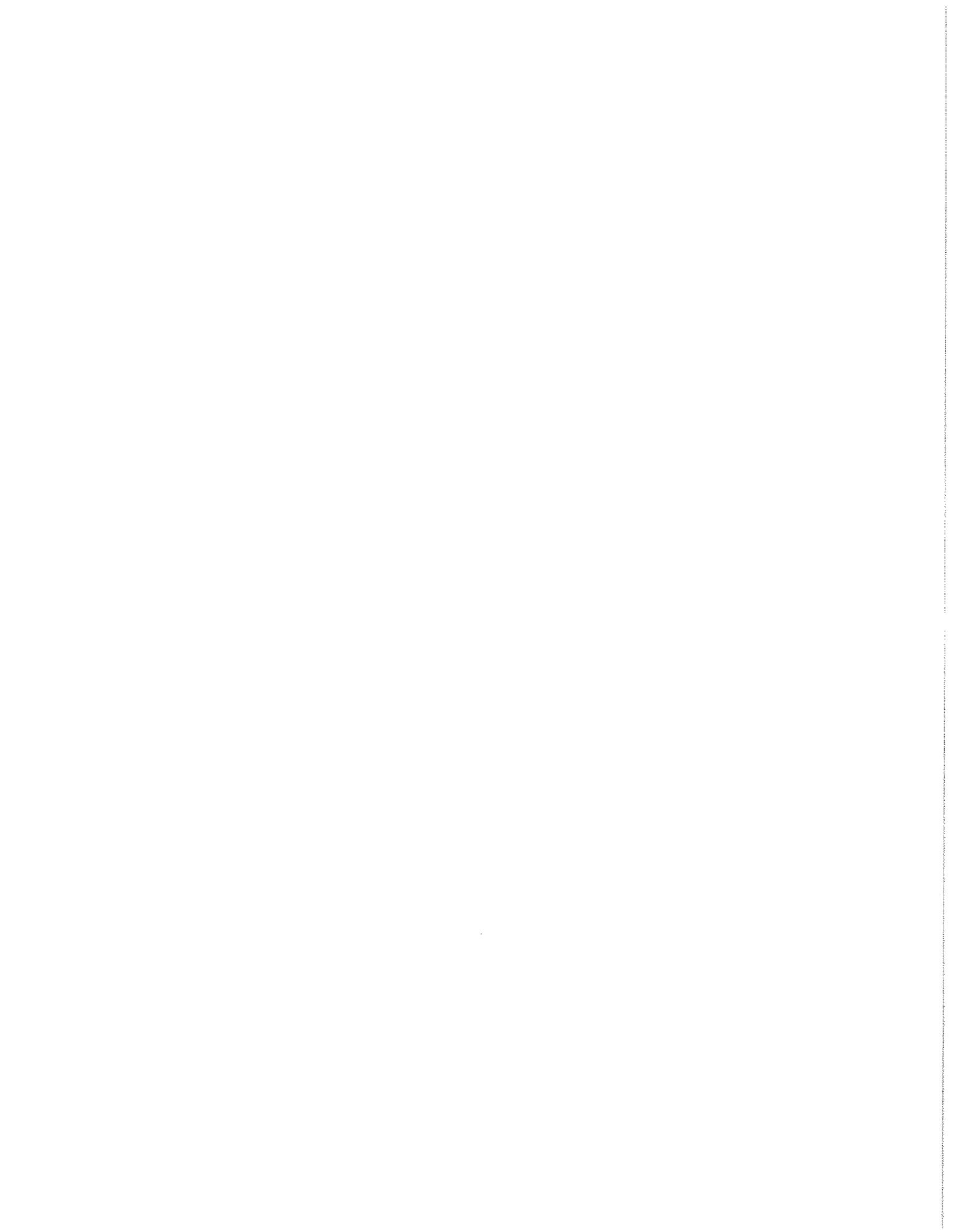


**TOWN OF NAGS HEAD, NORTH CAROLINA**  
**ANNUAL FINANCIAL REPORT**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Bob Oakes, Mayor  
Doug Remaley, Mayor Pro-Tem  
Renée Cahoon, Commissioner  
Anna Sadler, Commissioner  
Susie Walters, Commissioner

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



**TOWN OF NAGS HEAD, NORTH CAROLINA**  
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**June 30, 2012**

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**INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town of Nags Head, North Carolina, as of and for the year ended June 30, 2012, 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 opinions 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 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, 2012, and the respective changes in financial position 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 22, 2012, on our consideration of the Town of Nags Head's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grants. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and the Law Enforcement Officers' Special Separation Allowance and the Other Postemployment Benefits' Schedules of Funding Progress and Employer

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

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

*Dowdy & Osborne, LLP*

Dowdy & Osborne, LLP  
Certified Public Accountants

October 22, 2012

**Town of Nags Head  
Management Discussion and Analysis  
June 30, 2012**

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As management of the Town of Nags Head, we offer readers of our financial statements this narrative overview and analysis of the financial activities of the Town of Nags Head for the fiscal year ended June 30, 2012. 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 \$60,039,445 (net assets).

The Town's net assets increased by \$6,588,624 over the prior year. The governmental net assets increased by \$6,473,944 (+15.11%). The business-type net assets increased by \$114,680 (+1.08%).

At the end of the current fiscal year, the Town of Nags Head's governmental funds reported combined ending fund balances of \$12,590,911 with a net decrease of \$25,304,880 in fund balances. Approximately 100 percent of this total amount, or \$26,094,164 was from expenditures in the Beach Nourishment Project Fund as the construction project was completed during this fiscal year.

At the end of the current fiscal year, unassigned fund balance for the General Fund was \$8,043,077, or 48.89 percent of total general fund expenditures for the year. This represents an increase in unassigned fund balance from the prior year of \$1,983,289 but a decrease in percentage due to the increase in general fund expenditures from the debt service on special obligation bonds. The adopted operating budget for FY 2011-2012 included the use of \$1,116,881 compared with actual used of zero primarily due to the reimbursement of the General Fund from the Beach Nourishment Fund of \$1,027,251 refunding the payment of costs incurred prior to project funding from other sources.

The Town of Nags Head's total debt decreased by \$4,581,379 (-20.49%) during the current fiscal year, primarily as a result of the first year's payment of special bond obligation debt of \$3,600,000 with four annual payments remaining.

The General Fund budget for the fiscal year ended June 30, 2012 was adopted with a tax rate of \$.1775 per \$100 assessed valuation reflecting an increase of .02 from the prior year designated by the Board for beach nourishment debt obligation repayment. Total assessed valuation increased from \$3,093,401,022 as of June 30, 2011 to \$3,112,627,197 as of June 30, 2012 an increase of \$19,226,175 (+.62%). The budget also included the first year of municipal service taxes with a levy of \$1,784,860, collections of \$1,783,914 (99.95%), and a remaining receivable balance of \$946. (.05%)

General Fund budget amendments during fiscal year 2011-12 increased the adopted budget by \$1,546,027 with individual increases (decreases) by functional area noted below:

- General Government increased by \$548,542 primarily for increased legal expenses and the early retirement of debt for the YMCA. This was partially offset by reimbursements from the Water Fund for administrative oversight through the allocation of indirect costs.

**Town of Nags Head  
Management Discussion and Analysis  
June 30, 2012**

- Public Safety increased by \$384,809 to fund capital purchases budgeted at the first year debt payment and the carry forward of encumbrances for capital purchases not completed in the prior fiscal year.
- Environmental Protection increased by \$426,657 for increased funding for capital purchases budgeted at the first year debt payment amount, the carry forward of encumbrances for capital purchases not completed in the prior fiscal year, and an increase for tipping fees for storm debris.
- Public Works increased by \$288,695 to fund capital purchases budgeted at the first year debt payment partially offset by the allocation of indirect costs.
- The amount budgeted for Interfund transfers increased by \$22,000 to increase the amount transferred to the Capital Reserve fund for the excess of taxes collected for bond debt service over the amount needed for debt service to be used in subsequent years.
- The amount budgeted for Contingency decreased by \$124,676 primarily to increase the amount available for legal fees during the fiscal year.

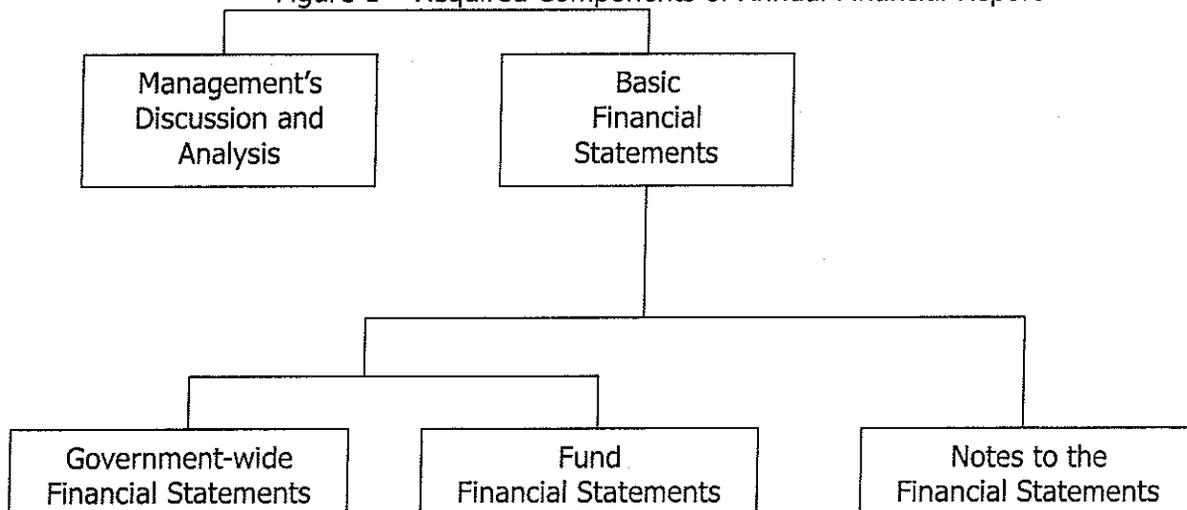
Key Ratios

% Debt to General Governmental Expenses	153.10%
% Property Tax Collection	99.62%
% Increase in Assessed Property Valuation	+.62%

***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



**Town of Nags Head  
Management Discussion and Analysis  
June 30, 2012**

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**A. Government-Wide Financial Statements**

The government-wide statement report both short-term and long-term information about the financial condition of the Town as a whole, focusing on the government's operational accountability. The accounting methods of these statements reflect that of private sector companies in that all governmental and business-type activities are consolidated into columns that add to a total for the primary government. The statement of net 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.

**Town of Nags Head  
Management Discussion and Analysis  
June 30, 2012**

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

*Fiduciary Funds* – The Town is the trustee, or fiduciary, for its Police Special Separation Allowance Pension Trust. The Town is responsible for ensuring that the assets reported in these funds are used only for their intended purposes. The Town's fiduciary activities are reported in a separate statement of fiduciary net 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 \$60,039,445 at the close of the fiscal year ended June 30, 2012. A large portion of the Town of Nags Head's net assets \$46,752,076 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 \$2,841,491 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 \$10,445,878 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  
Management Discussion and Analysis  
June 30, 2012**

	Town of Nags Head's Net Assets					
	Governmental Activities		Business - Type Activities		Total	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Current and Other Assets	\$ 13,714,803	\$ 42,904,538	\$ 4,458,567	\$ 4,423,467	\$ 18,173,370	\$ 47,328,005
Capital Assets, Net	53,759,524	25,697,134	7,878,231	7,674,079	61,637,755	33,371,213
<b>Total Assets</b>	<b>67,474,327</b>	<b>68,601,672</b>	<b>12,336,798</b>	<b>12,097,546</b>	<b>79,811,125</b>	<b>80,699,218</b>
Long-Term Debt Outstanding	17,103,941	21,616,348	936,881	743,114	18,040,822	22,359,462
Other Liabilities	1,056,716	4,145,598	674,142	743,337	1,730,858	4,888,935
<b>Total Liabilities</b>	<b>18,160,657</b>	<b>25,761,946</b>	<b>1,611,023</b>	<b>1,486,451</b>	<b>19,771,680</b>	<b>27,248,397</b>
Investment in Capital Assets, Net of Related Debt	39,461,419	16,675,551	7,290,657	6,998,911	46,752,076	23,674,462
Restricted	2,841,491	14,772,932	-	-	2,841,491	43,920,188
Unrestricted	7,010,760	11,391,243	3,435,118	3,612,184	10,445,878	(14,143,829)
<b>Total Net Assets</b>	<b>\$ 49,313,670</b>	<b>\$ 42,839,726</b>	<b>\$ 10,725,775</b>	<b>\$ 10,611,095</b>	<b>\$ 60,039,445</b>	<b>\$ 53,450,821</b>

See Exhibit 1

**Town of Nags Head  
Management Discussion and Analysis  
June 30, 2012**

	Town of Nags Head's Changes in Net Assets					
	Governmental Activities		Business - Type Activities		Total	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Revenues:						
Program Revenues:						
Charges for Services	\$ 265,165	\$ 234,137	\$ 2,520,514	\$ 2,480,126	\$ 2,785,679	\$ 2,714,263
Operating Grants	448,572	54,856	14,696	-	463,268	54,856
Capital Grants	2,242,125	18,247,290	79,500	85,000	2,321,625	18,332,290
General Revenues:						
Property Taxes	7,277,912	4,859,827	-	-	7,277,912	4,859,827
Other Taxes	3,925,682	3,687,915	-	-	3,925,682	3,687,915
Investment Income	116,372	152,000	2,805	5,298	119,177	157,298
Other	3,788,322	864,051	13,233	2,890	3,801,555	866,941
Total Revenues	18,064,150	28,100,076	2,630,748	2,573,314	20,694,898	30,673,390
Expenses:						
General Government	2,522,896	2,312,288	-	-	2,522,896	2,312,288
Public Safety	4,779,911	4,414,594	-	-	4,779,911	4,414,594
Public Works/Transportation	1,725,879	1,692,863	-	-	1,725,879	1,692,863
Environmental Protection	2,041,283	1,595,804	-	-	2,041,283	1,595,804
Interest on Long Term Debt	520,237	79,966	-	-	520,237	79,966
Water Utility	-	-	2,516,068	2,756,754	2,516,068	2,756,754
Total Expenses	11,590,206	10,095,515	2,516,068	2,756,754	14,106,274	12,852,269
Net Increase in Net Assets	6,473,944	18,004,561	114,680	(183,440)	6,588,624	17,821,121
Net Assets - July 1	42,839,726	24,835,165	10,611,095	10,794,535	53,450,821	35,629,700
Net Assets - June 30	\$ 49,313,670	\$ 42,839,726	\$ 10,725,775	\$ 10,611,095	\$ 60,039,445	\$ 53,450,821

See Exhibit 2

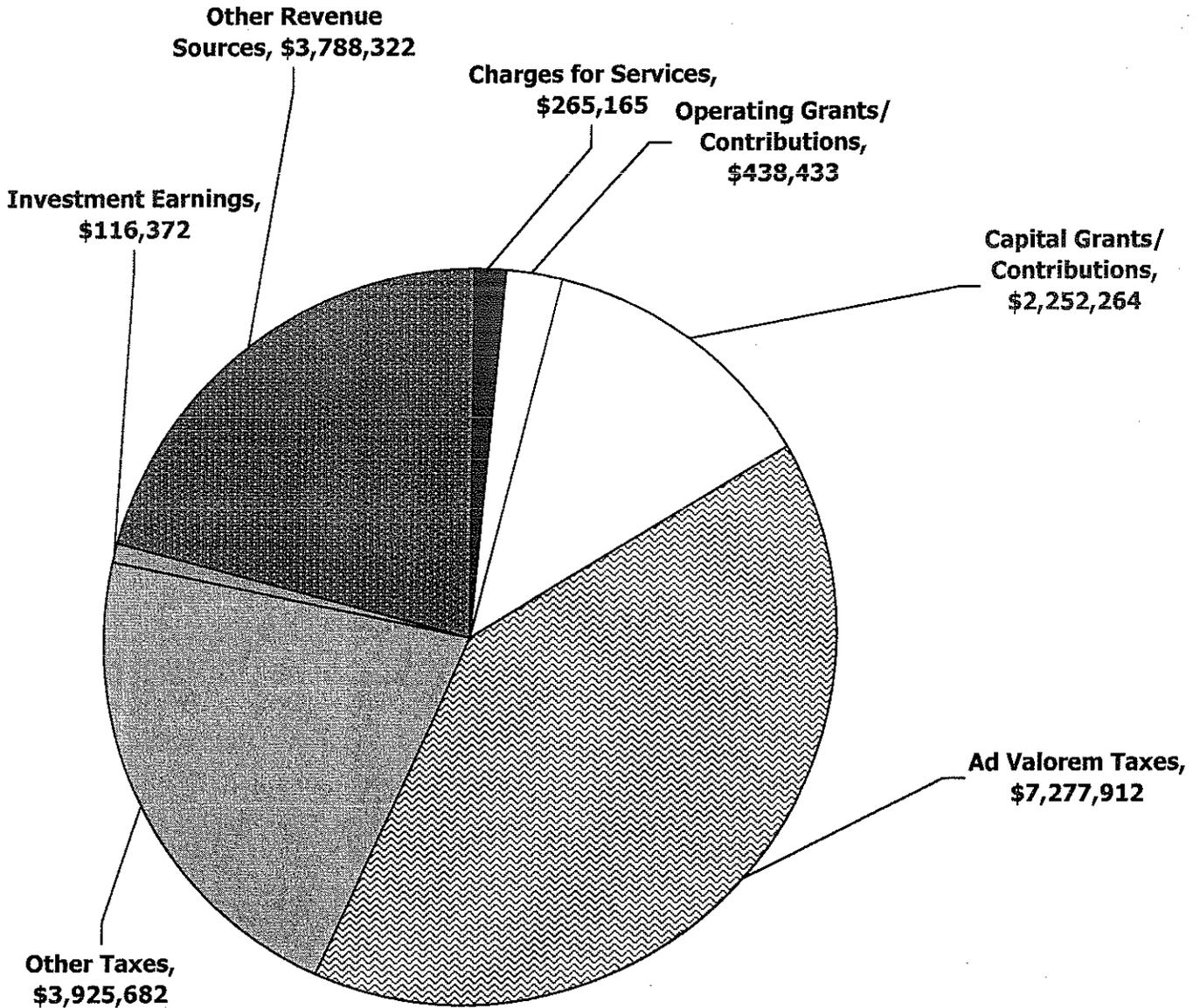
**A. Governmental Activities**

Governmental activities increased the Town of Nags Head's net assets by \$6,473,944. The governmental activities revenues decreased by \$10,035,926, which included a decrease in capital grants and contribution revenue for beach nourishment of \$16,005,165 where the prior year included beach nourishment funding of \$18,000,000 compared with the current year of \$2,000,000 for nourishment debt repayment. Ad valorem tax revenue was up by \$2,418,085 reflecting an increase in the town wide ad-valorem rate of .02/\$100 and the municipal service district which generated an additional \$1,782,944 in tax revenues. Other taxes also increased by \$237,767. Investment earnings decreased by \$35,628 due to declining market rate of return. Other revenues increased by \$2,924,271 primarily from the reversion of the former Britthaven property to the Town increasing capital by \$2,914,080. Also included in other revenues was building permits which were up slightly by \$3,186 for the first increase in eight years.

**Town of Nags Head  
Management Discussion and Analysis  
June 30, 2012**

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During the year, the Town's governmental expenses were \$11,590,206 an increase of \$1,494,691 (+14.81%) over the prior fiscal year.



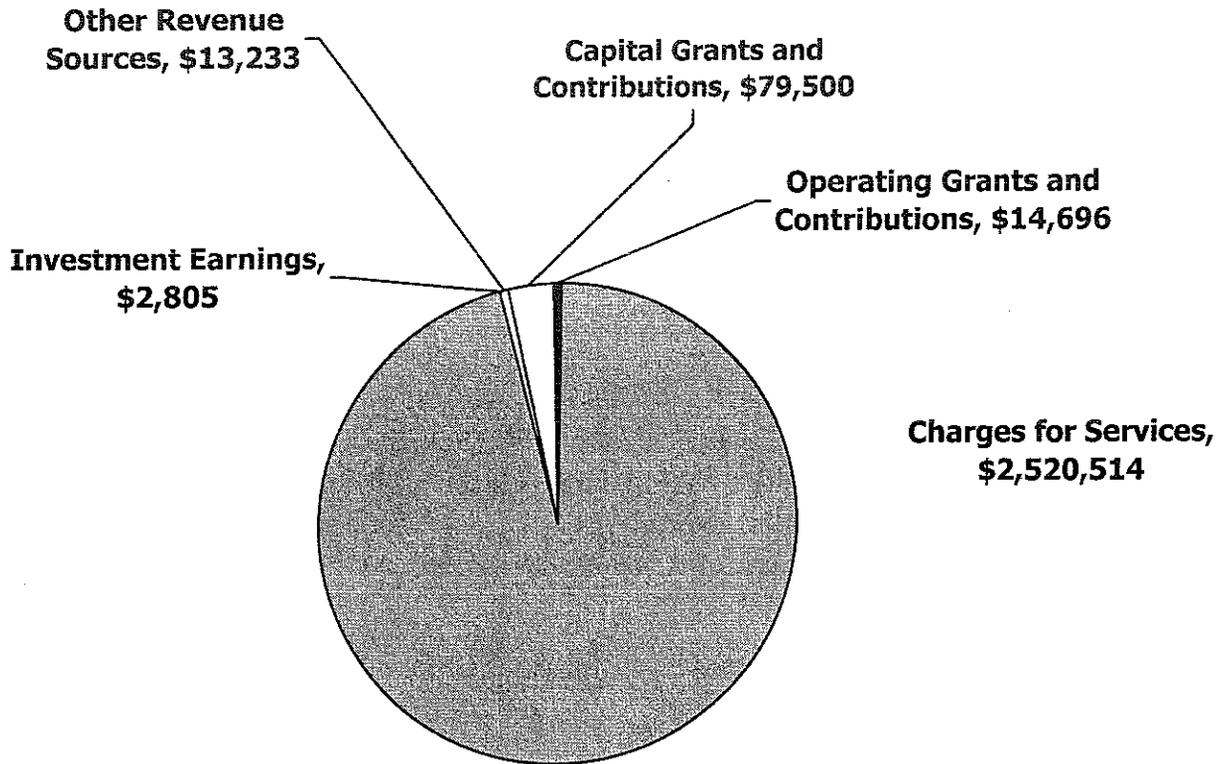
**Revenues by Source for Governmental Type Activities**

**Town of Nags Head  
Management Discussion and Analysis  
June 30, 2012**

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**Business Type Activities**

Business type activities increased the Town of Nags Head's net assets by \$114,680. 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 \$39,652 and increased slightly in the Storm Water Fund by \$736 as compared to the preceding year. The Water Fund had an operating loss of only \$11,656 for the year ended June 30, 2012 compared to an operating loss of \$311,830 for the prior fiscal year due to a reduction in wholesale water costs and salaries and benefits.



**Revenues by Source for Business Type Activities**

**Town of Nags Head  
Management Discussion and Analysis  
June 30, 2012**

---

***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 \$9,150,859 up from 7,339,082 as of June 30, 2011. Total fund balance for the General Fund increased by \$789,284 from \$9,793,910 as of June 30, 2011 to \$10,583,194 at June 30, 2012. As a measure of the general fund's liquidity, it may be useful to compare fund balance available for appropriation to total fund expenditures. Fund balance available for appropriation at 6/30/12 represents 55.30% of total General Fund expenditures compared with 71.83% for the prior year. The percentage decreased even though available fund balance increased due to the increase in expenditures from special obligation bond debt service.

As of June 30, 2012, the governmental funds of the Town of Nags Head reported combined fund balance of \$12,590,911, a decrease of \$25,304,880 (-66.79 %) over last year. This decrease was primarily the result of expenditures in the Beach Nourishment Project Fund in completion of the capital project in the amount of \$25,069,832.

**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 \$3,310,092. This represents an increase of \$41,205 (+1.26%). Unrestricted net assets in the Storm Water Fund decreased by \$218,271 to \$124,524.

**C. Capital Assets**

The Town of Nags Head's investment in capital assets for its governmental and business-type activities as of June 30, 2012, totals \$61,637,755 (net of accumulated depreciation) which represents an increase of \$28,266,542. 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:

- Completion of the construction phase of the Beach Nourishment capital project with costs incurred during the year ended June 30, 2012 of \$25,069,832.
- Acquisition of the former Britthaven property in the amounts of \$2,919,392. This property reverted to the Town when the prior owner's debt obligations were retired in full. The

**Town of Nags Head  
Management Discussion and Analysis  
June 30, 2012**

addition is based on estimated fair market value at the time of property change in ownership.

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

	Governmental Activities		Business - Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 7,872,825	\$ 7,857,513	\$ 2,453,473	\$ 2,453,473	\$ 10,326,298	\$ 10,310,986
Construction in Progress	227,086	8,979,948	315,914	23,840	543,000	9,003,788
Buildings	7,239,497	4,562,409	2,996,978	2,934,656	10,236,475	7,497,065
Other Improvements	35,755,505	1,684,590	-	-	35,755,505	1,684,590
Equipment	747,372	848,711	244,937	290,091	992,309	1,138,802
Vehicles	1,917,239	1,763,963	-	-	1,917,239	1,763,963
Intangibles	-	-	1,866,929	1,972,019	1,866,929	1,972,019
Total	<u>\$ 53,759,524</u>	<u>\$ 25,697,134</u>	<u>\$ 7,878,231</u>	<u>\$ 7,674,079</u>	<u>\$ 61,637,755</u>	<u>\$ 33,371,213</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, 2012, the Town of Nags Head had \$14,400,000 in bonded debt secured by the pledge of annual occupancy taxes. The Town's total debt decreased by \$4,581,378.

Town of Nags Head's Outstanding Debt

	Governmental Activities		Business - Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Finance Contracts	\$ 15,379,322	\$ 19,940,368	\$ 565,967	\$ 635,458	\$ 15,945,289	\$ 20,575,826
Capital Leases	778,013	958,145	21,607	39,710	799,620	997,855
Other post employment benefits	386,083	246,966	44,492	32,706	430,575	279,672
Net pension obligation	71,203	32,018	-	-	71,203	32,018
Compensated Absences	489,320	438,851	42,076	35,239	531,396	474,090
	<u>\$ 17,103,941</u>	<u>\$ 21,616,348</u>	<u>\$ 674,142</u>	<u>\$ 743,113</u>	<u>\$ 17,778,083</u>	<u>\$ 22,359,461</u>

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

The level of unemployment in Dare County ranged from 7.5% to 20.2% compared to the seasonally adjusted statewide average of 10.13% (up from 9.88% in the prior fiscal year).

**Town of Nags Head  
Management Discussion and Analysis  
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Construction in fiscal year 2012 increased overall in the Town of Nags Head by \$990,551 (+6.90%) from the previous year. There were increases over the prior year in both single family large, commercial, and miscellaneous of \$540,197, \$104,000, and \$473,405, respectively. Single family decreased by \$127,051. Review fees increased over the prior year by \$7,007 or 76.12%. Both facility fees and building permit fees increased by \$12,961 and \$3,186, respectively, the first building permit fee increase in the past eight years.

The property tax base increased by .62% to \$3,112,627,197 in the fiscal year ended June 30, 2012. Occupancy tax continued showing growth for the second year in a row with an increase of \$95,018 or 5.13% above fiscal year 2010-2011. Combined sales tax revenues were also up from the prior year for a combined increase of \$118,158 or 8.37%. Land transfer tax revenues increased slightly for the third consecutive year by \$24,431 or 6.35%. Investment earnings were also down town wide again by \$27,693 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, 2012 reflects a \$.02 increase in the property tax rate of .1775 per \$100 in assessed valuation compared to the previous year's rate of .1575. The Board designated this additional two cents to be used for beach nourishment debt repayment or renourishment in the future as needed.

Considering the above indicators when adopting the operating budget for the next fiscal year, the Town's adopted 2012-2013 budget increased by \$1,077,656 (+6.83%) over the 2011-2012 adopted budget and decreased by \$468,371 (-2.700%) over the amended budget for 2011-2012. The increase was attributable primarily to increase in funds to be transferred to the Capital Reserve Fund for the excess of taxes collected for bond debt in excess of the debt service and the anticipated increase in distributed sales tax revenues attributable to the municipal service district taxes. Additionally, funding was provided for three additional positions.

***BUDGET HIGHLIGHTS FOR THE FISCAL YEAR ENDING June 30, 2013***

Governmental Activities: The adopted budget for fiscal year 2012-2013 is based on the estimated increased property valuation of \$3,112,748,809 up \$19,545,991 (+.63%) from the prior year valuation of \$3,093,202,818 providing estimated revenues of \$5,494,390 with no increase in the town-wide tax rate of \$.1775/\$100. Again the Board has designated .02 of that to partially fund debt service on the special obligation bonds for beach nourishment costs. The Town also continued the second year of an additional tax rate of \$.16/\$100 in both municipal service districts to provide an additional projected \$1,766,343 for funding debt service costs on the bonds. The adopted budget reflects an increase of \$1,104,656 from the prior years adopted budget. Budgeted expenditures in the General Fund are generally flat in all departments with the exception of those requiring either replacement capital items, new capital items, or new positions. There were no funds included in the adopted budget for merit and funding for non law enforcement employees 401k funding remained at its previously reduced rate of 1% for the entire fiscal year. Funding was included for a 2% performance based increase. Several positions remain frozen and unfunded, however funding was provided to unfreeze a position in public works facilities and to add two new positions for project manager and beach educator positions. Capital replacement was reduced to one police vehicle, replacement of the roll-off truck and a dump truck, replacement of the ladder truck and a pickup truck, 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 recreational amenities to be added adjacent to the renovated Jennette's Pier. The amount budgeted to be transferred to the Capital Reserve Fund for use in subsequent years also

**Town of Nags Head  
Management Discussion and Analysis  
June 30, 2012**

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increased primarily from the anticipated increase in distributed sales tax revenues for the percentage of sales taxes attributable to the municipal service district taxes which must be used for the original purpose for which the tax was implemented.

**Business –Type Activities:** The adopted budget included an increase of \$81,458 (+2.69%) for fiscal year 2012-2013. This includes an increase in Water Fund revenues of 165,834 partially offset by a decrease in Storm Water revenues of \$84,376. There is no change to water rates from the prior fiscal year with the last increase in rates effective July 1, 2010. Projected revenue from water sales is increased by \$157,000 from \$2,300,000 to \$2,457,000 for FY 2011-2012 based on a projected increase in volume of gallons sold. Appropriated retained earnings will be used to fund the debt service on the new water tank of \$93,875, \$150,000 for funding capital equipment and projects for fiscal year 2012-2013, and \$115,536 for a one time use of retained earnings to balance. Also included in the adopted ordinance was funding for the initial repayment of the Water Fund of \$300,000 to begin the purchase of land by the General Fund from the Water Fund with the intent to continue this annually until the full amount of \$1,623,174 has been repaid.

**Requests for Information**

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

**Town of Nags Head, North Carolina**  
**Statement of Net Assets**  
**June 30, 2012**

**Exhibit 1**

	Primary Government		Total
	Governmental Activities	Business-type Activities	
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 5,617,915	\$ 3,952,428	\$ 9,570,343
Investments	3,563,364	-	3,563,364
Taxes receivable (net)	32,060	-	32,060
Accounts receivable (net)	44,095	450,355	494,450
Accrued interest receivable	201,694	-	201,694
Due from other governments	1,133,479	-	1,133,479
Inventories	62,343	55,714	118,057
Prepaid items	723	70	793
Total current assets	10,655,673	4,458,567	15,114,240
Restricted assets:			
Cash and cash equivalents	3,059,130	-	3,059,130
Capital Assets:			
Land, non-depreciable improvements and construction in progress	8,099,910	2,769,387	10,869,297
Other capital assets, net of depreciation	45,659,614	5,108,844	50,768,458
Total capital assets	53,759,524	7,878,231	61,637,755
Total Assets	67,474,327	12,336,798	79,811,125
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	711,255	334,040	1,045,295
Salaries and benefits	239,825	19,810	259,635
Unearned revenue	90,918	204,000	294,918
Bonds and deposits	13,295	379,031	392,326
Due to other governments	1,423	-	1,423
Long-term liabilities:			
Due within one year	4,471,360	128,670	4,600,030
Due in more than one year	12,632,581	545,472	13,178,053
Total liabilities	18,160,657	1,611,023	19,771,680
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	39,461,419	7,290,657	46,752,076
Restricted for:			
Streets	76,653	-	76,653
Stabilization by State statute	2,104,647	-	2,104,647
Public safety	15,583	-	15,583
Capital Reserve fund	644,608	-	644,608
Unrestricted	7,010,760	3,435,118	10,445,878
Total net assets	\$ 49,313,670	\$ 10,725,775	\$ 60,039,445

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

**Town of Nags Head, North Carolina**  
**Statement of Activities**  
**For the Year Ended June 30, 2012**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government:</b>				
Governmental Activities				
General Government	\$ 2,522,896	\$ 261,452	\$ 8,275	\$ 2,016,879
Public Safety	4,779,911	3,713	36,007	-
Public Works/Transportation	1,725,879	-	404,290	225,246
Environmental Protection	2,041,283	-	-	-
Interest on long-term debt	520,237	-	-	-
Total governmental activities (See Note 1)	11,590,206	265,165	448,572	2,242,125
Business-type activities:				
Water	2,470,495	2,406,526	14,696	79,500
Storm Water	45,573	113,988	-	-
Nags Head Leasing	-	-	-	-
Total business-type activities	2,516,068	2,520,514	14,696	79,500
Total primary government	14,106,274	2,785,679	463,268	2,321,625

General revenues:

Taxes:

Property taxes, levied for general purpose

Municipal service district taxes

Occupancy tax

Land transfer taxes

Sales taxes

Other taxes

Other unrestricted intergovernmental revenues

Unrestricted investment earnings

Miscellaneous

Capital Contributions

Total general revenues

Total change in net assets

Net assets - beginning

Net assets - ending

**Exhibit 2**

Net (Expense) Revenue and changes in Net Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (236,290)	\$ -	\$ (236,290)
(4,740,191)	-	(4,740,191)
(1,096,343)	-	(1,096,343)
(2,041,283)	-	(2,041,283)
(520,237)	-	(520,237)
(8,634,344)	-	(8,634,344)
-	30,227	30,227
-	68,415	68,415
-	-	-
	98,642	98,642
(8,634,344)	98,642	(8,535,702)
5,493,052	-	5,493,052
1,784,860	-	1,784,860
1,947,935	-	1,947,935
409,087	-	409,087
1,530,336	-	1,530,336
38,324	-	38,324
642,976	-	642,976
116,372	2,805	119,177
231,266	13,233	244,499
2,914,080	-	2,914,080
15,108,288	16,038	15,124,326
6,473,944	114,680	6,588,624
42,839,726	10,611,095	53,450,821
\$ 49,313,670	\$ 10,725,775	\$ 60,039,445

**Town of Nags Head, North Carolina**  
**Governmental Funds**  
**Balance Sheet**  
**June 30, 2012**

Exhibit 3

	Major Funds		
	General	Beach Nourishment	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 5,617,915	\$ -	\$ 5,617,915
Investments	3,563,364	-	3,563,364
Taxes receivable (net)	32,060	-	32,060
Accounts receivable (net)	44,095	-	44,095
Accrued interest receivable	201,694	-	201,694
Due from other governments	1,025,976	107,503	1,133,479
Due from other funds	64,349	-	64,349
Inventories	62,343	-	62,343
Prepaid items	723	-	723
Restricted assets:			
Cash and cash equivalents	736,844	2,322,286	3,059,130
Total assets	<u>11,349,363</u>	<u>2,429,789</u>	<u>13,779,152</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	353,532	357,723	711,255
Salaries and benefits	239,825	-	239,825
Bonds and deposits	13,295	-	13,295
Due to other funds	-	64,349	64,349
Due to other governments	1,423	-	1,423
Deferred revenue	67,176	-	67,176
Unearned revenue	90,918	-	90,918
Total liabilities	<u>766,169</u>	<u>422,072</u>	<u>1,188,241</u>
Fund balances:			
Nonspendable:			
Inventories	62,343	-	62,343
Prepays	723	-	723
Restricted:			
Restricted for Stabilization by State statute	1,369,268	735,379	2,104,647
Restricted for Streets	76,653	-	76,653
Restricted for Public Safety	15,583	-	15,583
Restricted for Capital Reserve Fund	644,608	-	644,608
Committed:			
Committed for Capital Projects		1,272,338	1,272,338
Assigned:			
Subsequent year's expenditures	370,939	-	370,939
Unassigned	8,043,077	-	8,043,077
Total fund balances	<u>10,583,194</u>	<u>2,007,717</u>	<u>12,590,911</u>
Total liabilities and fund balances	<u>\$ 11,349,363</u>	<u>\$ 2,429,789</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.

53,759,524

Liabilities for earned but deferred revenues in the fund statements.

Deferred taxes receivable 32,060

Deferred miscellaneous receivable 35,116

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.

(17,103,941)

Net assets of governmental activities

\$ 49,313,670

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

**Town of Nags Head, North Carolina**

**Exhibit 4**

**Governmental Funds**

**Statement of Revenues, Expenditures and Changes in Fund Balance**

**For the Fiscal Year Ended June 30, 2012**

	Major Funds		
	General Fund	Beach Nourishment	Total
<b>REVENUES</b>			
Ad valorem taxes	\$ 7,259,885	\$ -	\$ 7,259,885
Other taxes and licenses	3,964,479	-	3,964,479
Unrestricted intergovernmental	604,179	-	604,179
Restricted intergovernmental	2,682,367	-	2,682,367
Permits and fees	210,166	-	210,166
Sales and services	3,713	-	3,713
Investment earnings	113,453	2,919	116,372
Miscellaneous	1,104,882	-	1,104,882
Total revenues	15,943,124	2,919	15,946,043
<b>EXPENDITURES</b>			
Current:			
General Government	2,420,367	-	2,420,367
Public Safety	4,252,516	-	4,252,516
Environmental Protection	1,452,230	-	1,452,230
Public Works	1,643,559	-	1,643,559
Debt service:			
Principal	5,010,660	-	5,010,660
Interest and other charges	520,237	-	520,237
Capital outlay	1,151,004	25,069,832	26,220,836
Total expenditures	16,450,573	25,069,832	41,520,405
Excess (deficiency) of revenues over expenditures	(507,449)	(25,066,913)	(25,574,362)
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers from other funds	1,027,251	-	1,027,251
Transfers to other funds	-	(1,027,251)	(1,027,251)
Capital lease obligations issued	269,482	-	269,482
Total other financing sources (uses)	1,296,733	(1,027,251)	269,482
Net change in fund balance	789,284	(26,094,164)	(25,304,880)
Fund balances - beginning (restated)	9,793,910	28,101,881	37,895,791
Fund balances - ending	\$ 10,583,194	\$ 2,007,717	\$ 12,590,911

**Town of Nags Head, North Carolina**  
**Governmental Funds**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**For the Fiscal Year Ended June 30, 2012**

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

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

Net changes in fund balances - total governmental funds \$ (25,304,880)

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

Contributed Capital	2,914,080	
Capital Outlay	26,220,836	
Depreciation	<u>(1,072,526)</u>	28,062,390

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 misc revenues	18,027
Change in deferred capital lease receivable	(814,000)

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	(269,482)	
Increase in compensated absences	(50,469)	
Increase in net pension obligation	(39,185)	
Increase in other post employment benefits	(139,117)	
Principal Repayments	<u>5,010,660</u>	4,512,407

Total changes in net assets of governmental activities	<u>\$ 6,473,944</u>
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**Town of Nags Head, North Carolina  
General Fund**

Exhibit 5

**Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual  
For the Fiscal Year Ended June 30, 2012**

	<b>General Fund</b>			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
<b>Revenues:</b>				
Ad valorem taxes	\$ 7,188,024	\$ 7,210,024	\$ 7,259,885	\$ 49,861
Other taxes and licenses	3,811,280	3,811,280	3,964,479	153,199
Unrestricted intergovernmental	576,000	621,022	604,179	(16,843)
Restricted intergovernmental	2,189,175	2,745,264	2,682,367	(62,897)
Permits and fees	216,500	220,175	210,166	(10,009)
Sales and services	4,000	4,000	3,713	(287)
Investment earnings	75,000	75,000	113,416	38,416
Miscellaneous	453,940	1,176,818	1,104,882	(71,936)
Total revenues	<u>14,513,919</u>	<u>15,863,583</u>	<u>15,943,087</u>	<u>79,504</u>
<b>Expenditure:</b>				
<b>Current:</b>				
General Government	2,724,673	2,631,918	2,495,204	136,714
Public Safety	4,170,911	4,512,128	4,470,347	41,781
Environmental Protection	1,480,416	1,878,888	1,859,835	19,053
Public Works	2,015,877	2,304,572	2,094,290	210,282
<b>Debt service:</b>				
Principal	4,281,906	5,008,554	5,010,660	(2,106)
Interest and other charges	625,782	612,208	520,237	91,971
Contingency	125,000	324	-	324
Total expenditures	<u>15,424,565</u>	<u>16,948,592</u>	<u>16,450,573</u>	<u>498,019</u>
Revenues over (under) expenditures	<u>(910,646)</u>	<u>(1,085,009)</u>	<u>(507,486)</u>	<u>577,523</u>
<b>Other financing sources (uses):</b>				
Transfers from other funds	544,163	29,163	1,056,414	1,027,251
Transfers to other funds	(358,517)	(380,517)	(393,065)	(12,548)
Installment purchase obligations issued	-	269,482	269,482	-
Appropriated Fund Balance	725,000	1,166,881	-	(1,166,881)
Total other financing sources (uses)	<u>910,646</u>	<u>1,085,009</u>	<u>932,831</u>	<u>(152,178)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	425,345	<u>\$ 425,345</u>
Fund balances, beginning of year			<u>9,412,212</u>	
Fund balances, end of year			<u>9,837,557</u>	
<b>A legally budgeted Capital Reserve Fund is consolidated into the General Fund for reporting purposes:</b>				
Interest Income			37	
Transfer to/from general fund			363,902	
Fund balance, beginning of the year			<u>381,698</u>	
Fund balance, end of year			<u>\$ 10,583,194</u>	

**Town of Nags Head, North Carolina**  
**Proprietary Funds**  
**Statement of Net Assets**  
**June 30, 2012**

**Exhibit 6**

	Enterprise Funds			Total
	Major Funds		Non-Major	
	Water Fund	Storm Water Fund	Nags Head Leasing	
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 3,711,145	\$ 240,781	\$ 502	\$ 3,952,428
Accounts receivable trade (net)	416,466	10,697	-	427,163
Accounts receivable other (net)	23,192	-	-	23,192
Prepays	70	-	-	70
Inventories	55,714	-	-	55,714
Total current assets	4,206,587	251,478	502	4,458,567
Capital assets:				
Land, non-depreciable improvements and construction in progress	2,465,700	303,687	-	2,769,387
Other capital assets, net of depreciation	4,916,437	192,407	-	5,108,844
Total capital assets (net)	7,382,137	496,094	-	7,878,231
Total Assets	11,588,724	747,572	502	12,336,798
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	207,086	126,954	-	334,040
Accrued liabilities	19,810	-	-	19,810
Unearned revenue	204,000	-	-	204,000
Customer deposits	379,031	-	-	379,031
Compensated absences - current	39,401	-	-	39,401
Capital leases payable - current	76,189	13,080	-	89,269
Total current liabilities	925,517	140,034	-	1,065,551
Noncurrent liabilities:				
Other post employment benefits	44,492	-	-	44,492
Compensated absences - non current	2,675	-	-	2,675
Capital leases payable - non current	498,305	-	-	498,305
Total noncurrent liabilities	545,472	-	-	545,472
Total liabilities	1,470,989	140,034	-	1,611,023
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	6,807,643	483,014	-	7,290,657
Unrestricted	3,310,092	124,524	502	3,435,118
Total net assets	\$ 10,117,735	\$ 607,538	\$ 502	\$ 10,725,775

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

**Town of Nags Head, North Carolina**  
**Proprietary Funds**  
**Statement of Revenues, Expenses and changes in Net Assets**  
**For the Fiscal Year Ended June 30, 2012**

**Exhibit 7**

	Enterprise Funds			Total
	Water Fund	Storm Water Fund	Nags Head Leasing	
<b>OPERATING REVENUES</b>				
Charges for services	\$ 2,357,177	\$ 113,988	\$ -	\$ 2,471,165
Tap and connection fees	10,608	-	-	10,608
Late payment penalties	27,841	-	-	27,841
Water tag fees	10,900	-	-	10,900
FEMA reimbursement	14,696	-	-	14,696
Miscellaneous	13,233	-	-	13,233
<b>Total operating revenues</b>	<b>2,434,455</b>	<b>113,988</b>	<b>-</b>	<b>2,548,443</b>
<b>OPERATING EXPENSES</b>				
Administration	191,491	-	-	191,491
Septic Health	218,357	-	-	218,357
Operations	1,346,965	-	-	1,346,965
Distribution	431,884	-	-	431,884
Storm Water		28,320	-	
Depreciation and amortization	257,414	16,294	-	273,708
<b>Total operating expenses</b>	<b>2,446,111</b>	<b>44,614</b>	<b>-</b>	<b>2,490,725</b>
<b>Total operating income</b>	<b>(11,656)</b>	<b>69,374</b>	<b>-</b>	<b>57,718</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Investment earnings	2,622	183	-	2,805
Interest expense	(24,384)	(959)	-	(25,343)
<b>Total nonoperating revenue (expenses)</b>	<b>(21,762)</b>	<b>(776)</b>	<b>-</b>	<b>(22,538)</b>
<b>Income (loss) before contributions and transfers</b>	<b>(33,418)</b>	<b>68,598</b>	<b>-</b>	<b>35,180</b>
Capital contributions from impact fees	79,500	-	-	79,500
<b>Change in net assets</b>	<b>46,082</b>	<b>68,598</b>	<b>-</b>	<b>114,680</b>
<b>Total net assets - beginning</b>	<b>10,071,653</b>	<b>538,940</b>	<b>502</b>	<b>10,611,095</b>
<b>Total net assets - ending</b>	<b>\$ 10,117,735</b>	<b>\$ 607,538</b>	<b>\$ 502</b>	<b>\$ 10,725,775</b>

**Town of Nags Head, North Carolina**  
**Proprietary Funds**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2012**

**Exhibit 8**

	Business-Type Activities			Total
	Enterprise Funds			
	Water Fund	Storm Water	Nags Head Leasing	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash received from customers	\$ 2,416,379	\$ 102,681	\$ -	\$ 2,519,060
Cash paid for goods and services	(1,446,110)	(3,793)	-	(1,449,903)
Cash paid to or on behalf of employees for services	(648,517)	(25,292)	-	(673,809)
Customer deposits received	86,357	-	-	86,357
Customer deposits returned	(89,702)	-	-	(89,702)
Other operating revenues	27,929	-	-	27,929
Net cash provided (used) by operating activities	346,336	73,596	-	419,932
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Initial impact fees received	67,500	-	-	67,500
Interest paid on debt financing	(24,384)	(959)	-	(25,343)
Septic Loans issued	(5,075)	-	-	(5,075)
Repayment of septic loans	14,092	-	-	14,092
Principal paid on debt financing	(74,598)	(12,996)	-	(87,594)
Acquisition of capital assets	(187,693)	(163,213)	-	(350,906)
Net cash provided (used) by capital and related financing activities	(210,158)	(177,168)	-	(387,326)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest	2,622	183	-	2,805
Net increase (decrease) in cash and cash equivalents	138,800	(103,389)	-	35,411
Cash balances - beginning of the year	3,572,345	344,170	502	3,917,017
Cash balances - end of the year	\$ 3,711,145	\$ 240,781	\$ 502	\$ 3,952,428
Reconciliation of operating income to net cash provided by operating activities				
Operating income	\$ (11,656)	\$ 69,374	\$ -	\$ 57,718
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization	257,414	16,294	-	273,708
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable	9,853	(11,307)	-	(1,454)
(Increase) decrease in inventories	(7,253)	-	-	(7,253)
Increase (decrease) in accounts payable	81,455	(37)	-	81,418
Increase (decrease) in accrued liabilities	8,083	(728)	-	7,355
Increase (decrease) in customer deposits	(3,345)	-	-	(3,345)
Increase (decrease) in accrued OPEB liability	11,785	-	-	11,785
Total adjustments	357,992	4,222	-	362,214
Net cash provided by operating activities	\$ 346,336	\$ 73,596	\$ -	\$ 419,932

**Town of Nags Head, North Carolina**  
**Fiduciary Fund**  
**Statement of Fiduciary Net Assets**  
**June 30, 2012**

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**Exhibit 9**

	<u>Pension Trust</u>
	<u>Special Separation Allowance</u>
<b>ASSETS</b>	
Cash and cash equivalents	<u>\$ 127,664</u>
Total Assets	<u>127,664</u>
<b>NET ASSETS</b>	
Held in trust for pension benefits and other purposes	<u>\$ 127,664</u>

**Town of Nags Head, North Carolina**  
**Fiduciary Fund**  
**Statement of Changes in Fiduciary Net Assets**  
**For the Fiscal Year Ended June 30, 2012**

Exhibit 10

	Pension Trust Special Separation Allowance
<b>Additions</b>	
Employer Contributions	\$ -
Investment Earnings	78
Total investment earnings	<u>78</u>
Less investment expense	<u>-</u>
Total additions	78
<b>Deductions</b>	
Expenditures	
Benefits	38,990
Administrative expenses	<u>-</u>
Total deductions	<u>38,990</u>
Change in net assets	(38,912)
Net assets - beginning of the year	<u>166,576</u>
Net assets - end of the year	<u><u>\$ 127,664</u></u>

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2012**

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**I. Summary of Significant Accounting Policies**

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

**A. Reporting Entity**

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

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

**B. Basis of Presentation**

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

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

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

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

**Town of Nags Head, North Carolina  
Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2012**

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The Town reports the following major governmental funds:

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

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

The Town reports the following major enterprise funds:

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

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

The Town reports the following non-major enterprise funds:

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

The Town reports the following fiduciary fund types:

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

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

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

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

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

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2012**

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

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

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable 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 2011 through February 2012 apply to the fiscal year ended June 30, 2012. 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

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2012**

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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.

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

### 1. Deposits and Investments

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

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

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

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

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2012**

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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, 2012 included Powell Bill funds of \$76,653. Money in the Capital Reserve Fund of \$644,608 as of June 30, 2012 is also classified as restricted as its use is restricted to the Capital Reserve Fund per NC G. S. Chapter 159, Article 3, Part 2. Beach Nourishment Capital Project Fund restricted assets of \$2,322,286 at June 30, 2012 represented unexpended debt proceeds. North Carolina controlled substance excise taxes in the amount of \$15,583 are classified as restricted assets since they may only be used for law enforcement purposes.

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, 2011.

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.

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2012**

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

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

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

**8. Long-Term Obligations**

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

**9. Compensated Absences**

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

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

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

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2012**

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**10. Net Assets/Fund Balances**

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

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

The governmental fund types classify fund balances as follows:

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

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

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

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

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

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

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

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

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

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

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

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2012**

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

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

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

The Town of Nags Head has also adopted a minimum fund balance policy for the general fund which instructs management to conduct the business of the Town in such a manner that available fund balance is at least equal to or greater than five million dollars or 50% of budgeted expenditures excluding bond debt requirements, whichever is greater.

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

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

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

#### **A. Assets**

##### **1. Deposits**

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

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2012**

At June 30, 2012, the Town's deposits had a carrying amount of \$12,756,137 and a bank balance of \$12,871,567. Of the bank balance, \$4,036,795 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. At June 30, 2012, the Town's petty cash fund totaled \$1,000.

2. Investments

At June 30, 2012, the Town's investments were as follows:

<b>Investment Type</b>	<b>Fair Value</b>	<b>Less than</b>			
		<b>6 Months</b>	<b>6-12 Months</b>	<b>1-3 Years</b>	<b>3-10 Years</b>
GNMA Mortgage Backed Securities	\$ 94,305	\$ -	\$ -	\$ -	\$ 94,305
NC Capital Management Trust - Cash Portfolio*	3,469,059	-	3,469,059	-	-
<b>Total:</b>	<b>\$ 3,563,364</b>	<b>\$ -</b>	<b>\$ 3,469,059</b>	<b>\$ -</b>	<b>\$ 94,305</b>

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

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

*Credit Risk.* The Town has no formal policy regarding credit risk, but has internal management procedures that limits the Town's investments to the provisions of G.S. 159-30 and restricts the purchase of securities to the highest possible ratings whenever particular types of securities are rated. The Town's investment in all Government Obligations and Agencies are rated AAA by Standard & Poor's as of June 30, 2012. 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, 2012.

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

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2012**

3. Receivables

The receivables shown in Exhibit A at June 30, 2012 were

	Accounts	Taxes	Due from other Governments	Interest Receivable	Total
<b>Governmental Activities:</b>					
General	\$ 44,095	\$ 42,060	\$ 1,133,479	\$ 201,694	\$ 1,421,328
Allowance for doubtful accounts	-	(10,000)	-	-	(10,000)
Total governmental activities	<u>\$ 44,095</u>	<u>\$ 32,060</u>	<u>\$ 1,133,479</u>	<u>\$ 201,694</u>	<u>\$ 1,411,328</u>
<b>Business-type Activities:</b>					
Water	\$ 428,202	\$ -	\$ -	\$ -	\$ 428,202
Stormwater	10,697	-	-	-	10,697
Allowance for doubtful accounts	(11,736)	-	-	-	(11,736)
Total business type activities	<u>\$ 427,163</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 427,163</u>

Due from other governments consisted of the following:

Occupancy tax	\$ 359,948
Land transfer tax	129,870
Sales taxes	301,643
Dare County - beach nourishment	107,503
FEMA - Hurricane Irene	61,676
Sales tax reimbursement	46,686
Outer Banks Visitors Bureau	112,191
Other	13,962
Total	<u>\$ 1,133,479</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, 2012 was zero due to prepayment of principal amounts due for fiscal years 2012-13 through 2016-17. Total payments received under this lease for the fiscal year ended June 30, 2012 were \$823,853 and the payments made were \$814,000 in principal and \$9,853 in interest.

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2012**

4. Capital Assets

Capital asset activity for the Primary Government for the year ended June 30, 2012, was as follows:

	Beginning Balances	Increases	Decreases/ Transfers	Ending Balances
<b>Governmental activities:</b>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 7,857,513	\$ 15,312	\$ -	\$ 7,872,825
Construction in progress	8,979,948	25,497,814	(34,250,676)	227,086
Total capital assets not being depreciated	<u>16,837,461</u>	<u>25,513,126</u>	<u>(34,250,676)</u>	<u>8,099,911</u>
<b>Capital assets being depreciated:</b>				
Buildings	7,119,946	2,904,080	-	10,024,026
Other improvements	2,347,714	-	34,250,676	36,598,390
Equipment	2,008,791	92,273	(15,551)	2,085,513
Vehicles and motorized equipment	5,817,041	625,437	(44,799)	6,397,679
Total capital assets being depreciated	<u>17,293,492</u>	<u>3,621,790</u>	<u>34,190,326</u>	<u>55,105,608</u>
<b>Less accumulated depreciation for:</b>				
Buildings	2,557,537	226,992		2,784,529
Other improvements	663,124	179,761		842,885
Equipment	1,160,080	193,612	(15,551)	1,338,141
Vehicles and motorized equipment	4,053,078	472,161	(44,799)	4,480,440
Total accumulated depreciation	<u>8,433,819</u>	<u>\$ 1,072,526</u>	<u>\$ (60,350)</u>	<u>9,445,995</u>
Total capital assets being depreciated, net	<u>8,859,673</u>			<u>45,659,613</u>
<b>Governmental activity capital assets, net</b>	<u>\$ 25,697,134</u>			<u>\$ 53,759,524</u>

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

General Government	\$54,664
Public Safety	382,450
Public Works/Transportation	369,392
Environmental Protection	266,020
Total Depreciation expense	<u>\$1,072,526</u>

Capital asset activities for the Business-type activities for the year ended June 30, 2012 are as follows:

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	Beginning Balances	Increases	Decreases/ Transfers	Ending Balances
<b>Business-type activities:</b>				
<b>Water Fund</b>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 2,453,473	\$ -	\$ -	\$ 2,453,473
Construction in Progress	10,320	176,066	(174,159)	12,227
Total capital assets not being depreciated	<u>2,463,793</u>	<u>176,066</u>	<u>(174,159)</u>	<u>2,465,700</u>
<b>Capital assets being depreciated:</b>				
Plant	5,441,406	-	174,159	5,615,565
Equipment	827,916	11,627	-	839,543
Vehicles	144,862	-	-	144,862
Intangibles	4,203,619	-	-	4,203,619
Total capital assets being depreciated	<u>10,617,803</u>	<u>11,627</u>	<u>174,159</u>	<u>10,803,589</u>
<b>Less accumulated depreciation for:</b>				
Plant	2,659,532	106,172	-	2,765,704
Equipment	593,744	46,152	-	639,896
Vehicles	144,862	-	-	144,862
Intangibles	2,231,600	105,090	-	2,336,690
Total accumulated depreciation	<u>5,629,738</u>	<u>\$ 257,414</u>	<u>\$ -</u>	<u>5,887,152</u>
Total capital assets being depreciated, net	<u>4,988,065</u>			<u>4,916,437</u>
<b>Water Fund capital assets, net</b>	<u>\$ 7,451,858</u>			<u>\$ 7,382,137</u>
<b>Storm Water Fund</b>				
<b>Capital assets not being depreciated:</b>				
Construction in Progress	\$ 13,520	\$ 290,167	\$ -	\$ 303,687
Total capital assets not being depreciated	<u>13,520</u>	<u>290,167</u>	<u>-</u>	<u>303,687</u>
<b>Capital assets being depreciated:</b>				
Plant	158,447	-	-	158,447
Equipment	112,472	-	-	112,472
Total capital assets being depreciated	<u>270,919</u>	<u>-</u>	<u>-</u>	<u>270,919</u>
<b>Less accumulated depreciation for:</b>				
Plant	5,665	5,665	-	11,330
Furniture and equipment	56,553	10,629	-	67,182
Total accumulated depreciation	<u>62,218</u>	<u>\$ 16,294</u>	<u>\$ -</u>	<u>78,512</u>
Total capital assets being depreciated, net	<u>208,701</u>			<u>192,407</u>
<b>Storm Water Fund capital assets, net</b>	<u>222,221</u>			<u>496,094</u>
<b>Business-type activities capital assets, net</b>	<u>\$ 7,674,079</u>			<u>\$ 7,878,231</u>

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The government has active construction projects as of June 30, 2012. At year-end, the government's estimated commitments to projects ongoing are as follows:

Project	Spent-to-date	Remaining Commitment
Beach Nourishment	\$ 34,033,267	\$ 627,876
Total	<u>\$ 34,033,267</u>	<u>\$ 627,876</u>

**B. Liabilities**

1. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

*Plan Description*

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

*Funding Policy*

Plan members are required to contribute six percent of their annual covered salary. The Town is required to contribute at an actuarially determined rate. For the Town, the current rate for employees not engaged in law enforcement and for law enforcement officers is 6.88% and 6.91%(6.90% for July 2011 through September 2011), 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, 2012, 2011, and 2010 were \$368,378, \$338,133, and \$255,984, and 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

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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, 2011 the Separation Allowance's membership consisted of:

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

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

*Summary of Significant Accounting Policies*

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

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

*Contributions*

The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned by making contributions based on actuarial valuations through appropriations made in the General Fund operating budget. For the current year the Town contributed 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, 2010 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 7.85% per year. Item (b) included an inflation component of 3.00%. The assumptions did not include post-employment benefit increases. The actuarial value of assets was determined using the market value of investments. The unfunded actuarial accrued liabilities are being amortized as a level dollar amount on a closed basis. The remaining amortization period at December 31, 2010 was 20 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:

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Annual required contribution	\$ 39,494
Interest on net pension obligation	1,601
Adjustment to annual required contribution	<u>(1,910)</u>
Annual pension cost	39,185
Contributions made	<u>-</u>
Increase (decrease) in net pension obligation	39,185
Net pension obligation beginning of year	<u>32,018</u>
Net pension obligation end of year	<u><u>\$ 71,203</u></u>

3 Year Trend Information			
For Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2010	\$ 25,621	0.0%	\$ 959
2011	\$ 31,059	0.0%	\$ 32,018
2012	\$ 39,185	0.0%	\$ 71,203

As of December 31, 2011, the most recent actuarial valuation date, the plan was 29.95 percent funded. The actuarial accrued liability for benefits was \$491,134 and the actual value of assets was \$147,106, resulting in an unfunded actuarial accrued liability (UAAL) of \$344,028. The covered payroll (annual payroll of active employees covered by the plan) was \$1,100,552 and the ratio of the UAAL to the covered payroll was 31.26 percent.

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

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

*Plan Description*

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

*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

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30, 2012 were \$68,224, which consisted of \$56,134 from the Town and \$12,090 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 one 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, 2012 were \$150,974, which consisted of \$40,319 from the Town and \$110,655 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, 2012, 2011, and 2010 were \$3,580, \$3,500, and \$3,310 respectively.

f. Other Post-employment Benefits

Healthcare Benefits:

Plan Description. According to a Town resolution, the Town administers a single-employer defined benefit health care plan. This plan provides health care benefits to retirees of the Town who participate in the North Carolina Local Governmental Employees' Retirement System (System). The Town pays the full cost of coverage for these benefits for retirees who began working for the Town on or before November 3,

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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 health care plan consisted of the following at December 31, 2011, the date of the latest actuarial valuation:

Retired members	7
Active members:	
General Employees	61
Firefighters	27
Law Enforcement	21
Total	116

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 \$58 to \$747 per month, for dependent coverage. The Town has chosen to fund the healthcare benefits on a pay-as-you-go basis.

The current ARC rate is 4.89% of annual covered payroll. For the current year, the Town contributed \$58,426 or 1.11% 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 \$20,822 for the year ended June 30, 2012.

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	\$	207,793
Interest on net OPEB obligation		11,187
Adjustment to annual required contribution		(9,651)
Annual OPEB cost (expense)		209,329
Contributions made		58,426
Increase (decrease) in net OPEB obligation		150,903
Net OPEB obligation, beginning of year		279,672
Net OPEB obligation, end of year	\$	430,575

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<u>For Year</u> <u>Ended June 30</u>	<b>3 Year Trend Information</b>		
	<u>OPEB</u> <u>Cost</u>	<u>Annual OPEB</u> <u>Cost Contributed</u>	<u>OPEB</u> <u>Obligation</u>
2010	\$ 193,043	26.20%	\$ 142,462
2012	\$ 193,825	29.21%	\$ 279,672
2012	\$ 209,329	27.90%	\$ 430,575

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

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

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

## 2. Other Employment Benefit

The Town has also elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months salary in a

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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, 2012 the Town made contributions to the State for death benefits of \$4,536. The Town's required contributions for employees not engaged in law enforcement and for law enforcement officers represented .07% 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.

**3. Payables**

Payables at Exhibit A at June 30, 2012 were as follows:

	Vendors	Salaries and Benefits	Customer Deposits	Total
<b>Governmental Activities</b>				
General	\$ 353,532	\$ 239,825	\$ 13,295	\$ 606,652
Beach Nourishment Fund	357,723	-	-	357,723
Total Governmental activities	<u>\$ 711,255</u>	<u>\$ 239,825</u>	<u>\$ 13,295</u>	<u>\$ 964,375</u>
<b>Business-type Activities</b>				
Water	\$ 207,086	\$ 19,810	\$ 379,031	\$ 605,927
Stormwater	126,954	-	-	126,954
Total Business-type activities	<u>\$ 334,040</u>	<u>\$ 19,810</u>	<u>\$ 379,031</u>	<u>\$ 732,881</u>

**4. 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)	\$ -	\$ 60,364
Taxes and privilege licenses receivable (General Fund)	65,329	-
Circuit breaker deferred receivable (General Fund)	1,324	-
Miscellaneous accounts receivable (General Fund)	523	-
Prepaid rent (General Fund)	-	30,554
Prepaid impact fees (Water Fund)	-	204,000
Total	<u>\$ 67,176</u>	<u>\$ 294,918</u>

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**5. Risk Management**

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in 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.

**6. Claims and Judgments**

At June 30, 2012 the Town was a defendant to various lawsuits. In the opinion of the Town's management and the Town attorney, the ultimate effect of these legal matters will not have a material adverse effect on the Town's financial position.

**7. Long-Term Debt**

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

The Town entered into a fifteen year installment financing contract in 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

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market value and take possession of the property by continuing to make the debt service payments. The outstanding balance was paid in full during the year ended June 30, 2012.

The Town entered into a fifteen year installment financing contract in 2005 with RBC Centura for the construction of the fire/police facility in south Nags Head. The amount borrowed was \$1,600,000 at an interest rate of 3.82% and is secured by the property. Originally payments were due in annual installments of \$106,666.67 plus accrued interest with final payment due on May 30, 2019. The Town prepaid \$125,068 during the fiscal year ending June 30, 2006 from unused escrow funds and the remaining principal was reamortized with payments due in annual installments of \$97,046 plus accrued interest through May 17, 2019. The outstanding balance at June 30, 2012 is \$679,322.

The Town entered into a fifteen year installment financing contract in 2005 with RBC Centura for the construction of an above ground water storage tank and waterline extension located adjacent to the Public Works facility. The amount borrowed was \$1,200,000 at an interest rate of 3.85% and is secured by the property. Originally payments were due in annual installments of \$102,840.98 including accrued interest with final payment due on May 30, 2019. The Town prepaid \$85,871 during the fiscal year ending June 30, 2006 from unused escrow funds and the remaining principal was reamortized with payments due in annual installments of \$93,875 including accrued interest through May 17, 2019. The outstanding balance at June 30, 2012 is \$565,967.

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, 2012 is \$300,000.

The town issued special obligation bonds under a five year installment financing contract in 2011 with RBC Bank for funding approximately half the costs of beach nourishment. The amount borrowed was \$18,000,000 at an interest rate of 2.48% which is secured by the pledge of occupancy tax revenues. Payments are due semiannually with interest only due in each October and interest plus principal of \$3,600,000 due each April through 2017. The outstanding balance at June 30, 2012 is \$14,400,000.

The Town currently has six leases outstanding for various vehicles and equipment. Annual payments range from \$14,282 to \$139,771. Expiration dates range from March 2013 to March 2016. Interest rates vary from 1.460% to 3.69%. The total outstanding at June 30, 2012 is \$762,530.

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, 2012 is \$37,090.

The gross value of all assets recorded under capital leases and installment finance contracts is \$20,010,500. The following is an analysis of the assets recorded under capital leases and installment finance contracts in the Town's at June 30, 2012:

Classes of Property	Cost
Building	\$ 1,600,000
Land	500,000
Vehicles and equipment	1,769,730
Other/infrastructure	16,140,770
<b>Total</b>	<b>\$ 20,010,500</b>

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

	General Long-term Debt			General Long-term Debt	
	June 30, 2011	Increases	Decreases	June 30, 2012	Current Portion
<b>BY TYPE OF DEBT</b>					
Finance Contract	\$ 19,940,368		\$ (4,561,046)	\$ 15,379,322	\$ 3,747,046
Capital Leases	958,145	269,482	(449,614)	778,013	368,967
Post employment benefits	246,966	139,117		386,083	-
Net pension obligation	32,018	39,185		71,203	-
Compensated Absences	438,851	355,347	(304,878)	489,320	355,347
	<u>\$ 21,616,348</u>	<u>\$ 803,131</u>	<u>\$ (5,315,538)</u>	<u>\$ 17,103,941</u>	<u>\$ 4,471,360</u>

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

	General Long-term Debt			General Long-term Debt	
	June 30, 2011	Increases	Decreases	June 30, 2012	Current Portion
<b>BY TYPE OF DEBT</b>					
Finance Contract	\$ 635,458		\$ (69,491)	\$ 565,967	\$ 72,061
Capital Leases	39,710		(18,103)	21,607	17,208
Post employment benefits	32,707	11,785		44,492	-
Compensated Absences	35,239	39,401	(32,564)	42,076	39,401
	<u>\$ 743,114</u>	<u>\$ 51,186</u>	<u>\$ (120,158)</u>	<u>\$ 674,142</u>	<u>\$ 128,670</u>

**b. Changes in Long-Term Liabilities**

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

	Balance			Balance	
	June 30, 2011	Earned	Used	June 30, 2012	
<b>General Fund</b>					
General Government	\$ 104,365	\$ 80,776	\$ 66,828	\$ 118,313	
Public Safety	241,643	194,349	161,661	274,331	
Public Works/Transportation	70,444	54,365	47,194	77,615	
Environmental Protection	22,399	25,857	29,195	19,061	
	<u>\$ 438,851</u>	<u>\$ 355,347</u>	<u>\$ 304,878</u>	<u>\$ 489,320</u>	
<b>Proprietary Fund</b>	<u>\$ 35,239</u>	<u>\$ 39,401</u>	<u>\$ 32,564</u>	<u>\$ 42,076</u>	

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2012**

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

Year Ending June 30	Principal	Interest
2013	\$ 4,115,742	\$ 409,639
2014	3,968,066	306,832
2015	3,909,479	208,170
2016	3,772,910	110,095
2017	147,046	14,891
2018 - 2022	244,092	13,006
<b>Total</b>	<b>\$ 16,157,335</b>	<b>\$ 1,062,633</b>

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

Year Ending June 30	Principal	Interest
2013	\$ 89,269	\$ 22,303
2014	78,964	19,039
2015	77,717	16,158
2016	80,709	13,166
2017	83,816	10,058
2018 - 2022	177,099	10,311
<b>Total</b>	<b>\$ 587,574</b>	<b>\$ 91,035</b>

Amortization of assets acquired under capital leases in Enterprise Funds is included in depreciation. At June 30, 2012 the Town of Nags Head, North Carolina, has a legal debt margin of \$232,265,267.

#### 8. Operating Leases

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

Total minimum lease payments for the remaining term of the contract at June 30, 2012, are as follows:

2013	\$5,925
2014	5,925
2015	<u>5,431</u>
Total	<u>\$17,281</u>

During the year ended June 30, 2012, the total amount expended by the Town under the above operating lease was \$7,329 including both minimum monthly rentals and per copy charges.

**Town of Nags Head, North Carolina  
Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2012**

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, 2012, are as follows:

2013	\$2,904
2014	<u>742</u>
Total	<u>\$ 3,646</u>

During the year ended June 30, 2012, the total amount expended by the Town under the above operating lease was \$3,149 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. The total earned under this lease in the year ended June 30, 2012 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, 2012 was \$7,914 with rent abatement in the amount of \$23,742. The total amount of rental abatement to date is \$85,466 and the current lease goes through February 2018. AT&T also leases space on the water tower in south Nags Head which earned \$30,280 for the year ending June 30, 2012 and expires in May 2016. Additional space leased on the cell tower at town hall with Verizon through August 2014 and with Ntelos through June 2015 earned \$30,565 and \$29,664, respectively, for the year ended June 30, 2012.

**C. Interfund Balances and Activity**

The Capital Reserve Fund is consolidated into the General Fund for financial statement purposes and does not reflect a liability in the General Fund of \$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 \$64,349 and a corresponding receivable in the General Fund. These funds represent the advance of funds from the General Fund for construction costs not reimbursed from bond proceeds as of the end of the fiscal year that will be reimbursed to the General Fund with the completion of the beach nourishment project.

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2012**

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Transfers to/from other funds for the year ended June 30, 2012 consisted of the following:

From the General Fund to the Capital Reserve Fund for future capital purchases	\$ 393,065
From the Beach Nourishment Fund to the General Fund for reimbursement of upfront capital costs	\$ 1,027,251
From the Capital Reserve Fund to the General Fund for current year capital purchases	\$ 29,163

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

For the fiscal year ended June 30, 2012, the Town has recognized on-behalf payments for pension contributions made by the State as a revenue and an expenditure of \$5,350 for the 14 volunteer firemen who perform fire fighting duties for the Town's fire department. The volunteers and employees elected to be members of the Firemen and Rescue Squad Workers' Pension Fund, a cost-sharing, multiple-employer public employee retirement system established and administered by the State of North Carolina. The plan is funded by a \$10 monthly contribution paid by each member, investment income, and a State appropriation.

**E. Restatement of Beginning Fund Balance**

Due to the implementation of GASB Statement #54, Fund Balance Reporting and Governmental Fund Type Definitions, the Capital Reserve Fund has been consolidated with the General Fund in Exhibits 3 and 4. Beginning fund balance for the General Fund has been increased by the beginning fund balance for the Capital Reserve Fund of \$381,698 for a total of \$9,793,910.

**F. Fund Balance**

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

Total Fund Balance - General Fund	\$10,583,194
Less:	
Nonspendable	(63,066)
Stabilization by State Statute	(1,369,268)
Restricted for Streets	(76,653)
Restricted for Public Safety	(15,583)
Restricted for capital reserve fund	(644,608)
Restricted for 2012-2013 budget	(370,939)
Fund Balance Available	\$8,043,077

At June 30, 2012, \$68,271 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

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2012**

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Nourishment Capital Project Fund had \$627,876 in outstanding encumbrances at June 30, 2012. The Water Fund had \$21,096 and the Storm Water Fund had \$266 in encumbrances outstanding at June 30, 2012. There were no open purchase orders in any of the other Town funds.

### **III. Joint Ventures**

The Town and the members of the Town's fire department each appoint two members to the five-member local board of trustees for the Firemen's Relief Fund. The State Insurance Commissioner appoints one additional member to the local board of trustees. The Firemen's Relief Fund is funded by a portion of the fire and lightning insurance premiums that insurers remit to the State. The State passes these moneys to the local board of the Firemen's Relief Fund. The funds are used to assist fire fighters in various ways. The participating governments do not have any equity interest in the joint venture, so no equity has been reflected in the financial statements at June 30, 2012. 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 prior fiscal year. Costs incurred during the year ended June 30, 2012 for insurance, utilities, and maintenance were reimbursed under the terms of the memorandum of understanding from the rental revenues received for the property.

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

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

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

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

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

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2012**

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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 2011-12 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 members qualifications and call response. Billing for the incentive is based on the twelve-month period of November through October each year. Under the agreement, it is the obligation of NHVFD to provide an accurate accounting of the incentive 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 ending June 30, 2006 as was the twelve month period for calculation to coincide with the Town's fiscal year from July through June. Beginning in FY 08-09 incentive pay was changed from annual payments to monthly. The amount expended under this agreement for the full year ending June 30, 2012 was \$5,250 plus an additional \$420 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, 2012, accumulated amortization totaled \$2, 3396,690.

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

On February 4, 2009, the Town approved a revised agreement with Dare County and the Town of Kill Devil Hills which deleted the Fresh Pond Plant as one of the mandatory production facilities under the contract

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2012**

agreement. The revised agreement relieves Dare County and the Town of Kill Devil Hills from any funding responsibility for the costs to continue to operate the Fresh Pond Plant and there is no longer any requirement that the regional system purchase water produced by the Fresh Pond Plant. Allocation of water to the Towns of Nags Head and Kill Devil Hills was not effected by the revised agreement.

**F. Water Impact Fees**

The Town entered into a letter of understanding with the Ammons-Dare Corporation (its successors and assigns) for the provision of water to the Village of Nags Head Development. The Town guarantees 1,000 water consumption units (WCU) will be available for the development. Ammons-Dare Corporation has agreed to pay an impact fee of \$2,000 per WCU in advance in the form of an irrevocable letter of credit in the amount of \$2,000,000. As of June 30, 2012, 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 702 WCU's which are guaranteed by the Town and are valued at \$1,404,000. The Town reimbursed Ammons-Dare Corporation for 100 unused WCU's in the amount of \$200,000 during the fiscal year ending June 30, 1992, 50 unused WCU's in the amount of \$100,000 during the fiscal year ending June 30, 1993, 15 units in the amount of \$30,000 during the fiscal year ending June 30, 1995, and 31 units in the amount of \$62,000 in the year ended June 30, 1996. The remaining 102 WCU's in the amount of \$204,000 represent the balance due under the letter of understanding and are included in the Water Fund balance sheet as unearned revenue. Should any of the remaining WCU's be unused, the Town agrees to reimburse Ammons-Dare Corporation, its successors and assigns, at any time after September 4, 1991.

**G. Facility Fees**

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

For the year ended June 30, 2012, the following Facility Fee Revenue (including interest) was collected in the General Fund:

Administration	\$	9,833
Fire		6,455
Police		9,514
Sanitation		7,259
Recreation		7,056
Total	\$	40,117

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, 2012, 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, 2012, \$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

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2012**

radio debt. Police facility fees of \$20,764 were used for a portion of new police 800 MHZ radio debt and debt for replacement police and animal control vehicles.

As of June 30, 2012, the following balances of facility fees remained, and are included in the Capital Reserve Fund:

Administration	\$	67,969
Fire		16,956
Police		113,864
Sanitation		12,062
Recreation		48,592
Total	\$	<u>259,443</u>

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

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

	Admin.	Fire	Police	Sanitation	Recreation	Total
FY 89-90	\$ 29,114	\$ 19,035	\$ 7,179	\$ 16,548	\$ -	\$ 71,876
FY 90-91	17,704	15,761	6,293	10,194	-	49,952
FY 91-92	24,115	27,159	11,204	15,236	-	77,714
FY 92-93	24,392	16,237	6,509	12,473	-	59,611
FY 93-94	23,758	24,740	10,317	12,476	-	71,291
FY 94-95	25,965	27,202	11,743	17,074	-	81,984
FY 95-96	28,330	28,125	12,570	19,832	-	88,857
FY 96-97	22,811	11,699	5,322	9,682	-	49,514
FY 97-98	34,009	15,243	15,749	10,406	-	75,407
FY 98-99	45,061	23,584	28,535	19,367	-	116,547
FY 99-00	45,953	31,970	43,067	24,461	14,473	159,924
FY 00-01	64,457	66,526	102,658	47,078	41,911	322,630
FY 01-02	64,532	34,245	43,293	30,466	42,338	214,874
FY 02-03	63,155	36,834	50,102	33,571	38,719	222,381
FY 03-04	39,368	16,606	18,221	10,109	28,633	112,937
FY 04-05	33,300	45,226	75,807	23,782	23,479	201,594
FY 05-06	24,395	14,920	20,474	13,677	23,030	96,496
FY 06-07	15,490	16,598	27,048	14,878	10,935	84,949
FY 07-08	28,606	12,856	24,638	11,786	19,005	96,891
FY 08-09	5,631	14,296	25,639	16,191	3,466	65,223
FY 09-10	6,378	3,925	5,842	5,836	4,396	26,377
FY 10-11	8,185	3,424	4,621	4,826	6,101	27,157
FY 11-12	9,833	6,455	9,514	7,259	7,056	40,117
<b>Total</b>	<b>\$ 684,542</b>	<b>\$ 512,666</b>	<b>\$ 566,345</b>	<b>\$ 387,208</b>	<b>\$ 263,542</b>	<b>\$ 2,414,303</b>

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2012**

**Facility Fees Used:**

	Admin.	Fire	Police	Sanitation	Recreation	Total
FY 89-90	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
FY 90-91	-	-	-	-	-	-
FY 91-92	-	30,000	-	20,000	-	50,000
FY 92-93	-	-	6,520	-	-	6,520
FY 93-94	-	26,247	4,097	-	-	30,344
FY 94-95	-	26,247	4,097	-	-	30,344
FY 95-96	-	75,765	-	-	-	75,765
FY 96-97	160,000	-	40,000	5,000	-	205,000
FY 97-98	10,000	-	5,000	5,000	-	20,000
FY 98-99	35,000	-	16,120	-	-	51,120
FY 99-00	31,500	26,942	28,434	18,864	-	105,740
FY 00-01	31,500	23,584	13,500	19,818	7,065	95,467
FY 01-02	31,500	31,970	48,227	71,677	44,000	227,374
FY 02-03	31,500	66,526	13,500	36,716	25,000	173,242
FY 03-04	56,861	40,591	60,601	50,999	42,000	251,052
FY 04-05	31,500	30,667	18,648	52,356	25,000	158,171
FY 05-06	31,500	16,427	25,198	36,716	52,000	161,841
FY 06-07	31,500	45,225	25,033	9,000	8,850	119,608
FY 07-08	31,500	14,921	39,627	12,000	-	98,048
FY 08-09	31,500	16,598	25,033	5,000	2,449	80,580
FY 09-10	31,500	24,000	25,033	22,000	-	102,533
FY 10-11	35,606	-	33,049	10,000	4,293	82,948
FY 11-12	4,106	-	20,764	-	4,293	29,163
<b>Total</b>	<b>\$ 616,573</b>	<b>\$ 495,710</b>	<b>\$ 452,481</b>	<b>\$ 375,146</b>	<b>\$ 214,950</b>	<b>\$ 2,154,860</b>

**H. Beach Nourishment**

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

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

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2012**

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except for additional monitoring and remaining professional fees. Total costs incurred through June 30, 2012 include \$1,762,122 for engineering and construction oversight, \$25,530,000 in project construction costs, \$4,654,000 in mobilization, \$1,570,308 for other costs, \$315,044 in professional fees, and \$201,793 in monitoring costs. Funds committed as of June 30, 2012 include \$627,876 for post construction monitoring contracts.

The financing for the project was provided by special obligation bonds in the amount of \$18,000,000 secured by the Town's occupancy tax revenues. The terms of the debt obligation requires annual repayment of principal in the amount of \$3,600,000 and semi- annual payment of interest. Repayment of the bond proceeds and interest is expected to be provided by both a town wide tax and additional taxes on the properties located in the municipal service districts for the next 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. Funds received from these sources for debt repayment in excess of the amount needed for debt costs were transferred from the General Fund to the Capital Reserve Fund during the year in the amount of \$352,947 to be used in the future for debt repayment in the next four years or additional beach renourishment as needed.

**I. Subsequent Events**

Management has evaluated subsequent events through October 22, 2012, the date on which the financial statements were available to be issued.

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

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

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

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

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

**Notes to the Required Schedules:**

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

Valuation date	12/31/2011
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	19 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	5.00%
Projected salary increases *	4.25 - 7.85%
* Includes inflation at	3.00%
Cost-of-living adjustments	N/A

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

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Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Projected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll [(b-a)/c]
12/31/2008	\$0	\$1,737,866	\$1,737,866	0.00%	\$5,725,487	30.40%
12/31/2011	\$0	\$2,362,760	\$2,362,760	0.00%	\$5,262,661	44.90%

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

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<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2010	193,043	0.00%
2011	193,043	0.00%
2012	207,793	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	12/31/2011
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay, open
Remaining amortization period	30 years
Asset valuation method	Market value of Assets

Actuarial assumptions:

Investment rate of return *	4.00%
Medical cost trend rate	9.50 - 5.00%
Year of Ultimate trend rate	2018

\* Includes inflation at 3.00%

**TOWN OF NAGS HEAD, NORTH CAROLINA**

**Schedule 1**

**GENERAL FUND**

**Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual  
For the Year Ended June 30, 2012**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
<b>REVENUES</b>			
Ad Valorem Taxes:			
Current year	\$ -	\$ 5,447,622	\$ -
Municipal service district		1,783,914	
Discounts		(46,144)	
Prior year		7,859	
DMV current year		50,895	
DMV prior year		2,659	
Penalties and interest		13,080	
<b>Total</b>	<u>7,210,024</u>	<u>7,259,885</u>	<u>49,861</u>
Other Taxes and Licenses:			
Occupancy tax		1,947,935	
Land Transfer tax		409,087	
Local governmental sales tax		875,501	
1/2% sales tax revenue		654,835	
Privilege licenses		37,015	
Mixed beverage tax		38,797	
Privilege license penalties		1,309	
<b>Total</b>	<u>3,811,280</u>	<u>3,964,479</u>	<u>153,199</u>
Intergovernmental Revenues:			
Unrestricted:			
Utility Franchise tax		288,171	
Telecommunications tax		59,045	
Natural Gas Franchise fee		4,603	
Solid Waste Disposal fees		1,945	
Video programming tax/franchise fees		159,535	
Cable Franchise - PEG fund fees		66,155	
Beer and wine		11,932	
ABC revenue		12,793	
<b>Total</b>	<u>621,022</u>	<u>604,179</u>	<u>(16,843)</u>
Restricted:			
FEMA Reimbursement		350,893	
Contributions from governmental units		2,061,709	
State Street Aid allocation		113,055	
GAC Grant		16,879	
OBVB Grant		122,330	
Drug Fund revenue		7,788	
ARRA Grant		3,938	
CAMA Reimbursement		5,775	
<b>Total</b>	<u>2,745,264</u>	<u>2,682,367</u>	<u>(62,897)</u>
<b>Total Intergovernmental Revenues</b>	<u>3,366,286</u>	<u>3,286,546</u>	<u>(79,740)</u>

**TOWN OF NAGS HEAD, NORTH CAROLINA**

**Schedule 1**

**GENERAL FUND**

**Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual  
For the Year Ended June 30, 2012**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Permits and Fees:			
Building permits		134,166	
Facility fees		40,118	
Inspection and review fees		16,212	
Beach driving permits		15,479	
CAMA permits		3,800	
Motor vehicle licenses		391	
<b>Total</b>	<b>220,175</b>	<b>210,166</b>	<b>(10,009)</b>
Sales and Services:			
Court costs and fees	4,000	3,713	
<b>Total</b>	<b>4,000</b>	<b>3,713</b>	<b>(287)</b>
Investment Earnings	75,000	113,416	38,416
Other Revenues:			
YMCA Rents		823,853	
Other rents		133,473	
Sale of materials		36,508	
Miscellaneous		62,971	
Sale of assets		3,215	
Damage recovery		20,246	
Civil Penalties		1,150	
Cart rollback		15,136	
Contributions to Police, Fire & Rescue Benevolent Fund		8,330	
<b>Total</b>	<b>1,176,818</b>	<b>1,104,882</b>	<b>(71,936)</b>
<b>Total Revenues</b>	<b>15,863,583</b>	<b>15,943,087</b>	<b>79,504</b>
<b>EXPENDITURES</b>			
General Government:			
Governing Body:			
Fees paid to elected officials		34,114	
FICA expense		2,610	
Contracted services		46,409	
Contracted services - beach nourishment		10,100	
Other supplies, computers		5,949	
Department supplies and materials		3,983	
Special events		7,470	
Dues and subscriptions		6,272	
Printing		2,209	
Travel		3,586	
Training		1,430	
Equipment rental		184	
Employee incentive		250	
Contribution to YMCA		4,000	

**TOWN OF NAGS HEAD, NORTH CAROLINA**

**Schedule 1**

**GENERAL FUND**

**Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual  
For the Year Ended June 30, 2012**

	<u>Budget</u>	<u>Actual</u>	Variance Over (Under)
Contribution to Nags Head Woods		10,400	
Contribution to Government Access Channel		67,155	
Contributions, miscellaneous		6,100	
Capital Outlay, equipment		10,865	
<b>Total</b>	<b>236,178</b>	<b>223,086</b>	<b>(13,092)</b>
Special Projects:			
YMCA principal passthrough		814,000	
YMCA interest passthrough		9,853	
<b>Total</b>	<b>905,020</b>	<b>823,853</b>	<b>(81,167)</b>
Special Obligation Bonds:			
Debt service, bond principal		3,600,000	
Debt service, interest		446,399	
<b>Total</b>	<b>4,046,400</b>	<b>4,046,399</b>	<b>(1)</b>
Administration:			
Salaries and wages		371,718	
FICA expense		27,320	
Group insurance		56,826	
Group insurance - retiree		8,299	
Retirement		23,549	
401(k) account		3,384	
Contracted services		7,028	
Travel		5,122	
Advertising		4,152	
Departmental supplies		3,522	
Dues and subscriptions		1,758	
Equipment rental		4,407	
Telephone		4,104	
Employee training		4,521	
Postage		429	
Professional fees		99	
Repairs and maintenance, vehicles		8	
Automotive Supplies		1,222	
Other supplies, computer		1,076	
Reimbursement from Water Fund		(67,587)	
<b>Total</b>	<b>468,359</b>	<b>460,957</b>	<b>(7,402)</b>
Administrative Services:			
Salaries and wages		304,204	
FICA expense		21,349	
Group insurance expense		40,096	
Retirement		20,875	
401(k) account		4,735	
Unemployment expense		3,000	

**TOWN OF NAGS HEAD, NORTH CAROLINA**

**Schedule 1**

**GENERAL FUND**

**Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual  
For the Year Ended June 30, 2012**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Insurance		313,795	
Contracted services		5,036	
Employee training		3,631	
Professional services		20,327	
Fines and forfeitures		15,117	
Departmental supplies and materials		9,032	
Postage		8,002	
Telephone		2,545	
Travel		3,617	
Other supplies		4,304	
Equipment rental		4,590	
Printing		3,616	
Repairs and maintenance, equipment		117	
Wellness program		2,860	
Personnel Committee		2,015	
Special contracted services		930	
Dues and subscriptions		691	
Purchases for resale		1,519	
Advertising		555	
Repairs and maintenance, vehicles		456	
Automotive supplies		1,334	
Reimbursement from Water Fund		(143,596)	
Debt service, vendor finance		13,438	
<b>Total</b>	<b>690,369</b>	<b>668,190</b>	<b>(22,179)</b>

Information Technology:			
Salaries and wages		115,217	
FICA expense		8,800	
Group insurance		12,634	
Retirement		8,006	
401(k) account		1,150	
Contracted services		10,440	
Contracted services, GIS		495	
Contracted services, website		1,880	
Contracted services, annual contracts		23,452	
Professional services		150	
Departmental supplies		6,411	
Advertising		5,065	
Postage		46	
Repairs and maintenance, equipment		4,080	
Other supplies		4,745	
Internet costs		8,608	
Employee training		545	
Computer training		3,079	
Equipment rental		14,460	
Dues and subscriptions		99	
Reimbursement from Water Fund		(14,227)	
Capital outlay, equipment		36,160	
Debt service, capital lease		17,766	

**TOWN OF NAGS HEAD, NORTH CAROLINA**

**Schedule 1**

**GENERAL FUND**

**Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual  
For the Year Ended June 30, 2012**

	<u>Budget</u>	<u>Actual</u>	Variance Over (Under)
Debt service, interest		1,483	
<b>Total</b>	<b>312,208</b>	<b>270,544</b>	<b>(41,664)</b>
Planning and Development:			
Salaries and wages		492,218	
FICA expense		36,457	
Group insurance		61,333	
Retirement		33,973	
401(k) account		4,881	
Planning board, board of adjustment		7,670	
Contracted services		7,700	
Professional services		4,116	
Departmental supplies		7,452	
Travel		1,025	
Advertising		1,969	
Telephone		4,733	
Postage		3,041	
Repairs and maintenance, vehicles		1,856	
Repairs and maintenance, equipment		1,400	
Other supplies		2,197	
Automotive supplies		3,936	
Employee training		2,043	
Equipment rental		1,306	
Dues and subscriptions		2,648	
Reimbursement from Water Fund		(76,954)	
Capital outlay, equipment		27,812	
Debt service, capital lease		9,118	
Debt service, interest		299	
<b>Total</b>	<b>664,269</b>	<b>642,229</b>	<b>(22,040)</b>
Legal Services:			
Professional services		276,274	
Reimbursement from Water Fund		(3,972)	
<b>Total</b>	<b>302,831</b>	<b>272,302</b>	<b>(30,529)</b>
<b>Total General Government</b>	<b>7,625,634</b>	<b>7,407,560</b>	<b>(218,074)</b>
Public Safety:			
Police Department:			
Salaries and wages		1,183,451	
FICA expense		87,080	
Group insurance		230,412	
Group insurance - retiree		8,402	
Retirement		84,139	
401(k) account		54,350	
Automotive supplies		82,588	
Departmental supplies		19,896	

**TOWN OF NAGS HEAD, NORTH CAROLINA**

**Schedule 1**

**GENERAL FUND**

**Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual  
For the Year Ended June 30, 2012**

	<u>Budget</u>	<u>Actual</u>	Variance Over (Under)
Repairs and maintenance, vehicles		25,846	
Repairs and maintenance, equipment		20,072	
Telephone		14,802	
Other supplies		9,746	
Uniforms		8,444	
Equipment rental		7,337	
Travel		4,619	
Professional services		7,549	
Employee training		598	
Special investigations		(264)	
Postage		1,310	
Dues and subscriptions		1,038	
Advertising		119	
Contracted services		505	
Reimbursement from Wate Fund		(6,827)	
Capital outlay, equipment		146,518	
Debt service, capital lease		125,041	
Debt service, interest		3,914	
<b>Total</b>	<b>2,137,053</b>	<b>2,120,685</b>	<b>(16,368)</b>
<b>Drug Forfeiture:</b>			
Department supplies		11,347	
Telephone		144	
<b>Total</b>	<b>15,254</b>	<b>11,491</b>	<b>(3,763)</b>
<b>Fire Department:</b>			
Salaries and wages		1,264,357	
FICA expense		92,112	
Group insurance		233,302	
Retirement expense		89,910	
401(k) account		12,617	
Departmental supplies		32,715	
Repairs and maintenance, vehicles		41,039	
Uniforms		6,468	
Repairs and maintenance, equipment		5,755	
Automotive supplies		20,271	
Telephone		6,506	
Employee training		2,268	
OSHA Compliance		1,030	
Travel		1,823	
Safety training		3,857	
Other supplies		3,838	
Equipment rental		1,261	
Dues and subscriptions		2,225	
Professional services		9,201	
Postage		524	
Contracted Services		8,701	
Printing		780	
Grant, NCLM Safety		1,250	
Debt service, capital lease		176,631	

**TOWN OF NAGS HEAD, NORTH CAROLINA**

**Schedule 1**

**GENERAL FUND**

**Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual  
For the Year Ended June 30, 2012**

	<u>Budget</u>	<u>Actual</u>	Variance Over (Under)
Debt service, interest		35,479	
<b>Total</b>	<b>2,064,200</b>	<b>2,053,920</b>	<b>(10,280)</b>
Volunteer Fire:			
Incentive pay		5,250	
FICA expense		218	
Uniforms		248	
Dues and subscriptions		420	
Training		190	
Travel		289	
Repairs and maintenance, equipment		66	
Professional services		6,829	
Retirement		6,800	
Department supplies		6,569	
<b>Total</b>	<b>24,761</b>	<b>26,879</b>	<b>2,118</b>
Ocean Rescue:			
Salaries and wages		372,113	
FICA expense		20,080	
Group insurance		6,031	
Retirement expense		3,688	
401(k) account		530	
Departmental supplies		23,270	
Other supplies		1,076	
Uniforms		10,849	
Automotive supplies		14,622	
Repairs and maintenance, equipment		5,304	
Travel		1,473	
Repairs and maintenance, vehicles		1,586	
Professional fees		2,871	
Telephone		1,358	
Employee training		240	
Printing		366	
Dues and subscriptions		1,330	
Advertising		128	
Postage		122	
Capital outlay, equipment		30,525	
Debt service, capital lease		26,552	
Debt service, interest		1,721	
<b>Total</b>	<b>537,132</b>	<b>525,835</b>	<b>(11,297)</b>
Animal Control:			
Salaries and wages		39,645	
FICA expense		2,955	
Group insurance		7,968	
Retirement		2,802	
401(k) account		1,982	
Automotive supplies		2,133	
Departmental supplies		151	

**TOWN OF NAGS HEAD, NORTH CAROLINA**

**Schedule 1**

**GENERAL FUND**

**Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual  
For the Year Ended June 30, 2012**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Repairs and maintenance, vehicles		305	
Professional fees		325	
Equipment rental		144	
Employee training		125	
Travel		183	
Telephone		1,127	
Uniforms		207	
Dues and subscriptions		35	
Capital outlay, equipment		40,788	
Debt service, capital lease		14,127	
Debt service, interest		521	
<b>Total</b>	<b>120,172</b>	<b>115,523</b>	<b>(4,649)</b>
<b>Total Public Safety</b>	<b>4,898,572</b>	<b>4,854,333</b>	<b>(44,239)</b>
<b>Environmental Protection:</b>			
<b>Sanitation:</b>			
Salaries and wages		399,322	
FICA expense		27,936	
Group insurance		80,444	
Group insurance - retiree		8,299	
Retirement		23,619	
401(k) account		3,650	
Repairs and maintenance, vehicles		109,835	
Automotive supplies		129,841	
Department supplies		23,874	
Uniforms		3,922	
Contracted services		9,364	
Recycling		6,556	
Repairs and maintenance, equipment		3,775	
Professional Fees		30	
Equipment rental		1,029	
Advertising		193	
Capital outlay, equipment		407,605	
Debt service, capital lease		157,789	
Debt service, interest		7,217	
<b>Total</b>	<b>1,424,934</b>	<b>1,404,300</b>	<b>(20,634)</b>
<b>Solid Waste:</b>			
Tipping fees		589,507	
<b>Total</b>	<b>625,000</b>	<b>620,541</b>	<b>(4,459)</b>
<b>Total Environmental Protection</b>	<b>2,049,934</b>	<b>2,024,841</b>	<b>(25,093)</b>
<b>Public Works:</b>			
<b>Administration:</b>			
Salaries and wages		279,318	

**TOWN OF NAGS HEAD, NORTH CAROLINA**

**Schedule 1**

**GENERAL FUND**

**Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual  
For the Year Ended June 30, 2012**

	<u>Budget</u>	<u>Actual</u>	Variance Over <u>(Under)</u>
FICA expense		20,425	
Group insurance		44,737	
Group insurance - retiree		25,126	
Retirement		19,411	
401(k) account		2,789	
Contracted services		123,671	
Purchase for resale		35,004	
Telephone		6,253	
Departmental supplies		2,403	
Other supplies		1,076	
Advertising		186	
Equipment rental		250	
Automotive supplies		6,025	
Employee training		200	
Dues and subscriptions		849	
Postage		337	
Repairs and maintenance, equipment		68	
Repairs and maintenance, vehicles		1,513	
Uniforms		568	
Professional fees		434	
Reimbursement from Water Fund		(142,965)	
<b>Total</b>	<b>440,982</b>	<b>427,678</b>	<b>(13,304)</b>
<b>Public Facilities Maintenance:</b>			
Salaries and wages		314,497	
FICA expense		22,340	
Group insurance		63,962	
Retirement		21,226	
401(k) account		3,045	
Repairs and maintenance, facilities		100,362	
Utilities		166,461	
Contracted services		46,991	
Department supplies		15,157	
Repairs and maintenance, equipment		31,096	
Signs		4,763	
Automotive supplies		22,297	
Repairs and maintenance, other		78,021	
Other supplies		14,715	
Professional services		5,848	
Uniforms		3,259	
Repairs and maintenance, vehicles		6,310	
Employee training		185	
Travel		572	
Special Projects, lighting		4,011	
Special Projects, sandfencing		49,459	
Street supplies		15,602	
Dues and subscriptions		50	
Reimbursement from Water Fund		(50,112)	
Capital outlay, multi use path grant		125,435	
Capital outlay, whalebone park grant		240,237	

**TOWN OF NAGS HEAD, NORTH CAROLINA**

**Schedule 1**

**GENERAL FUND**

**Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual  
For the Year Ended June 30, 2012**

	<u>Budget</u>	<u>Actual</u>	Variance Over (Under)
Capital outlay, land		5,312	
Capital outlay, buildings		6,037	
Capital outlay, other Powell Bill		73,710	
Debt service, capital lease		56,198	
Debt service, interest		13,351	
		<hr/>	
Total	1,640,841	1,460,397	(180,444)
		<hr/>	
Maintenance Garage:			
Salaries and wages		186,433	
FICA account		14,550	
Group insurance		35,508	
Group insurance, retiree		8,299	
Retirement		12,974	
401(k) account		1,862	
Other supplies		8,414	
Departmental supplies		11,173	
Uniforms		1,719	
Contracted services		964	
Automotive supplies		1,061	
Repairs and maintenance, vehicles		181	
Employee training		139	
Repairs and maintenance, equipment		1,247	
Reimbursement from Water Fund		(8,760)	
		<hr/>	
Total	292,305	275,764	(16,541)
		<hr/>	
Total Public Works	2,374,128	2,163,839	(210,289)
		<hr/>	
Contingency	324	-	(324)
		<hr/>	
Total Expenditures	16,948,592	16,450,573	(498,019)
		<hr/>	
Revenues Over (Under) Expenditures	(1,085,009)	(507,486)	577,523
		<hr/>	
Other Financing Sources (Uses):			
Capital lease issued	269,482	269,482	-
Transfers from Capital Reserve Funds (Net)	(351,354)	(363,902)	
Transfers from Capital Projects Fund (Net)		1,027,251	1,027,251
Appropriated Fund Balance	1,166,881	-	(1,166,881)
		<hr/>	
Other financing sources (uses), net	1,085,009	932,831	(152,178)
		<hr/>	
Net change in fund balance	\$ -	425,345	\$ 425,345
		<hr/>	
FUND BALANCE, beginning		9,412,212	
		<hr/>	
FUND BALANCE, ending		\$ 9,837,557	

**Town of Nags Head, North Carolina  
Capital Reserve Fund**

**Schedule 2**

**Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual  
For the Fiscal Year Ended June 30, 2012**

	Budget	Actual Amounts	Variance Over (Under)
Revenues:			
Investment earnings	\$ -	\$ 37	\$ 37
Total revenues	-	37	37
Other financing sources (uses):			
Transfers from other funds	346,638	393,065	46,427
Transfers to other funds	(29,163)	(29,163)	-
Appropriated Fund Balance	(317,475)	-	317,475
Total other financing sources (uses)	-	363,902	363,902
Net change in fund balance	\$ -	363,939	\$ 363,939
Fund balances, beginning of year		381,698	
Fund balances, end of year		\$ 745,637	

**Town of Nags Head, North Carolina**  
**Beach Nourishment Capital Project Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual**  
**From Inception and for the Fiscal Year Ended June 30, 2012**

**Schedule 3**

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Actual Current Year</u>	<u>Total to Date</u>	<u>Variance Over (Under)</u>
<b>Revenues</b>					
Investment Earnings	\$ -	\$ 35,161	\$ 2,919	\$ 38,080	\$ 38,080
Restricted intergovernmental Donations	18,000,000	18,000,000 2,904		18,000,000 2,904	- 2,904
<b>Total revenues</b>	<b>18,000,000</b>	<b>31,461</b>	<b>2,919</b>	<b>18,040,984</b>	<b>40,984</b>
<b>Expenditures</b>					
Professional Fees	330,713	243,348	71,696	315,044	(15,669)
Capital Construction Oversight	1,762,125	1,425,879	336,243	1,762,122	(3)
Pumping Costs	25,528,000	4,443,131	21,086,869	25,530,000	2,000
Mobilization	4,656,000	2,793,600	1,860,400	4,654,000	(2,000)
Contingency	1,322,330	-	-	-	(1,322,330)
Monitoring	829,670	57,002	144,791	201,793	(627,877)
Other Costs	1,571,162	475	1,569,833	1,570,308	(854)
<b>Total Expenditures</b>	<b>36,000,000</b>	<b>8,963,435</b>	<b>25,069,832</b>	<b>34,033,267</b>	<b>(1,966,733)</b>
<b>Revenues over (under) expenditures</b>	<b>(18,000,000)</b>	<b>(736,676)</b>	<b>(25,066,913)</b>	<b>(15,992,283)</b>	<b>2,007,717</b>
<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)	(1,027,251)	-
Transfers from other funds	1,027,251	1,027,251		1,027,251	-
Appropriated fund balance					-
<b>Total other financing sources (uses)</b>	<b>18,000,000</b>	<b>19,027,251</b>	<b>(1,027,251)</b>	<b>18,000,000</b>	<b>-</b>
<b>Net change in fund balance</b>	<b>\$ -</b>	<b>\$ 18,290,575</b>	<b>(26,094,164)</b>	<b>\$ 2,007,717</b>	<b>\$ 2,007,717</b>
Fund balance, beginning of year			28,101,881		
Fund balance, end of year			<u>\$ 2,007,717</u>		

**Town of Nags Head, North Carolina**

**Schedule 4**

**Water Fund**

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

**For the Fiscal Year Ended June 30, 2012**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
<b>REVENUES</b>			
Operating Revenues:			
Water sales	\$ -	\$ 2,357,177	\$ -
FEMA Reimbursement		14,696	
Tap and connection fees		10,608	
Late payment penalties and interest		27,841	
Water cutoff tag fees		10,900	
Miscellaneous		13,233	
<b>Total</b>	<u>2,363,827</u>	<u>2,434,455</u>	<u>70,628</u>
Non-Operating Revenues:			
Interest earned on investments		2,622	
Impact fees		67,500	
Decrease in prepaid impact fees		12,000	
<b>Total</b>	<u>5,500</u>	<u>82,122</u>	<u>76,622</u>
<b>Total Revenues</b>	<u>2,369,327</u>	<u>2,516,577</u>	<u>147,250</u>
<b>EXPENDITURES</b>			
Administration:			
Salaries and wages		71,510	
FICA expense		4,792	
Group insurance		20,731	
Retirement expense		2,941	
401(k) account		422	
Reimburse General Fund administrative expenses		71,404	
Contracted services		3,836	
Postage		9,599	
Supplies and materials		2,885	
Training		371	
Bad debt		3,000	
<b>Total Administration</b>	<u>197,323</u>	<u>191,491</u>	<u>(5,832)</u>

**Town of Nags Head, North Carolina**

**Schedule 4**

**Water Fund**

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

**For the Fiscal Year Ended June 30, 2012**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Septic Health:			
Salaries and wages		48,676	
FICA expense		3,466	
Group insurance		6,370	
Retirement		3,275	
401(k) account		470	
Contracted services		250	
Reimburse General Fund administrative expenses		107,471	
Inspection rebates		8,475	
Pumping credits		1,260	
Professional fees		31	
Postage		1,431	
Travel		626	
Water quality testing		33,463	
Telephone		608	
Printing		1,188	
Employee training		295	
Automotive supplies		732	
Repairs and maintenance, vehicles		223	
Departmental supplies		47	
		<hr/>	
Total Septic Health	<u>223,899</u>	<u>218,357</u>	<u>(5,542)</u>
Operations:			
Salaries and wages		187,078	
FICA expense		13,404	
Group insurance		40,101	
Retirement		12,640	
401(k) account		1,817	
Purchases for resale		701,377	
Reimburse General Fund administrative expenses		190,077	
Insurance		49,473	
Utilities		43,247	
Contracted services		5,515	
Departmental supplies		20,493	
Professional fees		4,612	
Other supplies		3,459	
Repairs and maintenance, equipment		40,556	

## 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, 2012

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Postage		1,508	
Telephone		4,070	
Uniforms		1,424	
Dues and subscriptions		2,312	
Equipment rental		705	
Printing		2,684	
Automotive supplies		6,612	
Employee training		610	
Travel		377	
Advertising		66	
Repairs and maintenance, vehicles		963	
		<hr/>	
Total Operations	1,502,370	1,335,180	(167,190)
		<hr/>	
Operations Distribution:			
Salaries and wages		172,924	
FICA expense		12,041	
Group insurance		40,460	
Retirement		11,831	
401(k) account		1,745	
Reimburse General Fund administrative expenses		146,048	
Contracted services		1,164	
Other supplies		7,933	
Repairs and maintenance, other		11,340	
Insurance		6,115	
Automobile supplies		8,108	
Departmental supplies		4,148	
Uniforms		1,524	
Repairs and maintenance, vehicles		1,751	
Telephone		1,763	
Dues and subscriptions		1,104	
Advertising		674	
Repairs and maintenance, equipment		1,087	
Travel		(155)	
Employee training		265	
Postage		14	
		<hr/>	
Total Operations Distribution	524,359	431,884	(92,475)
		<hr/>	

**Town of Nags Head, North Carolina**

**Schedule 4**

**Water Fund**

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

**For the Fiscal Year Ended June 30, 2012**

	<u>Budget</u>	<u>Actual</u>	Variance Over <u>(Under)</u>
TOTAL EXPENDITURES	2,447,951	2,176,912	(271,039)
REVENUES OVER (UNDER) EXPENDITURES	(78,624)	339,665	418,289
Other Sources and (Uses):			
Appropriated Retained Earnings	435,406	-	
Debt interest	(24,485)	(24,384)	
Debt principal	(74,498)	(74,598)	
Septic Health Loans provided to customers	(25,000)	(5,075)	
Principal repayments Septic Health Loans	13,000	14,092	
Capital outlay:			
Machinery and equipment	(12,644)	(11,627)	
Other	(183,155)	(176,066)	
Contingency	(50,000)	-	
Total Other Sources and (Uses)	78,624	(277,658)	(356,282)
Revenues and Other Sources Over (under) Expenditures and Other Uses	-	62,007	62,007
RECONCILIATION OF MODIFIED ACCRUAL BASIS TO FULL ACCRUAL BASIS			
Revenues under expenditures		62,007	
Reconciling items:			
Septic Health Loans		5,075	
Principal repayments Septic Health Loans		(14,092)	
Payment of debt principal		74,598	
Increase in accrued OPEB liability		(11,785)	
Capital outlay		187,693	
Depreciation and amortization		(257,414)	
Change in net assets		<u>\$ 46,082</u>	

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

**Schedule 5**

**Schedule of Revenues and Expenditures-Budget and Actual (Non-GAAP)  
For the Fiscal Year Ended June 30, 2012**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
<b>REVENUES</b>			
Operating Revenues:			
Storm Water Fees	\$ 113,112	\$ 113,988	\$ 876
<b>Total</b>	<b>113,112</b>	<b>113,988</b>	<b>876</b>
Nonoperating Revenues:			
Interest earned on investments	-	183	183
<b>Total</b>	<b>-</b>	<b>183</b>	<b>183</b>
<b>Total Revenues</b>	<b>113,112</b>	<b>114,171</b>	<b>1,059</b>
<b>EXPENDITURES</b>			
Salaries and wages		18,133	
FICA expense		1,326	
Group insurance		3,663	
Retirement		1,254	
401K		188	
Fuel		2,689	
Department Supplies		-	
Repairs and maintenance, equipment		1,067	
<b>Total Expenditures</b>	<b>54,078</b>	<b>28,320</b>	<b>25,758</b>
<b>Revenues Over (Under) Expenditures</b>	<b>59,034</b>	<b>85,851</b>	<b>26,817</b>
Other Financing Sources (Uses)			
Appropriated retained earnings	266,581	-	
Interest	(962)	(959)	
Debt Principal	(12,802)	(12,996)	
Capital Outlay Other	(311,851)	(290,167)	
<b>Total Other Financing Sources (Uses)</b>	<b>(59,034)</b>	<b>(304,122)</b>	<b>(245,088)</b>
<b>Revenues and other financing sources over (under) expenditures and other uses</b>	<b>\$ -</b>	<b>(218,271)</b>	<b>\$ (218,271)</b>

**Town of Nags Head, North Carolina**

**Schedule 5**

**Storm Water Fund**

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

**For the Fiscal Year Ended June 30, 2012**

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RECONCILIATION OF MODIFIED ACCRUAL BASIS  
TO FULL ACCRUAL BASIS

Revenues over (under) expenditures	(218,271)
Capital Outlay	290,167
Payment of Debt Principal	12,996
Depreciation	<u>(16,294)</u>
Change in net assets	<u>\$ 68,598</u>

**TOWN OF NAGS HEAD, NORTH CAROLINA**  
**Schedule of Ad Valorem Taxes Receivable**  
**June 30, 2012**

**Schedule 6**

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2011</u>	<u>Additions</u>	<u>Collection And Credits</u>	<u>Adjustments</u>	<u>Uncollected Balance June 30, 2012</u>
2011-2012	\$ -	\$ 5,439,150	\$ 5,498,517	\$ 83,337	\$ 23,970
2011-2012 MSD	-	1,784,186	1,783,914	674	946
2010-2011	12,346	-	8,785	33	3,594
2009-2010	2,966	-	1,261	-	1,705
2008-2009	1,022	-	89	-	933
2007-2008	1,467	-	224	-	1,243
2006-2007	918	-	23	-	895
2005-2006	1,843	-	91	-	1,752
2004-2005	2,613	-	4	-	2,609
2003-2004	2,709	-	24	-	2,685
2002-2003	1,752	-	24	-	1,728
2001-2002	1,753	-	1,753	-	-
	<u>\$ 29,389</u>	<u>\$ 7,223,336</u>	<u>\$ 7,294,709</u>	<u>\$ 84,044</u>	<u>\$ 42,060</u>

Less allowance for uncollectible  
ad valorem taxes receivable

10,000

Ad Valorem Taxes Receivable, net

\$ 32,060

Reconciliation with revenues:

Taxes, ad valorem , General Fund	\$ 7,259,885
Amounts written off for tax year 2000-01	278
DMV written off	1,475
Amounts written off <\$1	7
Plus discounts taken	46,144
Less penalties and interest	(13,080)
	<u>\$ 7,294,709</u>

**Town of Nags Head, North Carolina**  
**Analysis of Current Tax Levy**  
**For the Fiscal Year Ended June 30, 2012**

**Schedule 7**

	<b>Town - Wide</b>		<b>Total Levy</b>		
			Property Excluding Registered Motor Vehicles	Registered Motor Vehicles	
	Property Valuation	Rate	Total Levy		
Original levy:					
Property taxed at current year's rate	\$3,063,124,048	0.1775	\$5,437,051	\$5,437,051	
Penalties			2,099	2,099	
<b>Total</b>	<b>3,063,124,048</b>		<b>5,439,150</b>	<b>5,439,150</b>	<b>-</b>
Discoveries:					
Current year taxes	51,244,415		87,243	32,509	54,734
Penalties			(66)	(66)	
<b>Total</b>	<b>51,244,415</b>		<b>87,177</b>	<b>32,443</b>	<b>54,734</b>
Releases:	(1,741,266)		(3,840)	(3,060)	(780)
Total property valuation	<u>3,112,627,197</u>				
Net levy			5,522,487	5,468,533	53,954
Uncollected taxes at June 30, 2012			(23,970)	(20,911)	(3,059)
Current year taxes collected			\$5,498,517	\$5,447,622	\$50,895
Current levy collection percentage			<u>99.57%</u>	<u>99.62%</u>	<u>94.33%</u>

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

To the 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 aggregated remaining fund information of the Town of Nags Head, North Carolina, as of and for the year ended June 30, 2012, which collectively comprises the Town of Nags Head's basic financial statements, and have issued our report thereon dated October 22, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

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

### Compliance and Other Matters

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

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

*Dowdy & Osborne, LLP*

Dowdy & Osborne, LLP  
Nags Head, North Carolina

October 22, 2012