 502</u>	<u>\$ 3,917,017</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, 2011**

	Business-Type Activities			Total
	Enterprise Funds			
	Water Fund	Storm Water	Nags Head Leasing	
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ (311,830)	\$ 66,479	\$ -	\$ (245,351)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation and amortization	269,532	16,294	-	285,826
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable	(39,343)	3,262	-	(36,081)
(Increase) decrease in inventories	1,931	-	-	1,931
Increase (decrease) in accounts payable	161	(4,025)	-	(3,864)
Increase (decrease) in accrued liabilities	2,466	69	-	2,535
Increase (decrease) in customer deposits	3,780	-	-	3,780
Increase (decrease) in accrued OPEB liability	19,143	-	-	19,143
Total adjustments	257,670	15,600	-	273,270
Net cash provided (used) by operating activities	<u>\$ (54,160)</u>	<u>\$ 82,079</u>	<u>\$ -</u>	<u>\$ 27,919</u>

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

**Town of Nags Head, North Carolina  
Statement of Fiduciary Net Assets  
Fiduciary Funds  
June 30, 2011**

	Pension Trust
<b>ASSETS</b>	
Cash and cash equivalents	\$ 166,576
Total assets	166,576
<b>NET ASSETS</b>	
Held in trust for pension benefits and other purposes	\$ 166,576

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, 2011**

	Pension Trust	Private-Purpose Trust <u>Private Beach Nourishment</u>
<b>Additions</b>		
Private donations	\$ -	\$ 50
Investment earnings	212	1
Total additions	<u>212</u>	<u>51</u>
<b>Deductions</b>		
Expenditures	-	2,704
Benefits	39,057	-
Total deductions	<u>39,057</u>	<u>2,704</u>
Change in net assets	(38,845)	(2,653)
<b>Net Assets</b>		
Beginning of year - July 1	<u>205,421</u>	<u>2,653</u>
End of year - June 30	<u>\$ 166,576</u>	<u>\$ -</u>

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

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**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2011**

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

The Town reports the following major governmental funds:

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

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

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

The Town reports the following major enterprise funds:

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

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

The Town reports the following nonmajor enterprise funds:

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

The Town reports the following fiduciary fund types:

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

**Beach Nourishment Trust.** This is a fiduciary fund for private funding of beach nourishment. Donors may choose whether to donate funds unconditionally as a gift or based upon the condition of return if the project should not commence by January 1, 2013. The project did commence construction in April 2011, and all funds were donated to the nourishment project.

### **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. Non-exchange transactions, in which the Town gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

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

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

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of January 1, 1993, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, Dare County is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts in the County, including the Town of Nags Head. For registered motor vehicles, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, the Town's vehicle taxes for vehicles registered in Dare County from March 2010 through February 2011 apply to the fiscal year ended June 30, 2011. Uncollected taxes which were billed during this period are shown as a receivable on these financial statements.

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

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

## **D. Budgetary Data**

### 1. Budget

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

Expenditures may not legally exceed appropriations at the departmental level for all annually budgeted funds and at the object level for the multi-year funds. Budgetary control is exercised in all funds, and appropriations are made at the departmental (functional) level and amended as necessary by the governing board. The Town Manager is authorized to make interdepartmental transfers in the same fund up to 10% of the appropriated monies for the department whose allocation is reduced; however, any revisions that alter total expenditures of any fund must be approved by the governing board. During the year, several amendments to the original budget were necessary including material adjustments related to 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, 2011, \$441,881 of open purchase orders and contracts were outstanding in the General Fund. These encumbrances outstanding will be re-appropriated in the subsequent year's budget. The Beach Nourishment Capital Project Fund had \$23,292,031 in outstanding encumbrances at June 30, 2011. The Water Fund had \$222 in encumbrances outstanding at June 30, 2011. 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), an SEC-registered mutual fund.

The Town's investments with a maturity of more than one year at acquisition and non-money market investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT Cash Portfolio, 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. Powell Bill funds are also classified as restricted cash because it can be expended only for the purposes of maintaining, repairing, construction, reconstructing, or widening of local streets per G.S. 136-41.1 through 136.41.4. General Fund restricted assets at June 30, 2011 included Powell Bill funds of \$52,844 and unexpended debt proceeds of \$482,309. Beach Nourishment Capital Project Fund restricted assets of \$14,218,638 at June 30, 2011 represented unexpended debt proceeds.

#### 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, 2010.

#### 5. Allowances for Doubtful Accounts

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

#### 6. Inventory and Prepaid Items

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

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

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

#### 7. Capital Assets

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

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

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

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

## 8. Long-Term Obligations

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

## 9. Compensated Absences

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

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

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

## 10. Net Assets/Fund Balances

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

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

The governmental fund types classify fund balances as follows:

### **Non-Spendable Fund Balance**

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

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

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

### **Restricted Fund Balance**

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

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

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

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

*Restricted for Environmental Protection* - portion of fund balance that is restricted by revenue source for use for certain environmental protection expenditures.

*Restricted for General Government* - portion of fund balance that is restricted by revenue source for use for certain general government expenditures.

### **Committed Fund Balance**

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

*Committed for Capital Projects* - portion of fund balance that is committed by action of the governing body for future capital projects.

## Assigned Fund Balance

Portion of fund balance that the Town of Nags Head intends to use for specific purposes.

*Subsequent Year's Expenditures* - portion of fund balance that is appropriated in the next year's budget that is not already classified in restricted or committed. The governing body approves the appropriation.

## Unassigned Fund Balance

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

The Town of Nags Head has a revenue spending policy that provides guidance for programs with multiple revenue sources. The Finance Officer will use resources in the following order: bond/debt proceeds, federal funds, State funds, local funds, and Town funds. For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first, followed in order by committed fund balance, assigned fund balance, and, lastly, unassigned fund balance. The Finance Officer has the authority to deviate from this policy if it is in the best interest of the Town or when required by grant or other contractual agreements. The Town does not have a formal fund balance policy.

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

Total fund balance - General Fund	\$ 9,412,212
Less:	
Non-spendable	100,296
Stabilization of State Statute	<u>1,972,834</u>
Fund balance available	<u><u>\$ 7,339,082</u></u>

## F. Use of Estimates

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

## IV. 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 undercollateralization, 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, 2011, the Town's deposits had a carrying amount of \$24,765,831 and a bank balance of \$24,442,311. Of the bank balance, \$3,978,840 was covered by federal depository insurance, and the remainder was covered by collateral held under the pooling method. At June 30, 2011, the Town's petty cash fund totaled \$1,000.

#### 2. Investments

At June 30, 2011, the Town's investments were as follows:

<b>Investment Type</b>	<b>Fair Value</b>	<b>Less Than 6 Months</b>	<b>6-12 Months</b>	<b>1-3 Years</b>	<b>3-10 Years</b>
GNMA Mortgage backed Securities	\$ 129,303	\$ -	\$ -	\$ -	\$ 129,303
NC Capital Management Trust - Cash Portfolio*	2,156,964	-	2,624,214	-	-
Total	\$ 2,286,267	\$ -	\$ 2,624,214	\$ -	\$ 129,303

\*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 limit the Town's investments to the provisions of G.S. 159-30 and restricts the purchase of securities to the highest possible ratings whenever particular types of securities are rated. The Town's investment in all Government Obligations and Agencies are rated AAA by Standard & Poor's as of June 30, 2011. 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, 2011.

*Concentration of Credit Risk.* The Town's policy prohibits the investment of all long-term securities with a single institution. There is no limit on the amount the Town may invest in any one issuer. The Town has more than 5% invested in Government National Mortgage Association mortgage-backed securities. These investments are 5.66% of the Town's total investments.

### 3. Receivables

The receivables shown in Exhibit A at June 30, 2011 were as follows:

	<b>Accounts</b>	<b>Taxes</b>	<b>Due from Other Governments</b>	<b>Interest Receivable</b>	<b>Total</b>
<b>Governmental Activities:</b>					
General	\$ 35,387	\$ 29,389	\$ 18,843,815	\$ 122,146	\$ 19,030,737
Allowance for doubtful accounts	-	(10,000)	-	-	(10,000)
Total governmental activities	<u>35,387</u>	<u>19,389</u>	<u>18,843,815</u>	<u>122,146</u>	<u>19,020,737</u>
<b>Business-type Activities:</b>					
Water	471,270	-	-	-	471,270
Stormwater	(610)	-	-	-	(610)
Allowance for doubtful accounts	(12,741)	-	-	-	(12,741)
Total business type activities	<u>\$ 457,919</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 457,919</u>

Due from other governments consisted of the following:

Beach nourishment contribution	\$18,000,000
Occupancy tax	424,745
Land transfer tax	107,164
Sales taxes	223,758
Tax reimbursement	83,774
Other	<u>4,374</u>
Total	<u>\$18,843,815</u>

## Capital Lease Receivable

The Town assisted the Outer Banks Family YMCA in obtaining tax-exempt financing for the YMCA property located within the Town of Nags Head. The Town acquired title to the YMCA property and borrowed funds from the Bank of America in the amount of \$3,721,000. The Town has entered into an agreement to lease the property to the YMCA for the total of the amount due under the financing arrangement and has no financial responsibility beyond lease payments. The outstanding balance as of June 30, 2011 was \$814,000. Total payments received under this lease for the fiscal year ended June 30, 2011 were \$203,617, and the payments made were \$191,000 in principal and \$12,617 in interest.

## 4. Capital Assets

Capital asset activity for the Primary Government for the year ended June 30, 2011 was as follows:

	Beginning Balances	Increases	Decreases/ Transfers	Ending Balances
<b>Governmental Activities:</b>				
<b>Non-depreciable capital assets:</b>				
Land	\$ 7,857,513	\$ -	\$ -	\$ 7,857,513
Construction in progress	927,117	8,181,704	(128,873)	8,979,948
Total non-depreciable capital assets	<u>8,784,630</u>	<u>8,181,704</u>	<u>(128,873)</u>	<u>16,837,461</u>
<b>Depreciable capital assets:</b>				
Buildings	7,119,946	-	-	7,119,946
Other improvements	2,218,841	-	128,873	2,347,714
Equipment	1,433,539	575,252	-	2,008,791
Vehicles and motorized equipment	5,744,735	72,306	-	5,817,041
Total depreciable capital assets	<u>16,517,061</u>	<u>647,558</u>	<u>128,873</u>	<u>17,293,492</u>
<b>Less accumulated depreciation for:</b>				
Buildings	2,366,846	190,691	-	2,557,537
Other improvements	492,334	170,790	-	663,124
Equipment	1,064,809	95,271	-	1,160,080
Vehicles and motorized equipment	3,603,335	449,743	-	4,053,078
Total accumulated depreciation	<u>7,527,324</u>	<u>\$ 906,495</u>	<u>\$ -</u>	<u>8,433,819</u>
Total depreciable capital assets, net	<u>8,989,737</u>			<u>8,859,673</u>
<b>Governmental activity capital assets, net</b>	<u><u>\$ 17,774,367</u></u>			<u><u>\$ 25,697,134</u></u>

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

General Government	\$ 51,385
Public Safety	278,025
Public Works/Transportation	360,872
Environmental Protection	216,213
Total Depreciation expense	<u><u>\$ 906,495</u></u>

Capital asset activities for the business-type activities for the year ended June 30, 2011 are as follows:

	Ending Balances	Increases	Decreases/ Transfers	Ending Balances
<b>Business-Type Activities:</b>				
Water Fund				
<b>Non-depreciable capital assets:</b>				
Land	\$ 2,453,473	\$ -	\$ -	\$ 2,453,473
Construction in Progress	10,320	-	-	10,320
Total non-depreciable capital assets	<u>2,463,793</u>	-	-	<u>2,463,793</u>
<b>Depreciable capital assets:</b>				
Plant	5,441,406	-	-	5,441,406
Equipment	948,077	17,053	(137,214)	827,916
Vehicles	144,862	-	-	144,862
Intangibles	4,203,619	-	-	4,203,619
Total depreciable capital assets	<u>10,737,964</u>	<u>17,053</u>	<u>(137,214)</u>	<u>10,617,803</u>
<b>Less accumulated depreciation:</b>				
Plant	2,546,383	113,149	-	2,659,532
Equipment	685,866	45,092	(137,214)	593,744
Vehicles	140,357	4,505	-	144,862
Intangibles	2,124,814	106,786	-	2,231,600
Total accumulated depreciation	<u>5,497,420</u>	<u>\$ 269,532</u>	<u>\$ (137,214)</u>	<u>5,629,738</u>
Total depreciable capital assets, net	<u>5,240,544</u>			<u>4,988,065</u>
Water Fund capital assets, net	<u>7,704,337</u>			<u>7,451,858</u>
Storm Water Fund				
<b>Non-depreciable capital assets:</b>				
Construction in Progress	10,450	3,070	-	13,520
Total non-depreciable capital assets	<u>10,450</u>	<u>3,070</u>	-	<u>13,520</u>
<b>Depreciable capital assets:</b>				
Plant	158,447	-	-	158,447
Equipment	112,472	-	-	112,472
Total depreciable capital assets	<u>270,919</u>	-	-	<u>270,919</u>
<b>Less accumulated depreciation:</b>				
Plant	-	5,665	-	5,665
Furniture and equipment	45,924	10,629	-	56,553
Total accumulated depreciation	<u>45,924</u>	<u>\$ 16,294</u>	<u>\$ -</u>	<u>62,218</u>
Total depreciable capital assets, net	<u>224,995</u>			<u>208,701</u>
Storm Water Fund capital assets, net	<u>235,445</u>			<u>222,221</u>
<b>Business-type activities capital assets, net</b>	<u>\$ 7,939,782</u>			<u>\$ 7,674,079</u>

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2011**

The government has active construction projects as of June 30, 2011. At year-end, the government's estimated commitments to projects ongoing are as follows:

<u>Project</u>	<u>Spent-to-date</u>	<u>Remaining Commitment</u>
Beach Nourishment	\$ 8,963,435	\$ 23,292,031
Total	<u>\$ 8,963,435</u>	<u>\$ 23,292,031</u>

**B. Liabilities**

1. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

*Plan Description*

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

*Funding Policy*

Plan members are required to contribute six percent of their annual covered salary. The Town is required to contribute at an actuarially determined rate. For the Town, the current rate for employees not engaged in law enforcement and for law enforcement officers is 4.88% and 4.86%, respectively, of annual covered payroll. The contribution requirements of members and of the Town of Nags Head are established and may be amended by the North Carolina General Assembly. The Town's contributions to LGERS for the years ended June 30, 2011, 2010, and 2009 were \$338,133, \$255,984, and \$277,133, 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, 2010 the Separation Allowance's membership consisted of:

Retirees receiving benefits	2
Terminated plan members entitled to, but not yet receiving, benefits	-
Active plan members	<u>20</u>
Total	<u><u>22</u></u>

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

*Summary of Significant Accounting Policies*

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

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

*Contributions*

The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned by making contributions based on actuarial valuations through appropriations made in the General Fund operating budget. For the current year, the Town contributed zero or 0.00% of annual covered payroll. The Town's obligation to contribute to this Plan is established and may be amended by the North Carolina General Assembly. There were no contributions made by employees.

The annual required contribution for the current year was determined as part of the December 31, 2009 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 5.00% investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 4.5% 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, 2009 was 21 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	\$ 31,062
Interest on net pension obligation	48
Adjustment to annual required contribution	<u>(51)</u>
Annual pension cost	31,059
Contributions made	<u>-</u>
Increase (decrease) in net pension obligation	31,059
Net pension obligation:	
beginning of year - July 1	<u>959</u>
End of year - June 30	<u><u>\$ 32,018</u></u>

Three-Year Trend Information				
For Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation	
2009	\$ 23,638	126.9%	\$ (24,662)	
2010	25,621	0.0%	959	
2011	31,059	0.0%	32,018	

As of December 31, 2010, the most recent actuarial valuation date, the Plan was 40.17 percent funded. The actuarial accrued liability for benefits was \$463,119, and the actual value of assets was \$186,034, resulting in an unfunded actuarial accrued liability (UAAL) of \$277,085. The covered payroll (annual payroll of active employees covered by the Plan) was \$1,037,526, and the ratio of the UAAL to the covered payroll was 26.71 percent.

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

c. Supplemental Retirement Income Plan for Law Enforcement Officers

*Plan Description*

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

*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, 2011 were \$63,563, which consisted of \$52,678 from the Town and \$10,885 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, 2011 were \$138,248, which consisted of \$45,167 from the Town and \$93,081 from employees.

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

*Plan Description*

The State of North Carolina contributes, on behalf of the Town of Nags Head, to the Firemen's and Rescue Squad Workers' Pension Fund (Fund), a cost-sharing multiple-employer defined benefit pension plan with a special funding situation administered by the State of North Carolina. The Fund provides pension benefits for eligible fire and rescue squad workers that have elected to become members of the Fund. Article 86 of G.S. Chapter 58 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

The Firemen’s and Rescue Squad Workers’ Pension Fund is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State’s CAFR includes financial statements and required supplementary information for the Fund. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

*Funding Policy*

Plan members are required to contribute \$10 per month to the Fund. The State, a non-employer contributor, funds the Plan through appropriations. The Town contributes \$10 per month on behalf of each firefighter employed by the Town and each qualified member of the Nags Head Volunteer Fire Department. The Town’s contributions for the three years ended June 30, 2011, 2010, and 2009 were \$3,500, \$3,310, and \$3,340 respectively.

f. Other Post-Employment Benefits

Healthcare Benefits:

Plan Description. According to a Town resolution, the Town administers a single-employer defined benefit healthcare plan. This Plan provides healthcare benefits to retirees of the Town who participate in the North Carolina Local Governmental Employees’ Retirement System (System). The Town pays the full cost of coverage for these benefits for retirees who began working for the Town on or before November 3, 1997. The Town pays 50% for retirees with 10 years or more of service, 75% with 15 years, and 100% with 20 years. Also, retirees can purchase coverage for their dependents at the Town’s group rates. The Board of Commissioners may amend the benefit provisions. A separate report was not issued for the plan. Membership of the healthcare plan consisted of the following at December 31, 2008, the date of the latest actuarial valuation:

Retired members	7
Active members:	
General Employees	70
Firefighters	30
Law Enforcement	<u>22</u>
Total	<u>129</u>

*Funding Policy.* The Town pays the full cost of coverage for these benefits for retirees who began working for the Town on or before November 3, 1997 and a percentage of the premium cost based on years of service for employees hired after that date, as noted above. Also, the Town’s retirees can purchase coverage for their dependents at the Town’s group rates. The Town’s members pay \$56 to \$714, per month, for dependent coverage. The Town has chosen to fund the healthcare benefits on a pay-as-you-go basis.

The current ARC rate is 3.37% of annual covered payroll. For the current year, the Town contributed \$56,615, or .99% of annual covered payroll. The Town obtains healthcare coverage through private insurers. The Town has purchased specific stop-loss coverage for any claim that exceeds \$100,000. There were no contributions made by employees, except for dependent coverage of \$22,124 for the year ended June 30, 2011.

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

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

Annual required contribution	\$ 193,043
Interest on net OPEB obligation	5,698
Adjustment to annual required contribution	<u>(4,916)</u>
Annual OPEB cost (expense)	193,825
Contributions made	<u>56,615</u>
Increase (decrease) in net OPEB obligation	137,210
Net OPEB obligation:	
Beginning of year - July 1	<u>142,462</u>
End of year - June 30	<u><u>\$ 279,672</u></u>

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

<b>Year Ended</b>	<b>OPEB Cost</b>	<b>Annual OPEB Cost Contributed</b>	<b>OPEB Obligation</b>
6/30/2010	\$ 193,043	26.20%	\$ 142,462
6/30/2011	193,825	29.21%	279,672

*Funded Status and Funding Progress.* As of December 31, 2008, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and, thus, the unfunded actuarial accrued liability (UAAL) was \$1,737,866. The covered payroll (annual payroll of active employees covered by the plan) was \$5,725,487, and the ratio of the UAAL to the covered payroll was 30.40%. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing, over time, relative to the actuarial accrued liabilities for benefits.

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

In the December 31, 2008 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.00 percent investment rate of return (net of administrative expenses), which is the expected long-term investment returns on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual medical cost trend increase of 10.50 to 5.00 percent annually. Both rates included a 3.75 percent inflation assumption. The actuarial value of assets, if any was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2008 was 30 years.

#### g. Other Employment Benefit

The Town has also elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing Plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the Death Benefit Plan 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, 2011, the Town made contributions to the State for death benefits of \$4,852. 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.

## 2. Payables

Payables at Exhibit A at June 30, 2011 were as follows:

	Vendors	Salaries and Benefits	Accrued Interest	Customer Deposits	Total
<b>Governmental Activities</b>					
General	\$ 305,421	\$ 202,355	\$ -	\$ 13,795	\$ 521,571
Beach Nourishment Fund	3,557,392	-	-	-	3,557,392
Total Governmental activities	<u>\$3,862,813</u>	<u>\$ 202,355</u>	<u>\$ -</u>	<u>\$ 13,795</u>	<u>\$4,078,963</u>
<b>Business-Type Activities</b>					
Water	125,632	18,564	-	382,376	526,572
Stormwater	37	728	-	-	765
Total Business-Type activities	<u>\$ 125,669</u>	<u>\$ 19,292</u>	<u>\$ -</u>	<u>\$ 382,376</u>	<u>\$ 527,337</u>

## 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)	\$ -	\$ 33,763
Taxes and privilege licenses receivable (General Fund)	47,983	-
Capital Lease for YMCA (General Fund)	814,000	-
Special assessment receivable (General Fund)	-	-
Circuit breaker deferred receivable (General Fund)	643	-
Miscellaneous accounts receivable (General Fund)	523	-
Prepaid rent (General Fund)	-	32,584
Prepaid impact fees (Water Fund)	-	216,000
Total	<u>\$ 863,149</u>	<u>\$ 282,347</u>

## 4. Risk Management

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

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

The Town carries flood insurance through the National Flood Insurance Plan (NFIP). Because the Town owns property in an area of the State that has been mapped and designated an "AE, A03, A04, C, and X" area (an area with a 1% annual chance of flooding and a 26% chance of flooding over 30 years) by the Federal Emergency Management Agency, the Town is eligible to purchase coverage of \$500,000 per structure through the NFIP. The Town is also eligible to, and has purchased commercial flood insurance for, up to \$5,000,000 of coverage per structure for properties in C and X designated areas. The Town has also purchased commercial excess flood insurance in the amount of \$2,868,502 for its Town Hall structure and \$955,000 for its newest fire station.

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

## 5. Claims and Judgments

At June 30, 2011, 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 the 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 outstanding balance as of June 30, 2011 is \$814,000.

The Town entered into a fifteen-year installment financing contract in 2005 with RBC Centura for the construction of the fire/police facility in south Nags Head. The amount borrowed was \$1,600,000 at an interest rate of 3.82% and is secured by the property. Originally payments were due in annual installments of \$106,666.67, plus accrued interest with final payment due on May 30, 2019. The Town prepaid \$125,068 during the fiscal year ended June 30, 2006 from unused escrow funds, and the remaining principal was reamortized with payments due in annual installments of \$97,046, plus accrued interest through May 17, 2019. The outstanding balance at June 30, 2011 is \$776,368.

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 ended June 30, 2006 from unused escrow funds, and the remaining principal was reamortized with payments due in annual installments of \$93,875, including accrued interest through May 17, 2019. The outstanding balance at June 30, 2011 is \$635,458.

The Town entered into a ten-year installment financing contract in 2008 with BB&T for the acquisition of real property. The amount borrowed was \$500,000 at an interest rate of 3.77% and is secured by the property. Payments are due annually in the amount of \$50,000 in principal, plus accrued interest through November 15, 2017. The outstanding balance at June 30, 2011 is \$350,000.

The Town issued special obligation bonds under a five-year installment financing contract in 2011 with RBC Bank for funding approximately half the costs of beach nourishment. The amount borrowed was \$18,000,000 at an interest rate of 2.48%, which is secured by the pledge of occupancy tax revenues. Payments are due semi-annually, with interest only due in each October and interest, plus principal of \$3,600,000 due each April through 2017. The outstanding balance at June 30, 2011 is \$18,000,000.

The Town currently has six leases outstanding for various vehicles and equipment. Annual payments range from \$12,984 to \$139,771. Expiration dates range from November 2011 to June 2015. Interest rates vary from 1.625% to 3.69%. The total outstanding at June 30, 2011 is \$942,220.

The Town purchased financial software during the year ending June 30, 2011 with the cost split between the General Fund and the Water Fund. The terms of the purchase include equal installment payments over four years of \$ 18,545 with no interest. The total outstanding at June 30, 2011 is \$55,635

The gross value of all assets recorded under capital leases and installment finance contracts is \$10,888,356. The following is an analysis of the assets recorded under capital leases and installment finance contracts in the Town's at June 30, 2011:

Classes of Property	Cost
Building	\$ 1,600,000
Land	500,000
Vehicles and equipment	1,555,294
Other/infrastructure	7,233,062
Total	\$ 10,888,356

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

	General Long-Term Debt			General Long-Term Debt		Current Portion
	June 30, 2010	Increases	Decreases	June 30, 2011		
BY TYPE OF DEBT						
Finance Contract	\$ 2,388,906	\$ 18,000,000	\$ (448,538)	\$ 19,940,368	\$ 3,895,046	
Capital Leases	523,273	896,205	(461,333)	958,145	375,400	
Post-Employment Benefits	128,899	118,067	-	246,966	-	
Net pension obligation	959	31,059	-	32,018	-	
Compensated Absences	412,987	295,779	(269,915)	438,851	295,779	
Total	\$ 3,455,024	\$ 19,341,110	\$ (1,179,786)	\$ 21,616,348	\$ 4,566,225	

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

	General Long-Term Debt			General Long-Term Debt		Current Portion
	June 30, 2010	Increases	Decreases	June 30, 2011		
BY TYPE OF DEBT						
Finance Contract	\$ 702,363	\$ -	\$ (66,905)	\$ 635,458	\$ 69,390	
Capital Leases	38,422	17,053	(15,765)	39,710	17,910	
Post employment benefits	13,563	19,144	-	32,707	-	
Compensated Absences	35,157	32,951	(32,869)	35,239	32,951	
Total	\$ 789,505	\$ 69,148	\$ (115,539)	\$ 743,114	\$ 120,251	

b. Changes in Long-Term Liabilities

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

	Balance		Balance	
	June 30, 2009	Earned	Used	June 30, 2010
General Fund				
General Government	\$ 107,015	\$ 66,126	\$ 68,776	\$ 104,365
Public Safety	216,358	158,865	133,580	241,643
Public Works/Transportation	67,617	47,518	44,691	70,444
Environmental Protection	21,997	23,270	22,868	22,399
Total	<u>\$ 412,987</u>	<u>\$ 295,779</u>	<u>\$ 269,915</u>	<u>\$ 438,851</u>
Proprietary Fund	\$ 35,157	\$ 32,951	\$ 32,869	\$ 35,239

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

Year Ending June 30	Principal	Interest
2012	\$ 4,270,446	\$ 601,888
2013	4,192,231	480,242
2014	4,043,643	360,591
2015	4,032,122	245,197
2016	3,895,046	129,744
2017 - 2021	<u>465,025</u>	<u>71,691</u>
Total	<u>\$ 20,898,513</u>	<u>\$ 1,889,353</u>

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

Year Ending June 30	Principal	Interest
2012	\$ 87,300	\$ 25,447
2013	89,598	22,303
2014	79,099	19,039
2015	77,717	16,158
2016	80,709	13,166
2017 - 2021	<u>260,745</u>	<u>20,369</u>
Total	<u>\$ 675,168</u>	<u>\$ 116,482</u>

Amortization of assets acquired under capital leases in Enterprise Funds is included in depreciation. At June 30, 2011, the Town of Nags Head, North Carolina, has a legal debt margin of \$255,898,401.

## 7. Operating Leases

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

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

Year Ended June 30		
2012	\$	5,925
2013		5,925
2014		5,925
2015		5,431
Total	\$	<u>23,206</u>

During the year ended June 30, 2010, the total amount expended by the Town under the above operating lease was \$6,867, including both minimum monthly rentals and per copy charges.

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

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

Year Ended June 30		
2012	\$	2,904
2013		2,904
2014		742
Total	\$	<u>6,550</u>

During the year ended June 30, 2010, the total amount expended by the Town under the above operating lease was \$4,592, including both minimum monthly rentals and overage per copy charges.

The Town leases office and laboratory space to North Carolina University Systems for a period of ten years beginning in May 2005 through December 2013 for an annual rental amount of \$35,000. During the year ending June 30, 2009, this was increased for a one-time reimbursement of \$34,500 for leasehold improvements to the office space. Of the \$34,500, \$30,000 was for improvement costs incurred in FY 08-09 with the remaining \$4,500 for completion in Fiscal Year 2009-2010. The total earned under this lease in the year ended June 30, 2011 was \$35,000.

The Town also leases space on the water tower in south Nags Head and the newly constructed cell tower at Town Hall. Under a construction services and structure license agreement with AT&T dated February 6, 2008, AT&T agreed to construct a cell tower at their cost to be transferred to the Town of Nags Head upon completion in exchange for reduced monthly rentals for leased space on the tower for the length of time needed to abate the full cost of construction. The costs to construct the tower to which the Town took ownership in the year ended June 30, 2009 was \$279,577. The amount earned for the year ended June 30, 2011 was 7,083, with rent abatement in the amount of \$21,249. The total amount of rental abatement to date is \$61,724. AT&T also leases space on the water tower in south Nags Head through June 2012 which earned \$27,080 for the year ended June 30, 2011. Additional space leased on the cell tower at Town Hall with Verizon through August 2014, and with Ntelos through June 2010 earned \$31,200 and \$28,800, respectively, for the year ended June 30, 2011.

#### 8. Interfund Balances and Activity

The balance sheet for Government Funds shows a liability in the General Fund of \$101,029 and a corresponding receivable in the Capital Reserve Fund. The original advance amount of \$438,481 represents reimbursement of funds collected in the Capital Reserve Fund originally intended to offset the cost of the municipal complex. Instead, these funds were used to pay off the higher interest rate Fire Station debt. This amount is to be paid back from the General Fund to the Capital Reserve Fund with fire facility fee revenues. The amounts and timing of the repayments will be determined by availability of collected fees and decided by the Board of Commissioners. During the current year, no repayment was made.

The balance sheet for Government Funds shows a liability in the Beach Nourishment Fund of \$559,365 and a corresponding receivable in the General Fund. These funds represent the advance of funds from the General Fund for construction oversight and professional fees related to easement acquisition and bond issuance that will be reimbursed to the General Fund with the completion of the Beach Nourishment Project.

Transfers to/from other funds for the year ended June 30, 2011 consisted of the following:

From the General Fund to the Capital Reserve Fund for future capital purchases	\$ 27,157
From the General Fund to the Beach Nourishment Fund for current year capital purchases	182,251
From the Capital Reserve Fund to the General Fund for current year capital purchases	<u>139,199</u>
Total	<u><u>\$ 348,607</u></u>

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

For the fiscal year ended June 30, 2011, the Town has recognized on-behalf payments for pension contributions made by the State as a revenue and an expenditure of \$5,015 for the 15 volunteer firemen who perform firefighting duties for the Town's fire department. The volunteers and employees elected to be members of the Firemen's and Rescue Squad Workers' Pension Fund, a cost-sharing, multiple-employer public employee retirement system established and administered by the State of North Carolina. The Plan is funded by a \$10 monthly contribution paid by each member, investment income, and a State appropriation.

## V. Joint Ventures

The Town and the members of the Town's fire department each appoint two members to the five-member local Board of Trustees for the Firemen's Relief Fund. The State Insurance Commissioner appoints one additional member to the local board of Trustees. The Firemen's Relief Fund is funded by a portion of the fire and lightning insurance premiums that insurers remit to the State. The State passes these monies to the local Board of the Firemen's Relief Fund. The funds are used to assist firefighters in various ways. The participating governments do not have any equity interest in the joint venture, so no equity has been reflected in the financial statements at June 30, 2011. The Firemen's Relief Fund does not issue separate audited financial statements. Instead, the local Board of Trustees files an annual financial report with the State Firemen's Association. This report can be obtained from the Association at 323 West Jones Street, Suite 401, Raleigh, North Carolina 27603.

On November 14, 2008, the Town acquired a 17.949% interest in property owned jointly with the Outer Bank's Visitor's Bureau acquiring the remaining 82.051% interest. The total cost for the Town's share was \$712,933. The Town's share of the amount donated by the seller was an additional \$251,286. On March 31, 2009, the parties entered into a lease agreement for a portion of the jointly owned property to be used for recreational activities for a period of three years in the amount of \$42,500 annually. These revenues will be used to cover the ongoing operating costs of the property with any extra reserved for future development. The funds are held in an enterprise fund by the Outer Banks Visitor's Bureau. A memorandum of understanding formalizing the cost and revenue sharing for the property was signed during the current fiscal year. Costs incurred during the year ended June 30, 2011 for insurance, utilities, and maintenance reimbursed under the terms of the memorandum of understanding from the rental revenues received for the property.

## VI. Summary Disclosure of Commitments and Contingencies

### A. Federal and State-Assisted Programs

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

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

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

## **C. Municipal Waste Management Agreement**

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

On December 3, 2008, the Town approved a Municipal Waste Management Agreement with Dare County, a member of the Albemarle Regional Solid Waste Authority, for disposal of solid waste as contracted through Republic Services. The contract extends for 26 years and became effective when signed by all parties to the agreement as of May 1, 2009. Charges are based on the Town's actual tonnage of solid waste; the rate in effect in the 2010-2011 year was \$69.07 per ton.

## **D. Volunteer Fire Department Agreement**

The Board of Commissioners maintains an agreement with the Nags Head Volunteer Fire Department (NHVFD) that calls for incentive pay based on an individual member's qualifications and call response. Billing for the incentive is based on the twelve-month period of November through October each year. Under the agreement, it is the obligation of NHVFD to provide an accurate accounting of the incentives earned at various intervals during the year, including the Town's fiscal year-end. The method of calculation of incentive pay was amended administratively by the Board of Commissioners during the fiscal year ended June 30, 2006 as was the twelve-month period for calculation to coincide with the Town's fiscal year from July through June. Beginning in Fiscal Year 2008-2009, incentive pay was changed from annual payments to monthly. The amount expended under this agreement for the full year ending June 30, 2011 was \$5,350, plus an additional \$250 in related FICA.

## **E. Intangible Water Rights**

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

The intangible water rights are being amortized over 40 years. This time period corresponds to the estimated useful life of the R.O. water desalination plant. At June 30, 2010, accumulated amortization totaled \$2,231,600.

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. The Town will bear all costs and expenses associated with expansions requested or required by the Town. This agreement was signed on October 4, 1996.

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

#### **F. Water Impact Fees**

The Town entered into a letter of understanding with the Ammons-Dare Corporation (its successors and assigns) for the provision of water to the Village of Nags Head Development. The Town guarantees 1,000 water consumption units (WCU) will be available for the development. Ammons-Dare Corporation has agreed to pay an impact fee of \$2,000 per WCU in advance in the form of an irrevocable letter of credit in the amount of \$2,000,000. As of June 30, 2011, 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 696 WCU's, which are guaranteed by the Town and are valued at \$1,392,000. The Town reimbursed Ammons-Dare Corporation for 100 unused WCU's in the amount of \$200,000 during the fiscal year ended June 30, 1992, 50 unused WCU's in the amount of \$100,000 during the fiscal year ended 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 108 WCU's in the amount of \$216,000 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.

#### **F. Facility Fees**

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

For the year ended June 30, 2011, the following Facility Fee Revenue (including interest) was collected in the General Fund:

Administration	\$	8,185
Fire		3,424
Police		4,621
Sanitation		4,826
Recreation		6,101
Total	\$	<u>27,157</u>

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

At June 30, 2011, 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, 2011, 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 \$9,231 were used for a portion of new police 800 MHz radio debt and \$10,318 for the purchase of a new police radar trailer. There was \$10,000 in sanitation facility fees used toward the debt for new equipment. Additionally, \$4,106 of administration facility fees was used toward the debt for the new phone system, and \$4,293 in recreation fees was used toward the debt on ocean rescue 800MHZ radio debt.

As of June 30, 2011, the following balances of facility fees remained and are included in the Capital Reserve Fund:

Administration	\$	62,242
Fire		10,501
Police		125,114
Sanitation		4,803
Recreation		45,829
Total	\$	<u>248,489</u>

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

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

	Admin.	Fire	Police	Sanitation	Recreation	Total
FY 89-90	\$ 29,114	\$ 19,035	\$ 7,179	\$ 16,548	\$ -	\$ 71,876
FY 90-91	17,704	15,761	6,293	10,194	-	49,952
FY 91-92	24,115	27,159	11,204	15,236	-	77,714
FY 92-93	24,392	16,237	6,509	12,473	-	59,611
FY 93-94	23,758	24,740	10,317	12,476	-	71,291
FY 94-95	25,965	27,202	11,743	17,074	-	81,984
FY 95-96	28,330	28,125	12,570	19,832	-	88,857
FY 96-97	22,811	11,699	5,322	9,682	-	49,514
FY 97-98	34,009	15,243	15,749	10,406	-	75,407
FY 98-99	45,061	23,584	28,535	19,367	-	116,547
FY 99-00	45,953	31,970	43,067	24,461	14,473	159,924
FY 00-01	64,457	66,526	102,658	47,078	41,911	322,630
FY 01-02	64,532	34,245	43,293	30,466	42,338	214,874
FY 02-03	63,155	36,834	50,102	33,571	38,719	222,381
FY 03-04	39,368	16,606	18,221	10,109	28,633	112,937
FY 04-05	33,300	45,226	75,807	23,782	23,479	201,594
FY 05-06	24,395	14,920	20,474	13,677	23,030	96,496
FY 06-07	15,490	16,598	27,048	14,878	10,935	84,949
FY 07-08	28,606	12,856	24,638	11,786	19,005	96,891
FY 08-09	5,631	14,296	25,639	16,191	3,466	65,223
FY 09-10	6,378	3,925	5,842	5,836	4,396	26,377
FY 10-11	8,185	3,424	4,621	4,826	6,101	27,157
<b>Total</b>	<b>674,709</b>	<b>506,211</b>	<b>556,831</b>	<b>379,949</b>	<b>256,486</b>	<b>2,374,186</b>

## G. Facility Fees Used:

	Admin.	Fire	Police	Sanitation	Recreation	Total
FY 89-90	-	-	-	-	-	-
FY 90-91	-	-	-	-	-	-
FY 91-92	-	30,000	-	20,000	-	50,000
FY 92-93	-	-	6,520	-	-	6,520
FY 93-94	-	26,247	4,097	-	-	30,344
FY 94-95	-	26,247	4,097	-	-	30,344
FY 95-96	-	75,765	-	-	-	75,765
FY 96-97	160,000	-	40,000	5,000	-	205,000
FY 97-98	10,000	-	5,000	5,000	-	20,000
FY 98-99	35,000	-	16,120	-	-	51,120
FY 99-00	31,500	26,942	28,434	18,864	-	105,740
FY 00-01	31,500	23,584	13,500	19,818	7,065	95,467
FY 01-02	31,500	31,970	48,227	71,677	44,000	227,374
FY 02-03	31,500	66,526	13,500	36,716	25,000	173,242
FY 03-04	56,861	40,591	60,601	50,999	42,000	251,052
FY 04-05	31,500	30,667	18,648	52,356	25,000	158,171
FY 05-06	31,500	16,427	25,198	36,716	52,000	161,841
FY 06-07	31,500	45,225	25,033	9,000	8,850	119,608
FY 07-08	31,500	14,921	39,627	12,000	-	98,048
FY 08-09	31,500	16,598	25,033	5,000	2,449	80,580
FY 09-10	31,500	24,000	25,033	22,000	-	102,533
FY 10-11	35,606	-	33,049	10,000	4,293	82,948
<b>Total</b>	<b>612,467</b>	<b>495,710</b>	<b>431,717</b>	<b>375,146</b>	<b>210,657</b>	<b>2,125,697</b>
<b>Remaining</b>	<b>\$ 62,242</b>	<b>\$ 10,501</b>	<b>\$ 125,114</b>	<b>\$ 4,803</b>	<b>\$ 45,829</b>	<b>\$ 248,489</b>

## H. Beach Nourishment

On November 2, 2005, the Town adopted a capital project ordinance for Beach Nourishment with an estimated cost of \$27,697,850 to be funded by bond proceeds in the amount of \$26,997,850 and a contribution from the General Fund in the amount of \$700,000. This project ordinance was amended on December 20, 2006 to increase the total estimated costs of the project to \$32,700,000 with \$24,000,000 funded by bond proceeds, \$8,000,000 funded by contribution from Dare County, and the remaining \$700,000 funded by a transfer from the General Fund. The project ordinance was further amended December 2, 2009 to increase the total cost of the project to \$32,720,000, with increased funding from the contribution from General Fund increasing to \$720,000. The project ordinance was amended a second time this fiscal year on June 16, 2010 to increase the total project costs by \$125,000 to \$32,845,000 with an increase in funding from the Contribution from General Fund to \$845,000. Additionally, funding from Dare County was increased by \$10,000,000 from \$8,000,000 to \$18,000,000, and funding from bond proceeds was decreased by the same amount from \$24,000,000 to \$14,000,000 with the intent to use revenue bonds rather than general obligation bond funding. During the year ended June 30, 2011 the project ordinance was amended an additional three times. The first change was to increase funding from the General Fund by \$182,251, with a corresponding increase to Construction Oversight costs. The second

to \$18,000,000, and reduced the funding for construction oversight by \$12,626 to \$1,762,125, pumping costs were reduced by \$2,619,150 to \$25,528,000, and mobilization/demobilization increased by \$3,156,000 based on the actual bid cost. Additionally, professional fees of \$151,875 were added, along with monitoring costs of \$402,000. Other costs were reduced from \$500,000 to 200,000, contingency increased to \$3,000,000, and Contribution to General Fund added in the amount of \$1,027,251 bringing the total project cost to \$37,027,251. The third change did not affect the total project cost and reallocated an additional \$100,000 to professional fees by decreasing other costs.

The initial phase of that project was a contract for the engineering and construction oversight in the amount of \$1,592,500. This contract was amended to \$1,762,125 during the year ending June 30, 2011 due to the delays and extra costs incurred in obtaining all necessary permits for the project. 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. During the year ended June 30, 2008, an additional \$60,535 was expended under this contract. During the year ended June 30, 2009, an additional \$144,751 was expended under this contract, in addition to, \$475 for permit fees. During the year ended June 30, 2010, an additional \$276,679 was expended under this contract. During the year ended June 30, 2011, an additional \$537,450 was expended under this contract, in addition to \$7,236,731 for project construction costs, \$221,647 in professional fees related to obtaining easements and financing, and \$57,002 in monitoring costs required by the project permits. Total costs incurred through June 30, 2011 include \$1,425,879 for engineering and construction oversight, \$7,236,731 in project construction costs, and \$300,825 in attorneys' fees, monitoring, and other costs.

During the year ended June 30, 2011, the Town obtained all permits required for the project. The project was bid in early 2011 with construction starting in May 2011. Contracts committed as of June 30, 2011 included \$336,244 for engineering and construction oversight, \$8,518 for benthic monitoring, and \$22,947,269 for construction costs.

The financing for the project was provided by special obligation bonds secured by the Town's occupancy tax revenues. Repayment of the bond proceeds and interest is expected to be provided by both a Town-wide tax and additional taxes on the properties located in the municipal service districts for the next five years. The Town also received funding through an interlocal agreement with Dare County providing eighteen million dollars towards the construction costs and an additional two million annually for five years to be used towards the repayment of debt.

Completion of the construction portion of the project is expected by the fall of 2011 with monitoring to continue after that point.

**Town of Nags Head, North Carolina**  
**Law Enforcement Officers' Special Separation Allowance**  
**Required Supplementary Information**  
**Schedule of Funding Progress**  
**For the Fiscal Year Ended June 30, 2011**

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

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

**Town of Nags Head, North Carolina  
Law Enforcement Officers' Special Separation Allowance  
Required Supplementary Information  
Schedule of Employer Contributions  
For the Fiscal Year Ended June 30, 2011**

Year Ended June 30	Annual Required Contribution	Percentage Contributed
1999	\$ 8,503	74.46%
2000	10,300	74.65%
2001	8,148	87.85%
2002	15,773	60.55%
2003	18,854	50.60%
2004	19,026	157.68%
2005	18,650	169.69%
2006	20,819	138.75%
2007	16,393	223.61%
2008	16,335	0.00%
2009	23,846	125.81%
2010	25,855	0.00%
2011	31,062	0.00%

**Notes to the Required Schedules:**

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

Valuation date	12/31/2010
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	20 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	5.00%
Projected salary increases *	4.25 - 7.85%
* Includes inflation at	3.00%
Cost-of-living adjustments	N/A

**Town of Nags Head, North Carolina  
Other Post-Employment Benefits  
Required Supplementary Information  
Schedule of Funding Progress  
For the Fiscal Year Ended June 30, 2011**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Projected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll [(b-a)/c]
12/31/2008	\$ -	\$ 1,737,866	\$ 1,737,866	0.00%	\$ 5,725,487	30.40%

**Town of Nags Head, North Carolina  
Other Post-Employment Benefits  
Required Supplementary Information  
Schedule of Employer Contributions  
For the Fiscal Year Ended June 30, 2011**

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2010	\$ 193,043	0.00%
2011	193,043	0.00%

**Notes to the Required Schedules:**

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

Valuation date	12/31/2008
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay, open
Remaining amortization period	30 years
Asset valuation method	Market value of Assets
Actuarial assumptions:	
Investment rate of return *	4.00%
Medical cost trend rate	10.50 - 5.00%
Year of Ultimate trend rate	2016
* Includes inflation at	3.75%

**Town of Nags Head, North Carolina**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual - General Fund**  
**For the Fiscal Year Ended June 30, 2011**

	Budget	Actual	Variance Over (Under)
<b>REVENUES</b>			
Ad Valorem Taxes:			
Current year		\$ 4,813,955	
Discounts		(29,198)	
Prior year		10,987	
DMV current year		45,651	
DMV prior year		1,235	
Penalties and interest		14,889	
Total	\$ 4,832,916	4,857,519	\$ 24,603
Other Taxes and Licenses:			
Occupancy tax		1,852,917	
Land Transfer tax		384,657	
Local governmental sales tax		809,268	
1/2% sales tax revenue		602,910	
Privilege licenses		37,014	
Mixed beverage tax		34,137	
Privilege license penalties		1,149	
Total	3,416,100	3,722,052	305,952
Intergovernmental Revenues:			
Unrestricted:			
Utility Franchise tax		319,456	
Telecommunications tax		56,283	
Natural Gas Franchise fee		1,609	
Solid Waste Disposal fees		2,095	
Video programming tax/franchise fees		169,367	
Cable Franchise - PEG fund fees		30,610	
Beer and wine		13,800	
ABC revenue		10,843	
Total	582,185	604,063	21,878
Restricted:			
NCEM Reimbursement		4,781	
FEMA Reimbursement		14,468	
Contributions from governmental units		8,110	
State Street Aid allocation		117,984	
FEMA Fire Grant		107,075	
US DOI Grant		19,327	
Drug Fund revenue		8,017	
ARRA Grant		3,927	
CAMA Reimbursement		8,020	
Total	287,192	291,709	4,517
Total intergovernmental revenues	869,377	895,772	26,395

**Town of Nags Head, North Carolina**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual - General Fund**  
**For the Fiscal Year Ended June 30, 2011**

	Budget	Actual	Variance Over (Under)
Permits and Fees:			
Building permits		130,980	
Facility fees		27,157	
Inspection and review fees		9,205	
Beach driving permits		9,533	
CAMA permits		6,800	
Motor vehicle licenses		679	
Total	286,100	184,354	(101,746)
Sales and Services:			
Court costs and fees	4,000	5,123	
Total	4,000	5,123	1,123
Investment earnings	105,000	148,257	43,257
Other Revenues:			
YMCA rents		203,617	
Other rents		137,140	
Sale of materials		26,142	
Miscellaneous		71,320	
Sale of assets		2,532	
Damage recovery		11,100	
Civil penalties		9,660	
Contributions to Police, Fire, and Rescue Benevolent Fund		7,533	
Total	565,520	469,044	(96,476)
Total revenues	10,079,013	10,282,121	203,108

**EXPENDITURES**

General Government:		
Governing Body:		
Fees paid to elected officials	34,114	
FICA expense	2,610	
Contracted services	20,022	
Contracted services - beach nourishment	41,338	
Other supplies, computers	1,882	
Department supplies and materials	2,832	
Special events	34,567	
Dues and subscriptions	5,111	
Printing	2,858	
Travel	1,155	
Training	285	
Equipment rental	183	

**Town of Nags Head, North Carolina**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual - General Fund**  
**For the Fiscal Year Ended June 30, 2011**

	Budget	Actual	Variance Over (Under)
Employee incentive		580	
Contribution to YMCA		4,000	
Contribution to Nags Head Woods		10,400	
Contribution to Government Access Channel		31,610	
Contributions, miscellaneous		7,855	
Total	208,164	201,402	(6,762)
Special Projects:			
YMCA principal pass-through		191,000	
YMCA interest pass-through		12,617	
Total	301,010	203,617	(97,393)
Administration:			
Salaries and wages		336,305	
FICA expense		24,661	
Group insurance		54,121	
Group insurance - retiree		7,797	
Retirement		21,469	
401(k) account		3,388	
Contracted services		9,778	
Travel		3,194	
Advertising		4,052	
Departmental supplies		2,994	
Dues and subscriptions		2,468	
Equipment rental		4,592	
Telephone		3,947	
Employee training		1,650	
Postage		4,543	
Printing		1,086	
Repairs and maintenance, vehicles		61	
Automotive supplies		1,407	
Other supplies		967	
Reimbursement from Water Fund		(67,587)	
Total	424,755	420,893	(3,862)
Administrative Services:			
Salaries and wages		293,444	
FICA expense		21,434	
Group insurance expense		39,208	
Retirement		17,961	
401(k) account		2,834	
Unemployment expense		7,233	
Insurance		266,345	
Contracted services		5,612	
Employee training		1,700	

**Town of Nags Head, North Carolina**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual - General Fund**  
**For the Fiscal Year Ended June 30, 2011**

	Budget	Actual	Variance Over (Under)
Professional services		28,800	
Departmental supplies and materials		9,517	
Postage		7,418	
Telephone		2,794	
Travel		2,674	
Other supplies		1,934	
Equipment rental		4,862	
Printing		3,552	
Wellness program		2,447	
Personnel Committee		602	
Special contracted services		732	
Dues and subscriptions		655	
Purchases for resale		1,371	
Advertising		549	
Repairs and maintenance, vehicles		653	
Automotive supplies		1,207	
Reimbursement from Water Fund		(143,596)	
Capital outlay, equipment		57,127	
Debt service, vendor finance		15,126	
Debt service, capital lease		110,491	
Debt service, interest		2,419	
<b>Total</b>	<b>780,935</b>	<b>767,105</b>	<b>(13,830)</b>
Information Technology:			
Salaries and wages		112,341	
FICA expense		8,505	
Group insurance		13,376	
Retirement		7,210	
401(k) account		1,133	
Contracted services		7,280	
Contracted services, website		1,484	
Contracted services, annual contracts		31,872	
Professional services		150	
Departmental supplies		397	
Travel		12	
Advertising		80	
Telephone		8,505	
Postage		84	
Repairs and maintenance, equipment		11,056	
Other supplies		4,271	
Internet costs		8,698	
Equipment rental		14,459	
Dues and subscriptions		99	
Reimbursement from Water Fund		(14,227)	
Capital outlay, equipment		89,289	
Debt service, capital lease		19,249	
<b>Total</b>	<b>363,072</b>	<b>325,323</b>	<b>(37,749)</b>

**Town of Nags Head, North Carolina**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual - General Fund**  
**For the Fiscal Year Ended June 30, 2011**

	Budget	Actual	Variance Over (Under)
Planning and Development:			
Salaries and wages		481,103	
FICA expense		35,870	
Group insurance		50,726	
Retirement		29,965	
401(k) account		4,742	
Planning Board, Board of Adjustment		8,450	
Contracted services		36,608	
Professional services		8,117	
Departmental supplies		10,364	
Travel		2,159	
Advertising		2,697	
Telephone		4,840	
Postage		1,143	
Repairs and maintenance, vehicles		894	
Repairs and maintenance, equipment		1,400	
Other supplies		2,526	
Automotive supplies		2,645	
Employee training		1,162	
Equipment rental		1,279	
Dues and subscriptions		1,669	
Reimbursement from Water Fund		(76,954)	
Debt service, capital lease		17,401	
Debt service, interest		216	
Total	712,403	629,022	(83,381)
Legal Services:			
Professional services		205,538	
Reimbursement from Water Fund		(3,972)	
Total	189,679	201,566	11,887
Total General Government	2,980,018	2,748,928	(231,090)
Public Safety:			
Police Department:			
Salaries and wages		1,109,220	
FICA expense		81,087	
Group insurance		195,720	
Group insurance - retiree		8,264	
Retirement		71,229	
401(k) account		51,805	
Automotive supplies		62,107	
Departmental supplies		22,298	
Repairs and maintenance, vehicles		24,991	
Repairs and maintenance, equipment		19,358	

**Town of Nags Head, North Carolina**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual - General Fund**  
**For the Fiscal Year Ended June 30, 2011**

	Budget	Actual	Variance Over (Under)
Telephone		14,537	
Other supplies		3,006	
Uniforms		10,456	
Equipment rental		7,368	
Travel		3,117	
Professional services		9,193	
Employee training		1,215	
Special investigations		1,242	
Repairs and maintenance, range		710	
Postage		1,713	
Dues and subscriptions		801	
Advertising		38	
Reimbursement from Water Fund		(6,827)	
Capital outlay, equipment		243,211	
Debt service, capital lease		91,166	
Debt service, interest		1,507	
<b>Total</b>	<b>2,082,593</b>	<b>2,028,532</b>	<b>(54,061)</b>
<b>Drug Forfeiture:</b>			
Department supplies		25,590	
Repairs and maintenance, equipment		300	
<b>Total</b>	<b>26,744</b>	<b>25,890</b>	<b>(854)</b>
<b>Fire Department:</b>			
Salaries and wages		1,242,544	
FICA expense		90,896	
Group insurance		223,217	
Retirement expense		82,134	
401(k) account		12,678	
Departmental supplies		30,069	
Repairs and maintenance, vehicles		17,576	
Uniforms		5,871	
Repairs and maintenance, equipment		5,295	
Automotive supplies		16,037	
Telephone		6,546	
Employee training		1,832	
OSHA compliance		1,175	
Travel		2,317	
Safety training		1,553	
Other supplies		5,187	
Equipment rental		1,248	
Dues and subscriptions		2,147	
Professional services		9,314	
Postage		628	

**Town of Nags Head, North Carolina**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual - General Fund**  
**For the Fiscal Year Ended June 30, 2011**

	Budget	Actual	Variance Over (Under)
Contracted services		8,690	
Printing		560	
Grant, NCLM Safety		1,214	
Capital outlay, equipment		164,826	
Debt service, capital lease		174,686	
Debt service, interest		41,399	
<b>Total</b>	<b>2,168,319</b>	<b>2,149,639</b>	<b>(18,680)</b>
<b>Volunteer Fire:</b>			
Incentive pay		5,350	
FICA expense		250	
Uniforms		737	
Dues and subscriptions		437	
Training		20	
Travel		94	
Postage			
Repairs and maintenance, equipment		145	
Professional services		6,817	
Retirement		6,315	
Department supplies		6,327	
<b>Total</b>	<b>23,745</b>	<b>26,492</b>	<b>2,747</b>
<b>Ocean Rescue:</b>			
Salaries and wages		359,627	
FICA expense		17,721	
Group insurance		5,751	
Retirement expense		3,208	
401(k) account		510	
Departmental supplies		23,536	
Uniforms		9,848	
Automotive supplies		10,773	
Repairs and maintenance, equipment		7,354	
Travel		964	
Repairs and maintenance, vehicles		1,512	
Professional fees		2,960	
Telephone		1,566	
Employee training		225	
Printing		366	
Dues and subscriptions		1,060	
Postage		161	
Capital outlay, equipment		87,173	
Debt service, capital lease		38,767	
Debt service, interest		284	
<b>Total</b>	<b>627,327</b>	<b>573,366</b>	<b>(53,961)</b>

**Town of Nags Head, North Carolina**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual - General Fund**  
**For the Fiscal Year Ended June 30, 2011**

	Budget	Actual	Variance Over (Under)
Animal Control:			
Salaries and wages		40,443	
FICA expense		2,940	
Group insurance		6,219	
Retirement		2,592	
401(k) account		2,022	
Automotive supplies		1,515	
Departmental supplies		152	
Repairs and maintenance, vehicles		183	
Professional fees		325	
Equipment rental		144	
Employee training		200	
Travel		248	
Telephone		1,156	
Uniforms		306	
Dues and subscriptions		35	
Capital outlay, equipment		5,932	
Debt service, capital lease		14,648	
Total	124,462	79,060	(45,402)
Total Public Safety	5,053,190	4,882,979	(170,211)
Environmental Protection:			
Sanitation:			
Salaries and wages		363,109	
FICA expense		27,297	
Group insurance		71,106	
Group insurance - retiree		7,797	
Retirement		23,895	
401(k) account		3,495	
Repairs and maintenance, vehicles		138,259	
Automotive supplies		105,969	
Department supplies		18,640	
Uniforms		3,958	
Contracted services		15,000	
Recycling		166	
Repairs and maintenance, equipment		1,819	
Professional fees		60	
Advertising		482	
Dues and subscriptions		145	
Debt service, capital lease		175,154	
Debt service, interest		5,956	
Total	1,275,013	962,307	(312,706)

**Town of Nags Head, North Carolina**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual - General Fund**  
**For the Fiscal Year Ended June 30, 2011**

	Budget	Actual	Variance Over (Under)
Solid Waste:			
Tipping fees		589,507	
Total	621,804	589,507	(32,297)
 Total Environmental Protection	 1,896,817	 1,551,814	 (345,003)
 Public Works:			
Administration:			
Salaries and wages		275,669	
FICA expense		20,301	
Group insurance		39,783	
Group insurance - retiree		23,390	
Retirement		17,725	
401(k) account		2,797	
Contracted services		1,584	
Purchase for resale		25,436	
Telephone		7,320	
Departmental supplies		2,349	
Advertising		98	
Travel		14	
Equipment rental		187	
Automotive supplies		2,863	
Employee training		200	
Dues and subscriptions		1,006	
Postage		189	
Repairs and maintenance, vehicles		616	
Uniforms		177	
Professional fees		951	
Reimbursement from Water Fund		(142,965)	
Total	278,171	279,690	1,519
 Public Facilities Maintenance:			
Salaries and wages		298,535	
FICA expense		22,128	
Group insurance		66,987	
Retirement		19,196	
401(k) account		3,126	
Repairs and maintenance, facilities		25,474	
Utilities		168,749	
Contracted services		50,822	
Department supplies		17,138	
Repairs and maintenance, equipment		46,759	
Signs		1,887	
Automotive supplies		17,014	
Repairs and maintenance, other		2,737	

**Town of Nags Head, North Carolina**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual - General Fund**  
**For the Fiscal Year Ended June 30, 2011**

	Budget	Actual	Variance Over (Under)
Other supplies		15,602	
Professional services		3,436	
Uniforms		1,888	
Repairs and maintenance, vehicles		21,182	
Employee training		185	
Equipment rental		114	
Advertising		60	
Special Projects, lighting		3,927	
Special Projects, bulkhead		6,375	
Street supplies		6,862	
Dues and subscriptions		50	
Reimbursement from Water Fund		(50,112)	
Capital outlay, other Powell Bill		128,873	
Debt service, capital lease		62,183	
Debt service, interest		15,568	
<b>Total</b>	<b>1,054,461</b>	<b>956,745</b>	<b>(97,716)</b>
<b>Maintenance Garage:</b>			
Salaries and wages		186,790	
FICA account		13,824	
Group insurance		34,045	
Group insurance, retiree		7,797	
Retirement		12,011	
401(k) account		1,798	
Other supplies		8,208	
Departmental supplies		11,950	
Uniforms		2,674	
Professional services		6,181	
Contracted services		277	
Automotive supplies		1,356	
Repairs and maintenance, vehicles		532	
Employee training		71	
Repairs and maintenance, equipment		1,423	
Reimbursement from Water Fund		(8,760)	
<b>Total</b>	<b>283,594</b>	<b>280,177</b>	<b>(3,417)</b>
<b>Total Public Works</b>	<b>1,616,226</b>	<b>1,516,612</b>	<b>(99,614)</b>
Contingency	125,000	-	(125,000)
<b>Total Expenditures</b>	<b>11,671,251</b>	<b>10,700,333</b>	<b>(970,918)</b>

**Town of Nags Head, North Carolina**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual - General Fund**  
**For the Fiscal Year Ended June 30, 2011**

	Budget	Actual	Variance Over (Under)
Revenues Over (Under) Expenditures	(1,592,238)	(418,212)	1,174,026
<b>Other Financing Sources (Uses):</b>			
Capital lease issued	841,642	839,078	(2,564)
Vendor financing issued	57,127	57,127	-
Transfers from Capital Projects Funds (Net)	(105,052)	(70,209)	34,843
Appropriated Fund Balance	798,521	-	(798,521)
Other financing sources (uses), net	1,592,238	825,996	(766,242)
Net change in fund balance	\$ -	407,784	\$ 407,784
<b>FUND BALANCE</b>			
Beginning of year - July 1		9,004,428	
End of year - June 30		9,412,212	

**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, 2011**

	Project Authorization	Prior Years	Actual Current Year	Total to Date	Variance Over/ (Under)
<b>REVENUES</b>					
Investment earnings	\$ -	\$ 31,461	\$ 3,700	\$ 35,161	\$ 35,161
Restricted intergovernmental	18,000,000	-	18,000,000	18,000,000	-
Donations	-	-	2,904	2,904	2,904
Total revenues	<u>18,000,000</u>	<u>31,461</u>	<u>18,006,604</u>	<u>18,038,065</u>	<u>38,065</u>
<b>EXPENDITURES</b>					
Professional fees	251,875	21,701	221,647	243,348	(8,527)
Capital construction oversight	1,762,125	888,429	537,450	1,425,879	(336,246)
Pumping costs	25,528,000	-	4,443,131	4,443,131	(21,084,869)
Mobilization	4,656,000	-	2,793,600	2,793,600	(1,862,400)
Contingency	3,000,000	-	-	-	(3,000,000)
Monitoring	402,000	-	57,002	57,002	(344,998)
Other costs	400,000	475	-	475	(399,525)
Total Expenditures	<u>36,000,000</u>	<u>910,605</u>	<u>8,052,830</u>	<u>8,963,435</u>	<u>(27,036,565)</u>
Revenues over (under) expenditures	<u>(18,000,000)</u>	<u>(736,676)</u>	<u>9,953,774</u>	<u>9,074,630</u>	<u>27,074,630</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Bonds issued	18,000,000	-	18,000,000	18,000,000	-
Transfers to other funds	(1,027,251)	-	-	-	1,027,251
Transfers from other funds	1,027,251	845,000	182,251	1,027,251	-
Total other financing sources (uses)	<u>18,000,000</u>	<u>845,000</u>	<u>18,182,251</u>	<u>19,027,251</u>	<u>1,027,251</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 108,324</u>	28,136,025	<u>\$ 28,101,881</u>	<u>\$ 28,101,881</u>
Fund Balance					
Beginning of year - July 1			<u>(34,144)</u>		
End of year - June 30			<u>\$ 28,101,881</u>		

**Town of Nags Head, North Carolina**  
**Capital Project Fund**  
**Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual**  
**For the Fiscal Year Ended June 30, 2011**

	<b>Capital Reserve Fund</b>			Variance with Final Budget - Over/ (Under)
	Original	Final	Actual Amounts	
<b>REVNEUES</b>				
Investment earnings	\$ -	\$ -	\$ 43	\$ 43
Total revenues	<u>-</u>	<u>-</u>	<u>43</u>	<u>43</u>
Revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>43</u>	<u>43</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers from other funds	100,000	100,000	27,157	(72,843)
Transfers to other funds	(234,630)	(277,199)	(139,199)	138,000
Appropriated Fund Balance	<u>134,630</u>	<u>177,199</u>	<u>-</u>	<u>(177,199)</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(112,042)</u>	<u>(112,042)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>(111,999)</u>	<u>\$ (111,999)</u>
Fund Balance				
Beginning of year - July 1			<u>493,697</u>	
End of year - June 30			<u>\$ 381,698</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, 2011**

	Budget	Actual	Variance Over (Under)
<b>REVENUES</b>			
Operating Revenues:			
Water sales		\$ 2,320,498	
Tap and connection fees		11,285	
Late payment penalties and interest		24,824	
Water cutoff tag fees		10,267	
Miscellaneous		2,890	
Total	\$ 2,337,092	2,369,764	\$ 32,672
Non-Operating Revenues:			
Interest earned on investments		4,946	
Impact fees		81,000	
Decrease in prepaid impact fees		4,000	
Total	20,500	89,946	69,446
Total revenues	2,357,592	2,459,710	102,118
<b>EXPENDITURES</b>			
Administration:			
Salaries and wages		62,757	
FICA expense		4,230	
Group insurance		19,744	
Retirement expense		4,027	
401(k) account		636	
Reimburse General Fund administrative expenses		71,404	
Contracted services		3,377	
Postage		8,568	
Supplies and materials		1,317	
Bad debt		2,564	
Total	183,579	178,624	(4,955)
Septic Health:			
Salaries and wages		46,979	
FICA expense		3,409	
Group insurance		8,458	
Retirement		3,032	
401(k) account		478	
Contracted services		30,880	
Reimburse General Fund administrative expenses		107,471	
Inspection rebates		9,188	
Pumping credits		1,740	

**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, 2011**

	Budget	Actual	Variance Over (Under)
Postage		147	
Travel		384	
Telephone		668	
Employee training		475	
Automotive supplies		704	
Repairs and maintenance, vehicles		401	
Departmental supplies		546	
Total	<u>221,683</u>	<u>214,960</u>	<u>(6,723)</u>
Operations:			
Salaries and wages		181,122	
FICA expense		13,198	
Group insurance		38,326	
Group insurance - retirees		1,571	
Retirement		11,658	
401(k) account		1,850	
Purchases for resale		845,210	
Reimburse General Fund administrative expenses		190,077	
Insurance		45,813	
Utilities		44,586	
Contracted services		6,547	
Departmental supplies		19,005	
Professional fees		34,847	
Other supplies		1,776	
Repairs and maintenance, equipment		22,859	
Postage		1,578	
Telephone		4,518	
Uniforms		1,303	
Dues and subscriptions		2,277	
Equipment rental		623	
Printing		2,567	
Automotive supplies		5,875	
Employee training		339	
Travel		1,224	
Repairs and maintenance, vehicles		793	
Total	<u>1,529,458</u>	<u>1,479,542</u>	<u>(49,916)</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, 2011**

	Budget	Actual	Variance Over (Under)
Operations Distribution:			
Salaries and wages		228,235	
FICA expense		16,011	
Group insurance		51,526	
Retirement		14,656	
401(k) account		2,312	
Reimburse General Fund administrative expenses		146,048	
Contracted services		917	
Other supplies		10,947	
Repairs and maintenance, other		16,015	
Insurance		5,662	
Automobile supplies		7,930	
Departmental supplies		6,715	
Uniforms		2,043	
Repairs and maintenance, vehicles		1,906	
Telephone		2,269	
Dues and subscriptions		1,189	
Advertising		372	
Repairs and maintenance, equipment		4,172	
Travel		578	
Employee training		290	
Total	<u>522,513</u>	<u>519,793</u>	<u>(2,720)</u>
Budgetary Appropriations:			
Appropriated retained earnings	(259,778)	-	
Debt issued	(17,053)	(17,053)	
Interest	27,057	26,969	
Debt principal	71,080	70,324	
Septic Health Loans	25,000	24,500	
Principal repayments Septic Health Loans	(13,000)	(17,602)	
Increase (decrease) in:			
Inventory		(1,930)	
(Increase) decrease in:			
Compensated absences		(82)	
Capital outlay:			
Machinery and equipment	17,053	17,053	
Contingency	50,000	-	
Total	<u>(99,641)</u>	<u>102,179</u>	<u>201,820</u>
Total expenditures	<u>2,357,592</u>	<u>2,495,098</u>	<u>137,506</u>
Revenues over (under) expenditures	<u>\$ -</u>	<u>\$ (35,388)</u>	<u>\$ (35,388)</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, 2011**

	Budget	Actual	Variance Over (Under)
<b>RECONCILIATION OF MODIFIED ACCRUAL BASIS TO FULL ACCRUAL BASIS</b>			
Revenues over (under) expenditures		\$ (35,388)	
Reconciling items:			
Septic Health loans		24,500	
Principal repayments Septic Health loans		(17,602)	
Debt issued		(17,053)	
Payment of debt principal		70,324	
Decrease in inventory		(1,930)	
Increase in accrued OPEB liability		(19,143)	
Capital outlay		17,053	
Depreciation and amortization		(269,532)	
Increase in accrued vacation and comp pay		(82)	
Change in net assets		\$ (248,853)	

**Town of Nags Head, North Carolina**  
**Storm Water Fund**  
**Schedule of Revenues and Expenditures**  
**Budget and Actual (Non-GAAP)**  
**For the Fiscal Year Ended June 30, 2011**

	Budget	Actual	Variance Over/ (Under)
<b>REVENUES</b>			
Operating Revenues:			
Storm Water Fees	\$ 112,896	\$ 113,252	\$ 356
Total	<u>112,896</u>	<u>113,252</u>	<u>356</u>
Non-operating Revenues:			
Interest earned on investments	-	352	352
Total	<u>-</u>	<u>352</u>	<u>352</u>
Total revenues	<u>112,896</u>	<u>113,604</u>	<u>708</u>
<b>EXPENDITURES</b>			
Salaries and wages	19,697	19,552	(145)
FICA expense	1,500	1,444	(56)
Group insurance	4,987	-	(4,987)
Retirement	1,263	1,257	(6)
401(k)	220	198	(22)
Fuel	1,200	1,530	330
Department supplies	10,000	5,473	(4,527)
Repairs and maintenance, equipment	3,000	1,025	(1,975)
Contracted services	157,265	-	(157,265)
Total Expenditures	<u>199,132</u>	<u>30,479</u>	<u>(163,437)</u>
Budgetary Appropriations:			
Appropriated retained earnings	(100,000)	-	-
Interest	1,418	1,418	-
Debt principal	12,346	12,346	-
Capital outlay, other	-	3,070	-
Total budgetary appropriations	<u>(86,236)</u>	<u>16,834</u>	<u>103,070</u>
Total Expenditures	<u>112,896</u>	<u>47,313</u>	<u>(65,583)</u>
Revenues over Expenditures	<u>\$ -</u>	<u>\$ 66,291</u>	<u>\$ 66,291</u>
<b>RECONCILIATION OF MODIFIED ACCRUAL BASIS TO FULL ACCRUAL BASIS</b>			
Revenues over (under) expenditures		\$ 66,291	
Capital outlay		3,070	
Payment of debt principal		12,346	
Depreciation		<u>(16,294)</u>	
Change in net assets		<u>\$ 65,413</u>	

**Town of Nags Head, North Carolina**  
**Schedule of Ad Valorem Taxes Receivable**  
**June 30, 2011**

Fiscal Year	Uncollected Balance June 30, 2010	Additions	Collection And Credits	Adjustments	Uncollected Balance June 30, 2010
2010-2011	\$ -	\$ 4,793,926	\$ 4,859,606	\$ 78,026	\$ 12,346
2009-2010	14,757	-	12,181	390	2,966
2008-2009	1,296	-	237	(37)	1,022
2007-2008	1,489	-	22	-	1,467
2006-2007	954	-	36	-	918
2005-2006	1,866	-	23	-	1,843
2004-2005	2,613	-	-	-	2,613
2003-2004	2,709	-	-	-	2,709
2002-2003	1,752	-	-	-	1,752
2001-2002	1,754	-	1	-	1,753
2000-2001	1,644	-	1,644	-	-
<b>Total</b>	<b>\$ 30,834</b>	<b>\$ 4,793,926</b>	<b>\$ 4,873,750</b>	<b>\$ 78,379</b>	<b>29,389</b>

Less allowance for uncollectible  
ad valorem taxes receivable

10,000

Ad valorem taxes receivable, net

\$ 19,389

**Reconciliation with Revenues**

Taxes, ad valorem , General Fund	\$ 4,857,519
Amounts written off for tax year 2000-01	430
DMV written off	1,214
Amounts written off <\$1	33
Refunds paid on taxes	245
Plus discounts taken	29,198
Less penalties and interest	<u>(14,889)</u>
<b>Total</b>	<b><u>\$ 4,873,750</u></b>

**Town of Nags Head, North Carolina**  
**Analysis of Current Tax Levy**  
**Town-Wide Levy**  
**For the Fiscal Year Ended June 30, 2011**

	<b>Town - Wide</b>			<b>Total Levy</b>	
	Property Valuation	Rate	Total Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
<b>Original Levy</b>					
Property taxed at current year's rate	\$ 3,042,822,052	\$ 0.1575	\$ 4,792,449	\$ 4,792,449	\$ -
Penalties	-		1,477	1,477	-
Total	<u>3,042,822,052</u>		<u>4,793,926</u>	<u>4,793,926</u>	<u>-</u>
<b>Discoveries</b>					
Current year taxes	51,356,241		79,154	30,606	48,548
Penalties	-		(1)	(1)	-
Total	<u>51,356,241</u>		<u>79,153</u>	<u>30,605</u>	<u>48,548</u>
<b>Releases</b>	<u>(777,271)</u>		<u>(1,127)</u>	<u>(502)</u>	<u>(625)</u>
Total property valuation	<u>\$ 3,093,401,022</u>				
<b>Net levy</b>			4,871,952	4,824,029	47,923
Uncollected taxes at June 30, 2011			<u>(12,346)</u>	<u>(10,074)</u>	<u>(2,272)</u>
<b>Current Year Taxes Collected</b>			<u>\$ 4,859,606</u>	<u>\$ 4,813,955</u>	<u>\$ 45,651</u>
<b>Current Levy Collection Percentage</b>			<u>99.75%</u>	<u>99.79%</u>	<u>95.26%</u>