
TOWN OF NAGS HEAD, NORTH CAROLINA

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2018

*Prepared by the Town of Nags Head Administrative Services Department
Amy M. Miller, Finance Director
Kim M. Blankenburg, Deputy Finance Officer*

**Town of Nags Head
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30 2018**

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Ben Cahoon
Mayor

Susie Walters
Mayor Pro Tem

Cliff Ogburn
Town Manager

Town of Nags Head

Post Office Box 99
Nags Head, North Carolina 27959
Telephone 252-441-5508
Fax 252-441-0776
www.nagsheadnc.gov

M. Renée Cahoon
Commissioner

J. Webb Fuller
Commissioner

Michael Siers
Commissioner

December 11, 2018

To the Honorable Mayor, Board of Commissioners,
and Citizens of the Town of Nags Head:

The Local Government Commission of the North Carolina State Treasurer's Office requires that all general-purpose local governments publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principals (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the Town of Nags Head for the fiscal year ended June 30, 2018.

The report consists of management's representations concerning the finances of the Town of Nags Head. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the Town of Nags Head has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the Town of Nags Head's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the Town of Nags Head's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management we assert, that to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The financial statements contained herein have been audited by Dowdy & Osborne, LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Town of Nags Head for the fiscal year ended June 30, 2018, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used by management, and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified, "clean" opinion that the Town of Nags Head's financial statements for the fiscal year ended June 30, 2018, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in



Town of Nags Head

conjunction with it. The Town of Nags Head's MD&A can be found immediately following the report of the independent auditors.

Profile of the Town. The Town of Nags Head is located in Dare County on Bodie Island on the coast of eastern North Carolina. This area is approximately 200 miles east of Raleigh, the State capital, and 90 miles south of Virginia Beach and Norfolk, Virginia, a metropolitan area. The county is named in honor of Virginia Dare, the first-born child of English parents in America. This area contains much of what are known as North Carolina's "Outer Banks" resort and vacation areas and is home to such attractions as the Cape Hatteras National Seashore and the North Carolina Aquarium. Nags Head is proud to have included among its distinguishing features Jockey's Ridge State Park, the tallest natural sand dune system in the Eastern United States and one of the most significant landmarks on the Outer Banks, as well as Nags Head Woods Preserve, a designated National Natural Landmark owned and operated by The Nature Conservancy.

Nags Head received its municipal charter from the North Carolina General Assembly on June 14, 1961. The Town operates under the commissioner-manager form of government. Policy making authority is vested in the governing Board of Commissioners consisting of a mayor and four commissioners, including the mayor pro tem who is appointed by the governing board. The governing board is responsible for, among other things, establishing policy, passing ordinances, adopting the budget, appointing committees and appointing the Town's manager and attorney. The manager is responsible for carrying out the policies and ordinances of the governing board and for overseeing the day-to-day operations of the Town. All board members, including the mayor and mayor pro tem, are elected to four-year staggered terms, all on a non-partisan basis.

The Town provides a full range of services. These services include tax collection, planning and inspections, police, animal control, fire and ocean rescue protection, sanitation and recycling, and the construction and maintenance of streets and infrastructure as well as stormwater management. In addition to general government activities, the Town provides water and septic health services.

The Board is required to hold at least one public hearing on the proposed budget and must adopt a final budget by no later than June 30, the close of the fiscal year. This annual budget serves as the foundation for the Town of Nags Head's financial planning and control. An annual budget is adopted for the General, Capital Reserve, and Water Fund. Multi-year project budgets are adopted for Capital Project Funds. Appropriations in the General and Water Fund are made at the department level and at the project level for all Capital Project Funds. The Town Manager may transfer resources within a department as he sees fit. Transfers between departments, however, need special approval from the Board.

Local Economy. The Town's economy is based on travel, tourism and related service industries and is directly tied to national and local economies especially those in the mid-Atlantic region. Nags Head remains one of the most desirable destinations in the country. The result is that tourists and vacationers not only come to our area during the busy summer season, but are also visiting the Outer Banks during the non-peak months of March through May and September through November. The longer tourist season has extended and increased rental income and other economic benefits to local businesses. The Town's travel and tourism industry not only encompasses those revenues that have a direct relationship, such as sales and occupancy taxes, but also revenues related to property transactions and construction, such as land transfer tax, as



Town of Nags Head

the majority of those activities come from non-residents and residential construction for rental purposes. This steady stream of income has helped to maintain a healthy balance in the tax base that has enabled the Town to keep property tax rates at moderate levels while providing the infrastructure and high level of services demanded by citizens. In planning for the future, the Town continues to maintain a high priority on both the delivery of quality services and financial stability.

Long-term financial planning and major initiatives. In order to improve the Town's resiliency in preserving its distinctive coastal character, and to continue its commitment to protect vital infrastructure, a Vulnerability, Consequences, Adaptation, Planning Scenarios (VCAPS) Report was adopted in fiscal year 2018. This addresses the impacts of a changing climate, including sea level rise, and will allow the community to better withstand, respond to, and recover rapidly from disruptions due to hazards without long-term damage to the local economy or environment. Concurrently with the VCAPS, the FOCUS Nags Head Comprehensive Plan was adopted in fiscal year 2018 and incorporates studies and planning efforts based on feedback from citizens and Board of Commissioner's initiatives. Staff is evaluating and implementing actions to address priorities including stormwater, decentralized waste water, shoreline management, parks and recreation, and pedestrian planning. These master plans will become long term planning tools in prioritizing infrastructural improvements, replacements, and upgrades and serve as a basis of integration with the adopted budget and Capital Improvement Program (CIP).

The comprehensive five-year General Fund CIP plan focuses on these enhancements and incorporates completion of Dowdy Park Phases II and III, which will provide a restroom, horseshoe pit, pickle ball, multi-use basketball, and bocce ball courts, lighting, decking, and landscaping and irrigation. The estimated cost is \$1,024,408, with a combination of funding sources including grants (\$486,750) from the North Carolina Parks and Recreation Trust Fund (PARTF), the Outer Banks Visitors Bureau, and Dominion Power, designated and parks and paths capital reserve funding (\$210,409), and appropriation from the General Fund balance.

FOCUS Nags Head recommended enhancing residential connectivity throughout town, with several of the highest ranking pedestrian pathway projects being designed as a consolidated project estimated at \$1,610,250. Currently in the planning and design phase, implementation will begin in fiscal year 2020, funded from an Outer Banks Visitors Bureau grant at \$500,000, and the remainder financed over six years using parks and paths capital reserves, averaging \$208,000 a year in debt service. Pedestrian path financing will be combined with and collateralized by lighting and decking enhancements at Dowdy Park totaling \$200,000. A water line tie-in from Diamond to Danube Street is being constructed in conjunction with this pedestrian path project at \$225,000.

A grant has been awarded from the North Carolina Division of Coastal Management towards construction of an ADA accessible public beach access at Jacobs Street including a parking area, ADA accessible dune crossover, shower, and bike rack. Grant funding of \$122,225 requires local cash and in-kind contributions of \$60,426 for an \$182,651 project total.

The Town is contracted with WithersRavenel for Phases Three and Four of the stormwater master plan implementation, consisting of construction drawing development, permitting, bidding and construction contract administration using stormwater capital reserve funds. The current



Town of Nags Head

scope of work includes Gallery Row and the Red Drum Ocean Outfall (\$100,000), Nags Head Acres and Vista Colony (\$175,000), and the Village at Nags Head subdivision including South Virginia Dare Trail (\$275,000), as well as surveys and project contingencies. These projects will be financed at approximately \$650,000 over five years and collateralized along with HVAC renovations at the Dough Remaley Fire Station 16 at \$80,000. The next phase will encapsulate the conceptual design and developments of additional prioritized project areas located in flood prone areas in order to progressively and effectively develop long term, environmentally sensitive solutions to improve the Town's drainage infrastructure.

The Town is contracted with Great Lakes Dredge & Dock Company, LLC, for construction and with Coastal Science and Engineering for construction oversight and other services associated with a 3.7 million cubic yard beach nourishment maintenance collaborative project to add sand along 10 miles of its 11-mile shoreline during the summer of 2019. This joint project has a budget of \$42,824,439. To provide funding for 2.3 million cubic yards of sand, up to \$12,573,356 will come from a combination of an up-front payment of \$9,573,356, as well as five annual (5) debt payment supplements of \$600,000 from Dare County in accordance with an inter-local agreement, and a special revenue bond of \$11,380,000 at 3.08% (Series 2019A) with mainly tourism driven occupancy tax revenue being pledged as collateral. The first of five annual debt payments at \$2,451,252 will be made commencing July 2019, with subsequent semiannual interest only payments until final maturity in July 2023. Excess beach nourishment capital reserves of \$5,637,246 will defray debt borrowing as well as fund pay as you go projects including a \$750,000 30-year beach study, \$500,000 for annual profile monitoring in order to establish future renourishment projects, \$725,000 towards vegetative sprigging and sand fencing, and \$375,000 for additional ocean outfall capacity. Levied proportionate to their level of direct benefit, the Municipal Service District (MSD) tax rate of 17.5 cents and the town wide tax equivalent of 2.7 cents remain unchanged and appropriated in order to pay debt service.

This cost sharing project is with the Federal Emergency Management Agency (FEMA) to replace an additional 1.4 million cubic yards of sand from its original beach nourishment project as a result of Hurricane Matthew occurring in October 2016. FEMA has agreed to provide \$16,233,837 in funding as a 75%/25% split with the North Carolina Division of Emergency Management (NCDEM). The grant was calculated using a pro-rata distribution of certain project costs, proportionate to the total amount of sand being placed. In doing so, this combined effort will provide savings by sharing engineering, mobilization and demobilization costs. The FEMA funds have been released to the NCDEM for administration and are a pledged revenue source for an additional special obligation bond (Series 2019B) in the same amount. The Series 2019B bond at 2.82% will be issued in fiscal year 2019, with the first semiannual interest only payment of \$228,897 commencing July 2019 until balloon principal is made July 2020.

Funding the capital reserve continues and sets aside revenue sources including a penny of the ad valorem tax designated for parks and paths, two pennies of the ad valorem tax designated for stormwater management projects, facility fees, town wide and municipal service district tax net of debt service, and sales tax revenues derived from the municipal service district (MSD).

The General Fund will commence annual repayments of the Water Fund's purchase of real property. An outstanding inter-fund debt remains of \$1,023,174, from an original loan amount of \$1,623,174. The fiscal year 2019 adopted budget contains the first of fifteen annual debt



Town of Nags Head

payments commencing at \$73,756, currently amortized at 1.14%, with a payment made each July 1 until the debt is paid in full.

The Town has contracted with Rivers & Associates for a Water System Master Plan which includes a hydraulic analysis and a 10-year Capital Improvement Plan. Minimum and commodity water rates have been set as recommended by the North Carolina Rural Water Association's rate study in order to fund and plan for future capital needs identified in the Master Plan as well as sustain reliable operations. A system development fee has been adopted in accordance with North Carolina General Statutes. In order to assist with funding future capital improvements and debt payments, a Water Capital Reserve Fund has been established where these fees will accumulate and will be transferred to the Water Fund. Pay as you go projects include complete rehabilitations at \$274,450 each of the south Nags Head water tower in fiscal year 2019 and the Eighth Street water tower in fiscal year 2021. Additionally, the Town will begin replacing its asbestos water main lines with \$535,000 budgeted in fiscal year 2020, and \$300,000 each year thereafter. Ten year financing will be sought for the construction of a 12" dual water main around Jockey's Ridge and Gull Street pump station improvements estimated at \$770,750 and \$1,530,040, respectively, in fiscal year 2021.

Awards and Acknowledgements. The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town of Nags Head for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2017. The Certificate of Achievement is a prestigious national award that recognizes conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government until must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. Nags Head has received a Certificate of Achievement for the last two consecutive years. We believe our current report conforms to the Certificate of Achievement program requirements, and we are submitting it to GFOA.

We wish to express our appreciation to each member of the Finance Department who has assisted in the preparation of this report. We also thank the Mayor and the Board of Commissioners for their continued support for maintaining the highest standards of professionalism in the management of the Town of Nags Head's finances.

Respectfully submitted,

Cliff Ogburn
Town Manager

Amy Miller
Finance Director



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**Town of Nags Head
North Carolina**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2017

Christopher P. Morrill

Executive Director/CEO

Town of Nags Head, North Carolina
List of Elected and Appointed Officials
For the Fiscal Year Ended June 30, 2018

Elected Officials

Mayor
Mayor Pro Tempore
Commissioner
Commissioner
Commissioner

Ben Cahoon
Susie Walters
M. Renee Cahoon
J. Webb Fuller
Michael Siers

Appointed

Town Attorney
Town Manager

John Leidy
Cliff Ogburn

Town Administration

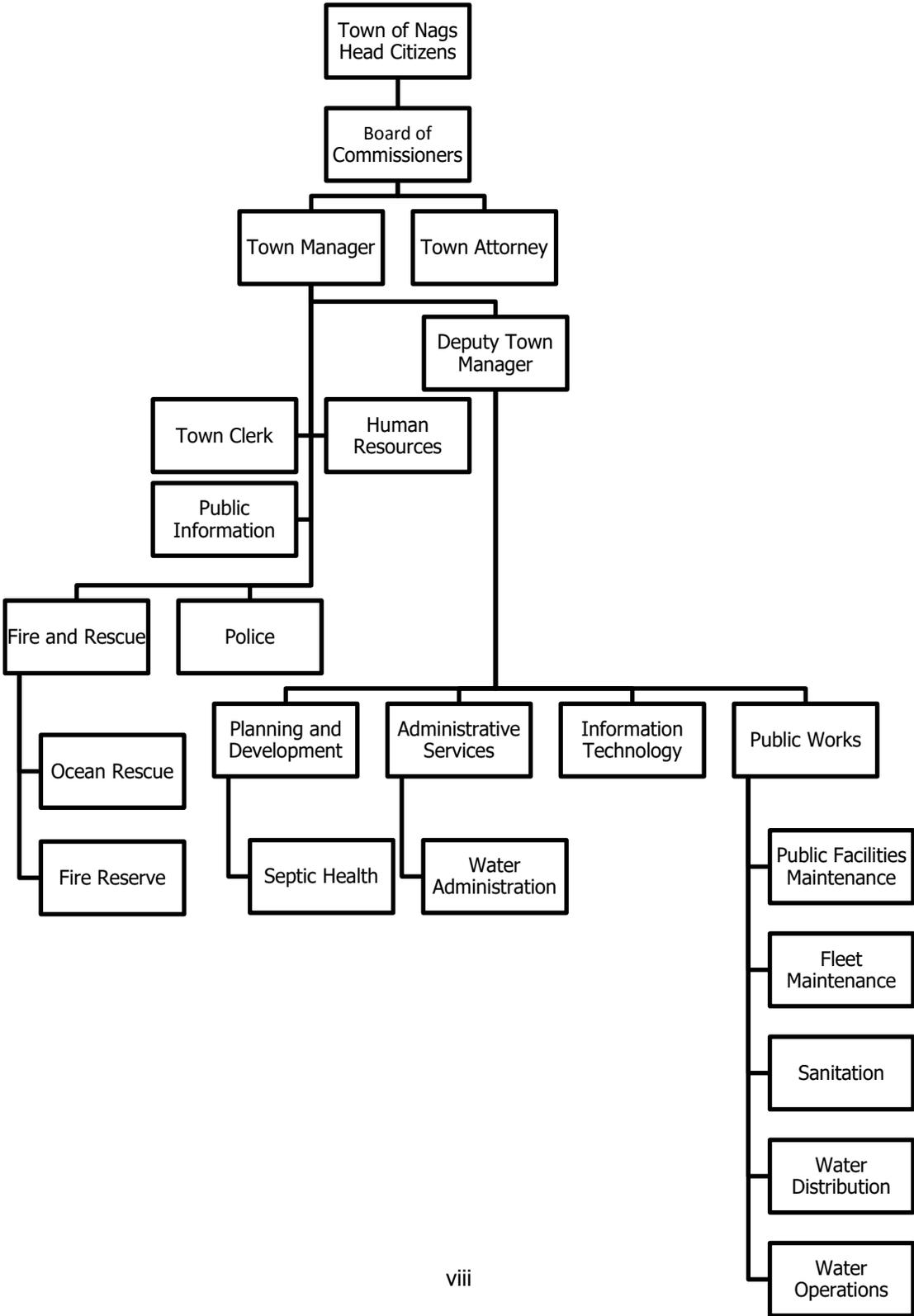
Town Clerk
Deputy Town Manager
Finance Director
Planning Director
Public Works Director
Fire Chief
Police Chief

Carolyn Morris
Andy Garman
Amy Miller
Andy Garman
Ralph Barile
Kevin Zorc
Kevin Brinkley

Town of Nags Head, North Carolina

Organizational Chart

June 30, 2018



FINANCIAL SECTION



Jeff Dowdy, CPA • Teresa Osborne, CPA

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Nags Head, North Carolina, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-

type activities, each major fund, and the aggregate remaining fund information of the Town of Nags Head, North Carolina as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4-15, the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability (Asset) and Schedule of Contributions, on pages 70-71, the Law Enforcement Officers' Special Separation Allowance Schedules of the Changes in Total Pension Liability and Total Pension Liability as a Percentage of Covered Payroll on pages 72-73 and the Schedule of Changes in Total OPEB Liability and Related Ratios on page 74 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Town of Nags Head, North Carolina. The introductory information, combining and individual fund financial statements, budgetary schedules, supplemental ad valorem tax schedules, and statistical section are presented for the purposes of additional analysis and are not a required part of the basic financial statements.

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

The introductory information and the statistical section have not been subjected to the auditing procedures applied in the audit of basic financial statements, and accordingly, we do not express an opinion or provide assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2018 on our consideration of the Town of Nags Head's internal control over

Dowdy & Osborne LLP

CERTIFIED PUBLIC ACCOUNTANTS

Jeff Dowdy, CPA • Teresa Osborne, CPA

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

Dowdy & Osborne, LLP

Dowdy & Osborne, LLP
Certified Public Accountants
Nags Head, North Carolina

December 11, 2018

Management Discussion and Analysis
Town of Nags Head
June 30, 2018

Management's Discussion and Analysis

As management of the Town of Nags Head, we offer readers of the Town of Nags Head's financial statements this narrative overview and analysis of the financial activities of the Town of Nags Head for the fiscal year ended June 30, 2018. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town of Nags Head's financial statements, which follow this narrative.

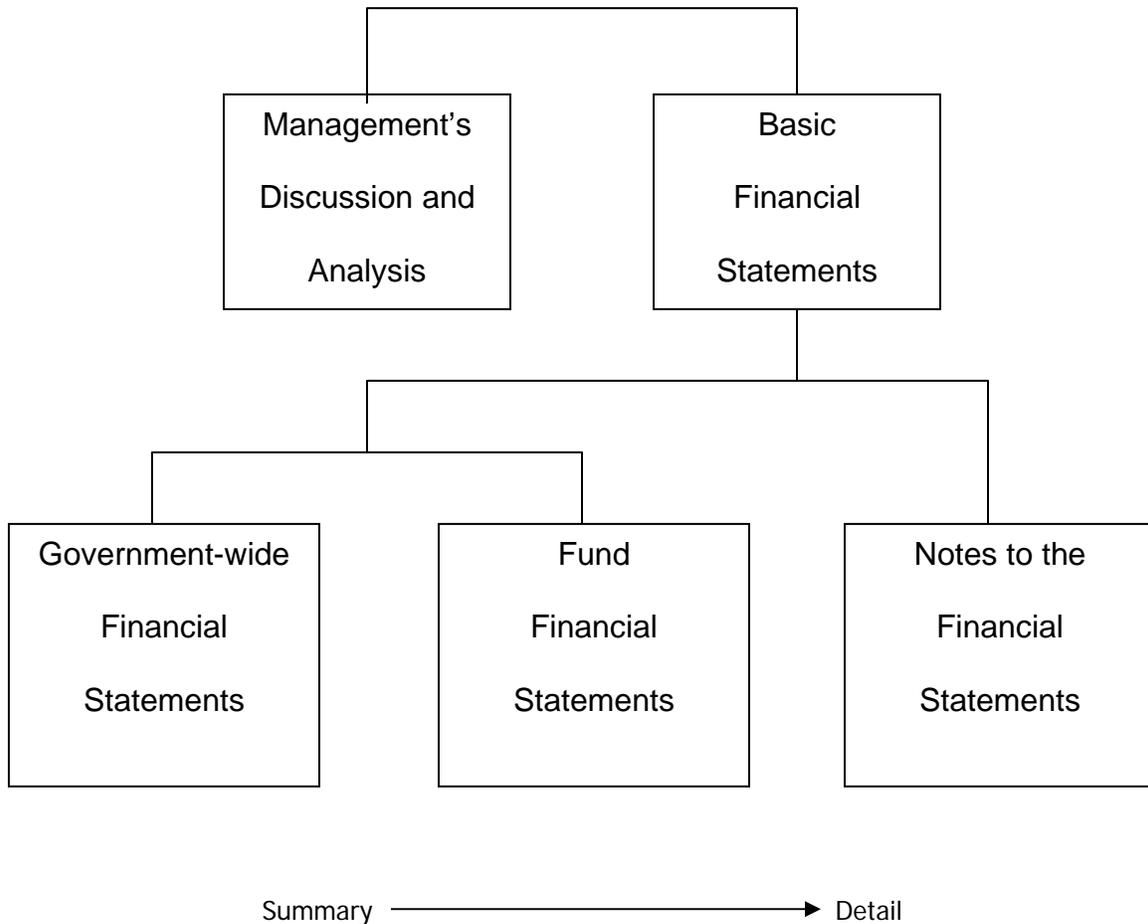
Financial Highlights

- The assets and deferred outflows of resources of the Town of Nags Head exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$ 44,460,069 (*net position*).
- The Town's total net position increased by \$ 3,139,835. This includes an increase in the governmental activities of \$ 3,355,692 and a decrease in the business-type activities of \$ 215,857.
- As of the close of the current fiscal year, the Town of Nags Head's governmental funds reported combined ending fund balances of \$ 19,286,690, an increase of \$ 2,831,004 over the prior year. Approximately 60% of this total amount, or \$ 11,533,821, is non-spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$ 6,378,688, or 45% of total general fund expenditures for the fiscal year. This is a \$ 201,207 decrease over the prior year of \$ 6,579,895, which is primarily resulting from increases in encumbrances, subsequent year's expenditures, and accounts payable.
- The Town's total governmental debt for financing contracts and capital leases decreased by \$ 126,235.
- The General Fund budget for the fiscal year June 30, 2018, was adopted with a tax rate of 29.7 cents per \$ 100 of assessed valuation, remaining constant over the prior year. 2.7 cents of this town-wide tax rate is designated by the Board for beach nourishment and 1.0 cent is designated by the Board for both parks and paths and storm water management.
- The Beach Renourishment Capital Project Fund is funded through the Capital Reserve Fund, an anticipated Special Revenue Bond, and a contribution from Dare County in anticipation of a beach maintenance project beginning in the summer of 2019.
- The municipal service district tax designated for beach nourishment was reinstated at 17.5 cents in fiscal year 2018, as the prior year was set at 0 cents.
- The total overall assessed property valuation, including property and registered motor vehicles, increased by \$ 26,754,086, from \$ 2,376,353,295 in fiscal year 2017 to \$ 2,403,107,381 in the current fiscal year. There was an increase in both the property valuation and motor vehicle valuation.

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 town's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the town through the use of government-wide statements and fund 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.

Required Components of Annual Financial Report (Figure 1)



Basic Financial Statements

The first two statements (Exhibits 1 and 2) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the town's financial status.

The next statements (Exhibits 3 through 8) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the town's government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; and 3) the proprietary fund statements.

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show details about the town's individual funds. Budgetary information required by the General Statutes also can be found in this part of the statements.

Management Discussion and Analysis
Town of Nags Head
June 30, 2018

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the town's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the town's financial status as a whole.

The two government-wide statements report the town's net position and how they have changed. Net position is the difference between the town's total assets and deferred outflows of resources and total liabilities and deferred inflows of resources. Measuring net position is one way to gauge the town's financial condition.

The government-wide statements are divided into three categories: 1) governmental activities; 2) business-type activities; and 3) component units. The governmental activities include most of the town's basic services such as public safety, general administration and street and solid waste services. Property taxes, occupancy, sales and land transfer taxes, permit fees and state and federal grant funds finance most of these activities. The business-type activities are those that the town charges customers to provide. These include the water services offered by the Town of Nags Head. The town does not have any component units.

The government-wide financial statements are on Exhibits 1 and 2 of this report.

Fund Financial Statements

The fund financial statements (see Figure 1) provide a more detailed look at the town's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The town, 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 or the town budget ordinance. All of the funds of the Town of Nags Head can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. All of the Town of Nags Head's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* that provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the town's programs. The relationship between government activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The Town of Nags Head adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the town, the management of the town, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the town to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the town complied with the budget ordinance and whether or not the town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document.

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The statement shows four columns: 1) the original budget as adopted by the board; 2) the final budget as amended by the board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges. To account for the difference between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reported activities is shown at the end of the budgetary statement.

Proprietary Funds – The Town of Nags Head has one type of proprietary fund. Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town of Nags Head uses its enterprise fund to account for its water operations. Nags Head Leasing is a blended component unit enterprise fund and is used for financing purposes. These funds are the same as those separate activities shown in the business-type activities in the Statement of Position and the Statement of Activities.

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. The notes to the financial statements are on pages 26-69 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the town's progress in funding its obligation to provide pension benefits and retiree health benefits to its employees. Required supplementary information can be found on pages 70-74 of this report.

Interdependence with Other Entities - The Town depends on financial resources flowing from, or associated with, both the Federal Government and the State of North Carolina. Because of this dependency, the Town is subject to changes in specific flows of intergovernmental revenues based on modifications to Federal and State laws and Federal and State appropriations. It is also subject to changes in investment earnings and asset values associated with U.S. Treasury Securities because of actions by foreign government and other holders of publicly held U.S. Treasury Securities.

Government-Wide Financial Analysis
Town of Nags Head Net Position
June 30, 2018

	<u>Governmental</u>		<u>Business-Type</u>		<u>Totals</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Current and other assets	\$ 19,873,207	\$ 16,961,911	\$ 4,100,113	\$ 4,216,537	\$ 23,973,320	\$ 21,178,448
Capital assets	23,857,144	23,031,136	6,337,658	6,526,182	30,194,802	29,557,318
Total assets	43,730,351	39,993,047	10,437,771	10,742,719	54,168,122	50,735,766
Deferred outflows of resources	1,211,821	1,654,039	124,922	154,977	1,336,743	1,809,016
Long-term liabilities	7,556,450	6,759,333	535,416	589,853	8,091,866	7,349,186
Other liabilities	1,751,826	508,715	715,384	555,795	2,467,210	1,064,510
Total liabilities	9,308,276	7,268,048	1,250,800	1,145,648	10,559,076	8,413,696
Deferred inflows of resources	335,685	192,242	150,035	142,659	485,720	334,901
Net position:						
Net investment in capital assets	21,952,386	20,966,687	6,220,850	6,294,923	28,173,236	27,261,610
Restricted	11,467,485	8,329,744	-	-	11,467,485	8,329,744
Unrestricted	1,878,340	4,890,365	2,941,008	3,314,466	4,819,348	8,204,831
Total net position	\$ 35,298,211	\$34,186,796	\$9,161,858	\$9,609,389	\$ 44,460,069	\$ 43,796,185

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As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets of the Town of Nags Head exceeded liabilities by \$ 44,460,069 as of June 30, 2018. The largest portion of net position, \$ 28,173,236 (64%) reflects the town's investment in capital assets (e.g. land, buildings, machinery, and equipment) less any unexpended debt proceeds and any related debt still outstanding that was issued to acquire those items. The Town of Nags Head uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Nags Head's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities.

An additional portion of the Town's net position, \$ 11,467,485 represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$ 4,819,348 is unrestricted and may be used to meet the Town's ongoing obligations to citizens and creditors.

As of June 30, 2018, the Town of Nags Head is able to report positive balances in all three categories of net position, for the government as a whole, as well as its governmental activities and net effect of its business-type activities. The same situation held true for the prior fiscal year.

Town of Nags Head Changes in Net Position
June 30, 2018

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Revenues:						
Program revenues:						
Charges for services	\$560,781	\$ 435,409	\$ 2,696,650	\$ 2,533,007	\$ 3,257,431	\$ 2,968,416
Operating grants and contributions	200,950	654,565	-	-	200,950	654,565
Capital grants and contributions	1,281,243	1,980,420	145,000	104,500	1,426,243	2,084,920
General revenues:						
Property taxes	8,559,673	7,067,172	-	-	8,559,673	7,067,172
Other taxes	5,412,038	5,788,370	-	-	5,412,038	5,788,370
Other unrestricted intergovernmental	880,000	1,018,345	-	-	880,000	1,018,345
Investment income	98,515	86,867	22,186	21,271	120,701	108,138
Other	59,916	187,262	2,951	4,490	62,867	191,752
Total Revenues	<u>17,053,116</u>	<u>17,218,410</u>	<u>2,866,787</u>	<u>2,663,268</u>	<u>19,919,903</u>	<u>19,881,678</u>
Expenses:						
General government	3,548,805	10,328,168	-	-	3,548,805	10,328,168
Public safety	5,791,918	5,501,986	-	-	5,791,918	5,501,986
Public Works	2,146,924	4,728,501	-	-	2,146,924	4,728,501
Environment Protection	1,857,765	1,730,249	-	-	1,857,765	1,730,249
Streets and Drainage	310,542	545,888	-	-	310,542	545,888
Interest on long-term debt	41,470	40,122	-	-	41,470	40,122
Water Utility	-	-	3,082,644	3,802,181	3,082,644	3,802,181
Total Expenses	<u>13,697,424</u>	<u>22,874,914</u>	<u>3,082,644</u>	<u>3,802,181</u>	<u>16,780,068</u>	<u>26,677,095</u>
Increase (decrease) in Net Position before transfers	<u>3,355,692</u>	<u>(5,656,504)</u>	<u>(215,857)</u>	<u>(1,138,913)</u>	<u>3,139,835</u>	<u>(6,795,417)</u>
Transfers	-	69,670	-	(69,670)	-	-
Increase (decrease) in Net Position	<u>3,355,692</u>	<u>(5,586,834)</u>	<u>(215,857)</u>	<u>(1,208,583)</u>	<u>3,139,835</u>	<u>(6,795,417)</u>
Net position – July 1 (previously reported)	34,186,796	40,485,317	9,609,389	10,817,972	43,796,185	51,303,289
Restatement due to GASB 73 implementation	-	(711,687)	-	-	-	(711,687)
Restatement due to GASB 75 implementation	(2,244,277)	-	(231,674)	-	(2,475,951)	-
Net position – July 1 (restated)	<u>31,942,519</u>	<u>39,773,630</u>	<u>9,377,715</u>	<u>10,817,972</u>	<u>41,320,234</u>	<u>50,591,602</u>
Net position – June 30	<u>\$ 35,298,211</u>	<u>\$ 34,186,796</u>	<u>\$9,161,858</u>	<u>\$9,609,389</u>	<u>\$ 44,460,069</u>	<u>\$ 43,796,185</u>

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Governmental activities. Governmental activities increased the town's net position by \$ 3,355,692. The Town reinstated the Municipal Service District Tax in Fiscal Year 2018 at 17.5 cents, compared to 0 cents in Fiscal Year 2017. This tax generated an additional \$1,412,472 in revenue. Additional revenue totaling \$401,902 was booked from the Federal Emergency Management Agency (FEMA) and the North Carolina Division of Emergency Management (NCDEM) and transferred to the Capital Reserve Fund. Both will be used to offset future debt payments on beach renourishment special obligation bonds. A \$645,799 Dare County contribution towards beach nourishment maintenance expenditures is reflected in the Beach Renourishment Fund. Shared revenues including sales, occupancy, and land transfer tax collections decreased by \$371,136 due to the Town's shared levy percentage decrease as a result of no Municipal Service District (MSD) tax in fiscal year 2017. General Fund total expenditures decreased by \$1,355,667 due primarily to the completion of Dowdy Park Phase I at \$1,610,776 in Public Works in the prior fiscal year. Dowdy Park Phase II encumbrances of \$534,313 will be partially offset in fiscal year 2019 by grant funding of \$476,750. Depreciation expense decreased by \$9,294,552 or 83.24%. The fifth and final year of depreciation at \$6,450,872 was taken on the original beach nourishment project in the prior fiscal year. Additionally, in fiscal year 2017, the Town sold its nursing home property, resulting in a final depreciation amount of \$2,577,374 on that asset. The effects of the implementation of GASB Statement 75 resulted in a significant decrease of \$2,244,277 in the change in unrestricted net position. The implementation required the Town to restate beginning total OPEB liability and the effects of net position of benefit payments and administrative expenses paid by the Town related to OPEB during the measurement period (fiscal year ending June 30, 2017).

The Town opened the Beach Renourishment Capital Project Fund in fiscal year 2017, initially funded through a \$2,674,211 transfer from the beach nourishment reserve in the capital reserve fund in order to begin project design and engineering. In 2018, a \$12,000 transfer was made to cover a change order on the engineering contract to capture additional work needed due to Hurricane Matthew.

Business-type activities. Business-type activities in the water fund decreased the town's net position by \$ 215,857.

The decrease in net position of \$ 215,857 in the water fund compares to a decrease in the prior year of \$ 263,253. Operating expenses including depreciation increased 6.33% primarily due to a \$98,527 or 17.69% increase in the reimbursement to the General Fund attributed to new additional positions budgeted in the General Fund included in the indirect cost allocation. The wholesale water rate increased from \$1.872 to \$1.891 per million gallons purchased, while water rates remained unchanged.

Financial Analysis of the Town of Nags Head's Funds

As noted earlier, the Town of Nags Head uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. 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, unassigned 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, unassigned fund balance of the general fund was \$ 6,378,688, while total fund balance reached \$17,178,816. The Governing Body of the Town of Nags Head has

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determined that the Town should maintain an available fund balance of 50% of expenditures less bond debt, but not less than \$5 million as per audited financial statements at the end of each fiscal year in case of unforeseen needs or opportunities, in addition to meeting the cash flow needs of the Town. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents 45% of total general fund budgeted expenditures for the fiscal year.

At June 30, 2018, the governmental funds of Town of Nags Head reported a combined fund balance of \$ 19,286,690, a 14.68% increase over last year. Included in this change in fund balance is an increase in the general fund and the beach renourishment fund.

Proprietary Fund. The Town of Nags Heads' proprietary fund provides the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Water Fund at the end of the fiscal year amounted to \$2,941,008, a 11.26% decrease over last year. The effects of the implementation of GASB Statement 75 resulted in a significant decrease in the change in unrestricted net position in the water fund. The implementation required the Town to restate beginning total OPEB liability by \$231,674. Other factors concerning the finances of these funds have already been addressed in the discussion of the Town of Nags Head's business-type activities.

General Fund Budgetary Highlights: During the fiscal year, the Town revised the budget on several occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services. The primary changes to the adopted budget were to appropriate \$1,090,962 of lease purchase funds and associated capital outlay expenditures for budgeted capital purchases, including a new bath house at Bonnett Street budgeted at \$460,000 in Public Works, as well as heavy vehicles and equipment at \$285,350. Additional budget amendments for transfers in from the Capital Reserve Fund were adopted for enclosing the Planning department office using \$20,500 of facility fees, a police evidence room ventilation system at \$26,940 using facility fees, and additional stormwater master plan funding at \$158,500 using excess stormwater capital reserve funds. Fund balance appropriations of \$916,335 were made for fiscal year 2017 open encumbrances including General Government capital outlay software at \$193,666 and a comprehensive code update budgeted in current expenditures at \$54,540. In Public Works, Dowdy Park capital outlay expenditures were partially budgeted using carried over fiscal year 2017 encumbrances at \$493,222.

Several factors can be taken into account for actual revenues being \$773,536 (5.02%) over budget. Ad valorem taxes were \$128,082 (1.52%) over budget due to better than anticipated collections of current year's town wide taxes for property excluding motor vehicles at 99.994% and registered motor vehicles at 100% compared to the 99.75% collection rate budgeted for each. Additionally, total town wide property valuation was \$2,403,107,381 compared to \$2,373,199,086 budgeted (1.26% increase) due to additional property discoveries

Other taxes and licenses were over budget by \$295,182 (5.77%) due to growth in gross Dare County collections of 5.21% in occupancy tax, 7.40% in land transfer tax, and 5.24% in the locally collected portion of sales tax. Growth for these items was budget at 2.50%, .95%, and 2.67%, respectively.

Unrestricted Intergovernmental revenues were \$49,000 (5.27%) under budget primarily due to utility sales tax revenues coming in at 6.46% under budget, or \$43,594.

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Restricted intergovernmental revenues were over budget by \$400,009 due to a \$401,902 receivable booked for uninsured losses for eligible work incurred resulting from Hurricane Matthew thorough fiscal year 2017-2018, upon formal notification that grant funds from Federal Emergency Management Agency (FEMA) and the North Carolina Division of Emergency Management (NCDEM) had been committed and released to the NCDEM. These grant funds were transferred to the Capital Reserve Fund and will be used to offset the debt payments of the special obligation bond.

Net investment earnings were \$50,293 (41.91%) under budget. Although investment income of \$164,236 was realized, the fair market valuation decreased investments by \$94,529.

Transfers in from the Capital Reserve Fund were under budget by \$88,262 primarily due to open encumbrances of \$66,440 for projects funded through the capital reserve, including additional design services for the stormwater master plan at \$39,500, and a police evidence room ventilation system encumbered at \$26,940.

General Fund expenditures were generally in line with the revised budget, with some exceptions noted. A stormwater master plan is currently under way towards implementation of a construction contract using stormwater capital reserve funds. As these professional services are part of a scope of work encapsulating design and developments of prioritized project areas located in flood zones, the design work is recorded as a capital asset and is included in capital outlay. As a result, Streets and Drainage current expenditures are under budget by \$ 349,992 and over budget by \$206,708 in capital outlay expenditures. Powell Bill funding will be used in Streets and Drainage capital outlay for streets and drainage improvements encumbered at \$71,700. Capital outlay expenditures for both Public Works and General Government are under budget due to open encumbrances. Public Works active construction project commitments as of June 30, 2018 totaled \$534,313 for Dowdy Park Phase II. Additionally, The Town is contracting out a pavement condition survey encumbered and budgeted at \$50,000. Repair work to beach accesses are encumbered and budgeted at \$42,200. Funds are encumbered in Public Works as well for replacements of generators, ventilators, and HVAC work budgeted at \$127,180. General Government departments are in the process of software conversion, and open encumbrances towards that project total \$223,099.

Transfers to the Capital Reserve Fund are over budget by \$455,960 primarily due to the unbudgeted revenue received from FEMA and the NCDEM as discussed in restricted intergovernmental revenues.

Capital Asset and Debt Administration

Capital assets. The Town of Nags Head's investment in capital assets for its governmental and business-type activities as of June 30, 2018, totals \$ 30,194,803 (net of accumulated depreciation). These assets include land, construction in process, buildings, other improvements, equipment, vehicles and intangible assets in the water fund.

Major capital asset transactions during the year include the following additions:

- A Knuckle Boom truck costing \$133,288
- Financial software, Permitting and Business License module related costs \$52,438
- 4 police vehicles costing \$169,631
- Bonnett Street bath house costs \$454,489
- A truck each for Administration, Planning, and Water Distribution costing \$99,681
- Construction related to Dowdy Park costing \$82,929
- Police K-9 costing \$15,500

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- Digital Evidence Management System \$42,376
- Planning Department renovation related costs \$ 47,982
- Beach Nourishment related costs \$1,154,555
- Water Master Plan costs \$141,380

Town of Nags Head Capital Assets (net of accumulated depreciation)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Land	\$ 10,511,321	\$ 10,302,205	\$ 1,853,473	\$ 1,853,473	\$ 12,364,794	\$ 12,155,678
Art	107,553	-	-	-	107,553	-
Construction in progress	1,142,747	398,588	-	-	1,142,747	398,589
Buildings	4,093,456	3,793,045	1,001,186	3,019,659	5,094,642	6,812,704
Other improvements	21,971	4,063,972	50,065	-	72,036	4,063,969
Improvements	686,562	-	308,248	-	994,810	-
Equipment	701,193	800,341	188,912	246,538	890,105	1,046,879
Vehicles	2,825,563	2,805,988	60,264	65,035	2,885,827	2,871,023
Intangibles	-	145,435	1,233,074	1,341,477	1,233,074	1,486,912
Plant	-	721,562	-	-	-	721,562
Infrastructure	3,766,778	-	1,642,437	-	5,409,215	-
Total	\$ 23,857,144	\$ 23,031,136	\$ 6,337,659	\$ 6,526,182	\$30,194,803	\$ 29,557,318

Additional information on the town's capital assets can be found on pages 41-42 in the notes to the financial statements.

Long-term Debt. The Town of Nags Head's total debt decreased by \$551,367 (5.6%) primarily due a decrease of \$558,763 (26.71%) in the Town's proportionate share of the Local Government Employees' Retirement System (LGERs) net pension liability. As of June 30, 2018, the Town had long-term debt totaling \$ 9,383,514. \$ 8,715,686 of this amount is reported in the governmental activities and \$ 667,828 is reported in the business-type activities. New debt financed during the year consisted of \$460,000 for finance contracts and \$ 660,179 for capital purchases. GASB 75 requires a restatement of the 2017 total OPEB liability. This restatement increases the 2017 total OPEB liability by \$2,244,277 in the governmental activities and \$231,674 in the business-type activities.

Town of Nags Head Outstanding Debt

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2018</u>	<u>2017</u> (as restated)	<u>2018</u>	<u>2017</u> (as restated)	<u>2018</u>	<u>2017</u> (as restated)
Finance contract	\$ 464,666	\$ 343,333	\$ 86,666	\$ 173,333	\$ 551,332	\$ 516,666
Capital leases	1,639,330	1,886,898	60,117	87,901	1,699,447	1,974,799
Total OPEB liability	3,744,290	3,602,027	345,595	332,846	4,089,885	3,934,873
Total pension liability (LEOSSA)	823,639	772,627	-	-	823,639	772,627
Net pension liability (LGERs)	1,403,666	1,910,611	129,557	181,375	1,533,223	2,091,986
Compensated absences	640,095	597,859	45,893	46,071	685,988	643,930
Total	\$ 8,715,686	\$ 9,113,355	\$ 667,828	\$ 821,526	\$ 9,383,514	\$ 9,934,881

Additional information in the Town's debt can be found on pages 57-61 in the notes to the financial statements.

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North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the Town of Nags Head is \$ 189,997,811.

Economic Factors and Next Year's Budgets and Rates

- Average unemployment rate in Dare County of 5.9% is higher than the State of North Carolina's 2018 average of 4.43%, however, Dare County experiences significant seasonality in rates with a high of 10.7% in February 2018 and a low of 3.9% in June of 2018.
- Projected growth factors for shared revenues in fiscal year 2019 include occupancy tax increasing 2.50%, land transfer tax increasing 1.01%, and sales tax increasing 2.67% (Article 39), 3.50% (Article 40), and 3.25% (Article 42).
- Travel and tourism have increased within Dare County with gross occupancy tax collections increasing by 5.21% and the locally collected portion of sales tax increasing by 5.24%.
- Gross land transfer tax collections within Dare County have increased by 7.40%
- Building and construction are good economic indicators in Dare County, and steady growth has been experienced in the Town with a 15.41% increase in building permit revenues.

Budget Highlights for the Fiscal Year Ending June 30, 2019

- The adopted budget for the June 30, 2019, fiscal year includes a tax rate of \$.307 per \$ 100 of assessed valuation. This includes an increase of \$.01 from the prior fiscal year in order to designate an additional \$.01 for storm water projects. \$.027 of this total is designated by the Board for beach nourishment; \$.01 is designated by the Board for parks and paths, and \$.02 for storm water management. The Municipal Service District (MSD) tax for the purpose of beach nourishment has been maintained at \$.175 per \$100 of assessed valuation for the fiscal year 2019.
- A 3.7 million cubic yard beach nourishment maintenance project will begin in the summer of 2019 and is budgeted at \$42,824,439. Dare County is funding \$9,573,356 up front and providing five annual debt supplement payments at \$600,000 each. \$5,637,246 will come from the beach nourishment capital reserve through excess collections of town-wide and MSD beach nourishment taxes, excess collections of sales tax from the Town's increase in shared revenue, and interest income earned on those funds. A special revenue bond (Series 2019A) will be issued at \$11,380,000, with tourism driven occupancy tax revenue being pledged as collateral. An additional special revenue bond (Series 2019B) will be issued at \$16,233,837 pledged by committed grant funding through a 75%/25% split with the Federal Emergency Management Agency (FEMA) and the North Carolina Division of Emergency management (NCDEM)
- Two new full time positions include a planning director and a sanitation equipment operator. Additionally, two new seasonal positions include a cart roll back employee and an events coordinator.
- Stormwater development project areas include Gallery Row, the Red Drum Ocean Outfall, Nags Head Acres, Vista Colony, and the Village at Nags Head subdivision including the South Virginia Dare Trail portion. These projects will be financed at approximately \$650,000 over five years and collateralized along with HVAC renovations at the Dough Remaley Fire Station 16 at \$80,000. Additional phases funded through the capital reserve encapsulate the conceptual design and developments of additional prioritized projects located in flood prone areas in order to provide long term drainage improvements to the Town.

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- A 1% cost of living adjustment is included in the budget for all employees. An additional 1% is budgeted to implement performance based merit increases.
 - The reinstatement of the Towns' MSD tax in fiscal year 2018 for its beach nourishment projects resulted in an increase in the Town's tax levy and a proportionate increase in shared revenues in fiscal year 2019. The Town's portion of land transfer and occupancy tax revenues increased to 27.49% compared to fiscal year 2018 at 23.99%. The Town's portion of sales tax distribution increased to 8.41% in fiscal year 2019, up from 7.52% in fiscal year 2018. The Town's proportionate share is based on its ad valorem tax levy as a percentage of the other municipalities within Dare County.
 - The General Fund budget is \$18,687,313. This is a 10.58% increase over the prior year budget due to a once cent tax increase, an increase in shared revenues (occupancy, land transfer, and sales taxes), and increased interfund activity including the transfer of sales tax revenues derived from the municipal service district (MSD).
 - Business-type activities budgeted expenditures are anticipated to be \$3,672,355, which is approximately a 14.28% increase over the prior year budget. Pay as you go capital improvement projects are the primary reason for the increase, including a \$274,450 rehabilitation of the south Nags Head water tower and a water line tie-in from Diamond to Danube Street at \$225,000. In order to provide funding, minimum and commodity water rates have been increased and set as recommended by the North Carolina Rural Water Association, while maintaining the same base quantity and structure of base and commodity charges.
 - A system development fee and Water Capital Reserve Fund have been adopted in accordance with North Carolina General Statutes. Through direct appropriation from the Water Fund, the system development fees budgeted at \$50,000 will accumulate in the Water Capital Reserve Fund. Direct transfers to the Water Fund will be made from the Water Capital Reserve Fund in order to assist with future capital improvements and debt service for adopted projects related to the Town's water system as part of a 10-year Capital Improvement Plan.
 - Capital Reserve Fund expenditures for Fiscal Year 2019 include:
 - Stormwater project implementation \$470,800
 - Dowdy Park phase II/III development \$246,909
 - Beach Road multi-use path repairs \$ 25,000
 - Police software/hardware debt payment \$ 5,630
 - Capital projects included in the general fund budget are:
 - Cash funded:
 - Design for pedestrian plan implementation \$ 50,000
(construction to begin in fiscal year 2019-2020)
 - Financed:
 - Scheduling software (\$26,284)
debt service \$ 9,107
 - Motor grader (\$170,000)
debt service \$ 37,396
 - Fire pumper (\$684,000)
debt service \$ 84,363
 - Residential sanitation truck (\$290,000)
debt service \$ 63,793
(debt supplemented by \$20,000 from the Capital Reserve)
 - Funded by Grants:
 - Jacob Street public beach access improvements \$ 182,651
(grant funding of \$122,225 and local cash and in-kind funding of \$60,426)

Management Discussion and Analysis
Town of Nags Head
June 30, 2018

Requests for Information

This report is designed to provide an overview of the town's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Finance Officer, Town of Nags Head, P.O. Box 99, Nags Head, North Carolina 27959. You can also call (252) 441-5508, visit our web site www.nagsheadnc.gov or send an email to Amy.Miller@nagsheadnc.gov for more information.

BASIC FINANCIAL STATEMENTS

Town of Nags Head, North Carolina
Statement of Net Position
June 30, 2018

Exhibit 1

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 10,203,426	\$ 3,037,333	\$ 13,240,759
Taxes receivable (net)	296	-	296
Accounts receivable (net)	15,335	522,395	537,730
Accrued interest receivable	69,805	13,822	83,627
Due from other governments	2,553,321	-	2,553,321
Inventories	53,334	62,172	115,506
Prepaid items	13,002	-	13,002
Restricted cash and cash equivalents	6,964,688	464,391	7,429,079
Total current assets	<u>19,873,207</u>	<u>4,100,113</u>	<u>23,973,320</u>
Capital Assets:			
Land, non-depreciable improvements and construction in progress	11,761,621	1,853,473	13,615,094
Other capital assets, net of depreciation	12,095,523	4,484,185	16,579,708
Total capital assets	<u>23,857,144</u>	<u>6,337,658</u>	<u>30,194,802</u>
Total assets	<u>43,730,351</u>	<u>10,437,771</u>	<u>54,168,122</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension deferrals OPEB	86,956	26,935	113,891
Pension deferrals LEOSSA	63,239	-	63,239
Pension deferrals LGERS	1,061,626	97,987	1,159,613
Total deferred outflows of resources	<u>1,211,821</u>	<u>124,922</u>	<u>1,336,743</u>
LIABILITIES			
Current liabilities:			
Accounts payable	300,150	133,512	433,662
Salaries and benefits	271,178	14,293	285,471
Accrued interest payable	17,801	751	18,552
Unearned revenue	205	-	205
Due to other governments	556	-	556
Current portion of long-term liabilities	1,159,236	132,412	1,291,648
Liabilities to be paid from restricted assets	2,700	434,416	437,116
Total current liabilities	<u>1,751,826</u>	<u>715,384</u>	<u>2,467,210</u>
Long-term liabilities:			
Due in more than one year	7,556,450	535,416	8,091,866
Total liabilities	<u>9,308,276</u>	<u>1,250,800</u>	<u>10,559,076</u>
DEFERRED INFLOWS OF RESOURCES			
Pension deferrals LGERS	117,800	10,873	128,673
Pension deferrals LEOSSA	31,944	-	31,944
Pension deferrals OPEB	185,941	17,162	203,103
Prepaid water impact fees	-	122,000	122,000
Total deferred inflows of resources	<u>335,685</u>	<u>150,035</u>	<u>485,720</u>
NET POSITION			
Net investment in capital assets	21,952,386	6,220,850	28,173,236
Restricted for:			
Stabilization by state statute	4,594,822	-	4,594,822
Streets	106,824	-	106,824
Public safety	26,100	-	26,100
Capital reserve fund	6,739,739	-	6,739,739
Unrestricted	1,878,340	2,941,008	4,819,348
Total net position	<u>\$ 35,298,211</u>	<u>\$ 9,161,858</u>	<u>\$ 44,460,069</u>

Town of Nags Head, North Carolina
Statement of Activities
For the Year Ended June 30, 2018

Exhibit 2

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Primary Government:							
Governmental Activities							
General Government	\$ 3,548,805	\$ 556,438	\$ 24,275	\$ 1,047,680	\$ (1,920,412)	\$ -	\$ (1,920,412)
Public Safety	5,791,918	4,343	58,844	23,131	(5,705,600)	-	(5,705,600)
Public Works	2,146,924	-	24,000	185,000	(1,937,924)	-	(1,937,924)
Environmental Protection	1,857,765	-	-	-	(1,857,765)	-	(1,857,765)
Streets and Drainage	310,542	-	93,831	25,432	(191,279)	-	(191,279)
Interest on long-term debt	41,470	-	-	-	(41,470)	-	(41,470)
Total governmental activities	<u>13,697,424</u>	<u>560,781</u>	<u>200,950</u>	<u>1,281,243</u>	<u>(11,654,450)</u>	<u>-</u>	<u>(11,654,450)</u>
Business-type activities:							
Water	3,082,644	2,696,650	-	145,000	-	(240,994)	(240,994)
Total business-type activities	<u>3,082,644</u>	<u>2,696,650</u>	<u>-</u>	<u>145,000</u>	<u>-</u>	<u>(240,994)</u>	<u>(240,994)</u>
Total primary government	<u>\$ 16,780,068</u>	<u>\$ 3,257,431</u>	<u>\$ 200,950</u>	<u>\$ 1,426,243</u>	<u>(11,654,450)</u>	<u>(240,994)</u>	<u>(11,895,444)</u>
General revenues:							
Taxes:							
Property taxes levied for general purpose					7,147,201	-	7,147,201
Municipal service district taxes					1,412,472	-	1,412,472
Occupancy tax					2,419,390	-	2,419,390
Land transfer taxes					592,775	-	592,775
Sales taxes					2,339,634	-	2,339,634
Other taxes and licenses					60,239	-	60,239
Other unrestricted intergovernmental revenues					880,000	-	880,000
Net unrestricted investment earnings					98,515	22,186	120,701
Miscellaneous					59,916	2,951	62,867
Total general revenues					<u>15,010,142</u>	<u>25,137</u>	<u>15,035,279</u>
Total change in net position					3,355,692	(215,857)	3,139,835
Net position - beginning, previously reported					34,186,796	9,609,389	43,796,185
Restatement					(2,244,277)	(231,674)	(2,475,951)
Net position - beginning, restated					31,942,519	9,377,715	41,320,234
Net position - ending					<u>\$ 35,298,211</u>	<u>\$ 9,161,858</u>	<u>\$ 44,460,069</u>

Town of Nags Head, North Carolina
Governmental Funds
Balance Sheet
June 30, 2018

Exhibit 3

	Major Funds		
	General	Beach Renourishment	Total
ASSETS			
Cash and cash equivalents	\$ 8,706,965	\$ 1,496,461	\$ 10,203,426
Restricted cash and cash equivalents	6,964,688	-	6,964,688
Taxes receivable (net)	296	-	296
Accounts receivable (net)	15,335	-	15,335
Accrued interest receivable	63,803	6,002	69,805
Due from other governments	1,907,542	645,779	2,553,321
Inventories	53,334	-	53,334
Prepaid items	13,002	-	13,002
Total assets	<u>17,724,965</u>	<u>2,148,242</u>	<u>19,873,207</u>
LIABILITIES			
Accounts payable	259,782	40,368	300,150
Salaries and benefits	271,178	-	271,178
Due to other governments	556	-	556
Unearned revenue	205	-	205
Liabilities payable from restricted assets:			
Bonds and deposits	2,700	-	2,700
Total liabilities	<u>534,421</u>	<u>40,368</u>	<u>574,789</u>
DEFERRED INFLOWS OF RESOURCES			
Property taxes receivable	296	-	296
Miscellaneous receivables	11,432	-	11,432
Total deferred inflows of resources	<u>11,728</u>	<u>-</u>	<u>11,728</u>
FUND BALANCES:			
Nonspendable:			
Inventories	53,334	-	53,334
Prepays	13,002	-	13,002
Restricted:			
Restricted for Stabilization by State statute	3,187,758	1,407,064	4,594,822
Restricted for Streets	106,824	-	106,824
Restricted for Public Safety	26,100	-	26,100
Restricted for Capital Reserve Fund	6,739,739	-	6,739,739
Committed:			
Health Insurance	40,000	-	40,000
LEO Special Separation Allowance	183,371	-	183,371
Beach Renourishment capital projects	-	700,810	700,810
Assigned:			
Subsequent year's expenditures	450,000	-	450,000
Unassigned	6,378,688	-	6,378,688
Total fund balances	<u>17,178,816</u>	<u>2,107,874</u>	<u>19,286,690</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 17,724,965</u>	<u>\$ 2,148,242</u>	

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

Town of Nags Head, North Carolina
Governmental Funds
Reconciliation of the Balance Sheet of Governmental Funds
To The Statement of Net Position
June 30, 2018

Exhibit 3
(Continued)

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

Total fund balances-governmental fund (previous page)	\$ 19,286,690
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	23,857,144
Deferred outflows of resources related to pensions are not reported in the funds	
Pension deferrals - LEOSSA	63,239
Pension deferrals - OPEB	86,956
Pension deferrals - LGERS	1,061,626
	<u>1,211,821</u>
Deferred inflows of resources related to pensions are not reported in the funds	
Pension related deferrals-LGERS	(117,800)
Pension related deferrals-LEOSSA	(31,944)
Pension related deferrals-OPEB	(185,941)
	<u>(335,685)</u>
Liabilities for earned revenues considered deferred inflows of resources in fund statements:	
Deferred taxes receivable	296
Deferred miscellaneous receivable	11,432
	<u>11,728</u>
Long-term liabilities used in governmental activities are not financial uses and therefore are not reported in the funds	(2,744,091)
Net pension liability	(1,403,666)
Total pension liability	(823,639)
Total OPEB liability	(3,744,290)
Other long-term liabilities (accrued interest) are not due and payable in the current period and therefore are not reported in the funds	(17,801)
Net position of governmental activities (Exhibit 1)	<u><u>\$ 35,298,211</u></u>

Town of Nags Head, North Carolina
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2018

Exhibit 4

	Major Funds		Total Governmental Funds
	General Fund	Beach Renourishment	
REVENUES			
Ad valorem taxes	\$ 8,559,752	\$ -	\$ 8,559,752
Other taxes and licenses	5,411,329	-	5,411,329
Unrestricted intergovernmental	880,000	-	880,000
Restricted intergovernmental	638,006	645,779	1,283,785
Permits and fees	367,214	-	367,214
Sales and services	69,837	-	69,837
Net investment earnings	82,418	16,097	98,515
Miscellaneous	186,555	-	186,555
Total revenues	16,195,111	661,876	16,856,987
EXPENDITURES			
Current:			
General Government	2,798,124	-	2,798,124
Public Safety	5,355,905	-	5,355,905
Environmental Protection	1,589,536	-	1,589,536
Public Works	1,548,039	-	1,548,039
Streets and Drainage	69,318	-	69,318
Debt service:			
Principal	1,216,638	-	1,216,638
Interest and other charges	37,307	-	37,307
Capital outlay:			
General Government	232,595	864,355	1,096,950
Public Safety	255,664	-	255,664
Environmental Protection	148,597	-	148,597
Public Works	721,702	-	721,702
Streets and Drainage	300,200	-	300,200
Total expenditures	14,273,625	864,355	15,137,980
Revenues over (under) expenditures	1,921,486	(202,479)	1,719,007
OTHER FINANCING SOURCES (USES)			
Capital lease obligations issued	1,090,403	-	1,090,403
Transfers from:			
General Fund	-	12,000	12,000
Transfers to:			
Beach Renourishment Fund	(12,000)	-	(12,000)
Sale of Capital Assets	21,594	-	21,594
Total other financing sources (uses)	1,099,997	12,000	1,111,997
Net change in fund balance	3,021,483	(190,479)	2,831,004
Fund balances - beginning	14,157,333	2,298,353	16,455,686
Fund balances - ending	\$ 17,178,816	\$ 2,107,874	\$ 19,286,690

Town of Nags Head, North Carolina
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2018

Exhibit 4
(Continued)

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

Net changes in fund balances - total governmental funds		\$ 2,831,004
<p>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.</p>		
Capital Outlay	2,523,113	
Loss on fixed assets	(11,088)	
Depreciation	<u>(1,871,017)</u>	641,008
LGERS pension plan deferrals in the current fiscal year are not included on the Statement of Activities		439,487
OPEB plan deferrals in the current fiscal year are not included on the Statement of Activities		86,956
LEOSSA plan deferrals are not included on the Statement of Activities		40,185
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues/expenditures in the funds.</p>		
Changes in tax revenues	630	
Donated asset	<u>185,000</u>	185,630
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>		
Debt Issued	(1,090,403)	
Increase in accrued interest payable	(4,163)	
Principal repayments	<u>1,216,638</u>	<u>122,072</u>
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>		
LGERS pension expense	(445,761)	
LEOSSA pension expense	(64,705)	
Increase in compensated absences	(42,236)	
OPEB plan expense	<u>(437,948)</u>	(990,650)
Total change in net position of governmental activities		<u>\$ 3,355,692</u>

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

**Town of Nags Head, North Carolina
General Fund**

Exhibit 5

**Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2018**

	Budgeted Amounts		Actual	Variance Positive (Negative)
	Original Budget	Revised Budget		
Revenues:				
Ad valorem taxes	\$ 8,431,670	\$ 8,431,670	\$ 8,559,752	\$ 128,082
Other taxes and licenses	5,116,147	5,116,147	5,411,329	295,182
Unrestricted intergovernmental	929,000	929,000	880,000	(49,000)
Restricted intergovernmental	236,218	237,997	638,006	400,009
Permits and fees	328,800	328,800	367,214	38,414
Sales and services	80,750	80,750	69,837	(10,913)
Net investment earnings	120,000	120,000	69,707	(50,293)
Miscellaneous	162,500	164,500	186,555	22,055
Total revenues	15,405,085	15,408,864	16,182,400	773,536
Expenditure:				
Current:				
General Government	2,916,712	2,990,010	2,798,124	191,886
Public Safety	5,406,790	5,432,358	5,355,905	76,453
Environmental Protection	1,673,055	1,673,910	1,589,536	84,374
Public Works	1,709,473	1,777,114	1,548,039	229,075
Streets and Drainage	252,610	419,310	69,318	349,992
Debt service:				
Principal	1,201,682	1,229,960	1,216,638	13,322
Interest and other charges	37,417	37,417	37,307	110
Capital outlay:				
General Government	34,800	466,801	232,595	234,206
Public Safety	82,986	267,878	255,664	12,214
Environmental Protection	3,000	149,597	148,597	1,000
Public Works	173,270	1,498,980	721,702	777,278
Streets and Drainage	90,000	93,492	300,200	(206,708)
Contingency	125,000	1	-	1
Total expenditures	13,706,795	16,036,828	14,273,625	1,763,203
Revenues over (under) expenditures	1,698,290	(627,964)	1,908,775	2,536,739
Other financing sources (uses):				
Transfers from Capital Reserve Fund	503,534	716,254	627,992	(88,262)
Transfers to Capital Reserve Fund	(2,537,327)	(2,537,327)	(2,993,287)	(455,960)
Installment purchase obligations issued	-	1,090,403	1,090,403	-
Sale of Capital Assets	20,000	20,000	21,594	1,594
Appropriated Fund Balance	315,503	1,338,634	-	(1,338,634)
Total other financing sources (uses)	(1,698,290)	627,964	(1,253,298)	(1,881,262)
Net change in fund balance	\$ -	\$ -	655,477	\$ 655,477
Fund balances, beginning of year			<u>9,783,600</u>	
Fund balances, end of year			<u>\$ 10,439,077</u>	
A legally budgeted Capital Reserve Fund is consolidated into the General Fund for reporting purposes:				
Interest Income			\$ 12,711	
Transfers to General Fund			(627,992)	
Transfers from General Fund			2,993,287	
Transfers to Beach Renourishment Fund			(12,000)	
Fund balance, beginning of the year			<u>4,373,733</u>	
Fund balance, end of year			<u>\$ 17,178,816</u>	

Town of Nags Head, North Carolina
Proprietary Funds
Statement of Fund Net Position
June 30, 2018

Exhibit 6

	Business-type Activities		
	Major Fund Water Fund	Non-Major Fund Nags Head Leasing	Total Enterprise Funds June 30, 2018
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 3,037,231	\$ 102	\$ 3,037,333
Accounts receivable trade (net)	453,814	-	453,814
Accounts receivable other (net)	82,403	-	82,403
Inventories	62,172	-	62,172
Restricted cash and cash equivalents	464,391	-	464,391
Total current assets	4,100,011	102	4,100,113
Capital assets:			
Land, non-depreciable improvements and construction in progress	1,853,473	-	1,853,473
Other capital assets, net of depreciation	4,484,185	-	4,484,185
Total capital assets (net)	6,337,658	-	6,337,658
Total noncurrent assets	6,337,658	-	6,337,658
Total assets	10,437,669	102	10,437,771
DEFERRED OUTFLOWS OF RESOURCES			
Pension deferrals OPEB	26,935	-	26,935
Pension deferrals LGERS	97,987	-	97,987
Total deferred outflows of resources	124,922	-	124,922
LIABILITIES			
Current liabilities:			
Accounts payable	133,512	-	133,512
Salaries and benefits	14,293	-	14,293
Accrued interest payable	751	-	751
Compensated absences - current	20,000	-	20,000
Capital leases payable - current	112,412	-	112,412
Liabilities payable from restricted assets:			
Customer bonds and deposits	434,416	-	434,416
Total current liabilities	715,384	-	715,384
Noncurrent liabilities:			
Net pension liability	129,557	-	129,557
Compensated absences	25,893	-	25,893
Total OPEB liability	345,595	-	345,595
Capital leases payable	34,371	-	34,371
Total noncurrent liabilities	535,416	-	535,416
Total liabilities	1,250,800	-	1,250,800
DEFERRED INFLOWS OF RESOURCES			
Pension deferrals LGERS	10,873	-	10,873
Pension deferrals OPEB	17,162	-	17,162
Prepaid impact fees	122,000	-	122,000
Total deferred inflows of resources	150,035	-	150,035
NET POSITION			
Net investment in capital assets	6,220,850	-	6,220,850
Unrestricted	2,940,906	102	2,941,008
Net Position	\$ 9,161,756	\$ 102	\$ 9,161,858

Town of Nags Head, North Carolina
Proprietary Funds
Statement of Revenues, Expenses and Changes in Fund Net Position
For the Year Ended June 30, 2018

Exhibit 7

	Business-type Activities		
	Major Fund Water Fund	Non-Major Fund Nags Head Leasing	Total Enterprise Funds
OPERATING REVENUES			
Charges for services	\$ 2,631,286	\$ -	\$ 2,631,286
Tap and connection fees	31,728	-	31,728
Late payment penalties	28,536	-	28,536
Water tag fees	5,100	-	5,100
Miscellaneous	2,951	-	2,951
Total operating revenues	2,699,601	-	2,699,601
OPERATING EXPENSES			
Administration	262,542	-	262,542
Septic Health	195,380	-	195,380
Operations	1,691,096	-	1,691,096
Distribution	568,173	-	568,173
Depreciation and amortization	360,573	-	360,573
Total operating expenses	3,077,764	-	3,077,764
Total operating (loss)	(378,163)	-	(378,163)
NONOPERATING REVENUES (EXPENSES)			
Investment earnings	55,577	-	55,577
Change in fair market value of investments	(33,391)	-	(33,391)
Interest expense	(4,880)	-	(4,880)
Total nonoperating revenues	17,306	-	17,306
Income (Loss) Before			
Contributions and Transfers	(360,857)	-	(360,857)
Capital contributions from impact fees	145,000	-	145,000
	145,000	-	145,000
Change in net position	(215,857)	-	(215,857)
Total net position - beginning, previously reported	9,609,287	102	9,609,389
Beginning net position, restated	9,377,613	-	9,377,613
Total net position - ending	\$ 9,161,756	\$ 102	\$ 9,161,858

**Town of Nags Head, North Carolina
Proprietary Funds
Statement of Cash Flows
For the Year Ended June 30, 2018**

Exhibit 8

	Business-Type Activities		
	Major Fund Water Fund	Non-Major Fund Nags Head Leasing	Total Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 2,680,356	\$ -	\$ 2,680,356
Cash paid for goods and services	(1,885,696)	-	(1,885,696)
Cash paid to or on behalf of employees for services	(818,749)	-	(818,749)
Customer deposits received	41,126	-	41,126
Customer deposits returned	(23,968)	-	(23,968)
Other operating revenues	2,951	-	2,951
Net cash (used) by operating activities	(3,980)	-	(3,980)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Initial impact fees received	141,000	-	141,000
Lease proceeds	29,776	-	29,776
Interest paid on debt financing	(5,165)	-	(5,165)
Septic Loans issued	(43,095)	-	(43,095)
Repayment of septic loans	44,117	-	44,117
Special assessments collected	2,216	-	2,216
Principal paid on debt financing	(144,227)	-	(144,227)
Acquisition of capital assets	(172,049)	-	(172,049)
Net cash (used) by capital and related financing activities	(147,427)	-	(147,427)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net investment earnings	16,296	-	16,296
Net (decrease) in cash and cash equivalents	(135,111)	-	(135,111)
Cash balances - beginning of the year	3,636,733	102	3,636,835
Cash balances - end of the year	\$ 3,501,622	\$ 102	\$ 3,501,724
Reconciliation of operating (loss) to net cash provided by operating activities			
Operating (loss)	\$ (378,163)	\$ -	\$ (378,163)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation and amortization	360,573	-	360,573
Changes in assets, deferred outflows of resources, and liabilities:			
(Increase) in accounts receivable	(16,294)	-	(16,294)
Decrease in inventories	209	-	209
Decrease in deferred outflows of resources-pension	56,990	-	56,990
(Increase) in deferred outflows of resources-OPEB	(26,935)	-	(26,935)
(Decrease) in net pension liability	(51,818)	-	(51,818)
(Decrease) in deferred inflows of resources-pension	(5,786)	-	(5,786)
Increase in accounts payable	10,635	-	10,635
(Decrease) in accrued liabilities	(460)	-	(460)
Increase in customer deposits	17,158	-	17,158
Increase in deferred inflows of resources-OPEB	17,162	-	17,162
Increase in OPEB liability	12,749	-	12,749
Total adjustments	374,183	-	374,183
Net cash provided by operating activities	\$ (3,980)	\$ -	\$ (3,980)

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

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2018

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 and is governed by a board comprised of the Town of Nags Head's governing board. Nags Head Leasing Corporation is reported as an Enterprise fund.

B. Basis of Presentation

Government-wide Statements: The statement of net position and the statement of activities display information about the primary government. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. Interfund services provided and used are not eliminated in the process of consolidation. 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 and proprietary* – 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 non major 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, 2018

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 Renourishment Capital Project Fund. This fund accounts for the Town's maintenance on the beach nourishment project.

The Town reports the following major enterprise fund:

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

The Town reports the following non-major enterprise fund:

Nags Head Leasing. This is a Blended Component Unit and is used for financing.

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 and Proprietary Fund Financial Statements. The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary 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.

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.

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2018

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

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable for property other than motor vehicles are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of September 1, 2013, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, the State of North Carolina is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts. Property taxes are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed in periods prior to September 1, 2013 and are for limited registration plates are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

Sales taxes collected and held by the State at year-end on behalf of the Town are recognized as revenue. Sales taxes are considered shared revenue for the Town of Nags Head because the tax is levied by Dare County and then remitted to and distributed by the State. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. All taxes, including those dedicated for specific purposes are reported as general revenues rather than program revenues. Grant revenues which are unearned at year-end are recorded as unearned revenues. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, and then by general revenues.

D. Budgetary Data

1. Budget

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

Revenues may be amended during the year for unforeseen revenues such as grant monies. These amendments must meet board approval. Revenues from taxes levied may not be amended once the tax rate is set.

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2018

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 level and amended as necessary by the governing board. The Town Manager, by law, is the budget officer in the council-manager form of government and is authorized to transfer amounts between objects of expenditures within a department without limitation and without a report being requested; 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.

2. Encumbrances

As required by North Carolina State Statute 159-26 (d), the Town maintains encumbrance accounts that are considered to be "budgetary accounts". Encumbrances outstanding at year-end represent the estimated amounts of the expenditures ultimately to result if unperformed contracts in process at year-end are completed. Encumbrances outstanding at year-end do not constitute expenditures or liabilities.

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Fund Equity

1. Deposits and Investments

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

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

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 Government Portfolio, a SEC-registered (2a-7) external investment pool, are measured at amortized cost, which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued at fair value. Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost. Non-participating interest earning investment contracts are reported at cost.

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

2. Cash and Cash Equivalents

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

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2018

3. Restricted Assets

The unexpended debt proceeds of the General and Water Funds are classified as restricted assets because their use is completely restricted to the purpose for which the debt was originally issued. Money in the Capital Reserve Fund is also classified as restricted as its use is restricted to the Capital Reserve Fund per NC G. S. Chapter 159, Article 3, Part 2. North Carolina controlled substance excise taxes are classified as restricted assets since they may only be used for law enforcement purposes. Powell Bill funds are also classified as restricted cash because they can be expended only for the purposes outlined in G.S. 136-41.1 through 136-41.1. Customer deposits in the Water Fund are held by the Town for the duration of the customer's water service until such time as water service is discontinued at which point they are returned to the customer in part or in full after satisfying any outstanding balance are reported as restricted assets. Bonds and deposits held in both the General and Water Funds are held by the Town before any services are supplied are restricted to the service for which the deposit was collected.

Town of Nags Head Restricted Cash:

Governmental Activities:

General Fund	Streets	\$ 106,824
	Public safety	26,101
	Capital reserve fund	6,629,825
	Bonds and deposits	2,700
	Unexpended debt proceeds	<u>199,238</u>
Total governmental activities		<u>\$ 6,964,688</u>

Business-type Activities:

Water Fund	Customer deposits	\$ 428,165
	Cash bonds	6,251
	Unexpended debt proceeds	<u>29,975</u>
Total business-type activities		<u>464,391</u>
Total Restricted Cash		<u>\$ 7,429,079</u>

4. Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2017.

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.

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2018

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 costs are as follows: land \$1; artwork \$5,000; buildings \$20,000; improvements \$5,000; infrastructure \$100,000; equipment \$5,000; vehicles \$5,000; and other capital assets \$5,000. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets received prior to June 30, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 30, 2015, are recorded at acquisition value. 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.

Land, construction in progress, and artwork are not depreciated. The remaining capital assets are depreciated using the straight-line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives
Infrastructure	5 to 40
Buildings	10 to 40
Improvements	5 to 40
Vehicles and motorized equipment	5 to 10
Equipment	5 to 20
Other capital assets	5 to 20

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2018

8. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town has several items that meet this criterion, contributions made to the pension plan in the 2018 fiscal year for the Law Enforcement Officers' Special Separation Allowance (LEOSSA), the OPEB plan, and the Local Government Employees' Retirement System (LGERS), as well as other pension and OPEB deferrals for the 2018 fiscal year.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources* represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Town has several items that meet the criterion for this category – prepaid water impact fees, receivables for property taxes, business licenses, special assessments, and OPEB and pension deferrals.

9. Long-Term Obligations

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

10. Compensated Absences

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

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

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

11. Net Position/Fund Balances

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

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2018

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 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 administrative, recreation, public safety, environmental protection, drainage, and beach nourishment projects.

Committed Fund Balance - portion of fund balance that can only 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 a majority action of the governing body. The governing body can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Committed for health insurance – portion of fund balance that is committed by action of the Governing Body for future health insurance expenditures.

Committed for LEO pension obligation – portion of fund balance that will be used for the Law Enforcement Officers' Special Separation Allowance obligations.

Committed for beach renourishment capital projects – portion of fund balance that has been budgeted by the Board of Commissioners for beach nourishment maintenance.

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2018

Assigned fund balance - portion of fund balance that the Town of Nags Head intends to use for specific purposes as determined by the Town of Nags Head Board of Commissioners.

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

Unassigned fund balance - the portion of fund balance that has not been restricted, committed, or assigned to specific purposes or other funds. The General Fund is the only fund that reports a positive unassigned fund balance amount. In other governmental funds, it is not appropriate to report a positive unassigned fund balance amount. However, in governmental funds other than General Fund, if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance in that fund.

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 Director 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.

12. Defined Benefit Cost-Sharing Plans

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Local Government Employees' Retirement System (LGERS) and additions to/deductions from LGERS' fiduciary net position have been determined on the same basis as they are reported by LGERS. For this purpose, plan member contributions are recognized in the period in which the contributions are due. The Town of Nags Head's employer contributions are recognized when due and the Town of Nags Head has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of LGERS. Investments are reported at fair value.

F. Use of Estimates

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

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2018

G. Reconciliation of Government-wide and Fund Financial Statements

1. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position.

The governmental fund balance sheet includes reconciliation between fund balance - total governmental funds and net position – governmental activities as reported in the government-wide statement of net position. The net adjustment of \$16,011,521 consists of several elements as follows:

Description	Amount
Capital assets used in governmental activities are not financial resources and are therefore not reported in the funds (total capital assets on government-wide statement in governmental activities column)	\$ 73,497,326
Less accumulated depreciation	<u>(49,640,182)</u>
Net capital assets	23,857,144
Deferred outflows of resources related to pensions are not reported in the funds:	
Pension related deferrals-LGERS	1,061,626
Pension related deferrals-LEOSSA	63,239
Pension related deferrals-OPEB	<u>86,956</u>
	1,211,821
Liabilities for earned revenues considered deferred inflows of resources in fund statements:	
Deferred taxes receivable	296
Deferred miscellaneous receivable	<u>11,432</u>
	11,728
Deferred inflows of resources related to pensions are not reported in the funds:	
Pension related deferrals-LGERS	(117,800)
Pension related deferrals -LEOSSA	(31,944)
Pension related deferrals -OPEB	<u>(185,941)</u>
	(335,685)
Liabilities that, because they are not due and payable in the current period, do not require current resources to pay and are therefore not reported in the fund statements:	
Leases and installment financings payable	(2,103,996)
Compensated absences	(640,095)
Net pension liability-LGERS	(1,403,666)
Total pension liability-LEOSSA	(823,639)
Total OPEB liability	<u>(3,744,290)</u>
	(8,715,686)
Other long-term liabilities (accrued interest) are not available to pay for current period expenditures and, are deferred in the funds.	<u>(17,801)</u>
Net adjustment	<u>\$ 16,011,521</u>

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2018

2. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balance and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. There are several elements of that total adjustment of \$524,688 as follows:

<u>Description</u>	<u>Amount</u>
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	
Capital outlay expenditures recorded in the fund statements capitalized as assets in the statement of activities	\$ 2,523,113
Depreciation expense, the allocation of those assets over their useful lives, that is recorded on the statement of activities but not in the fund statements.	<u>(1,871,017)</u>
	652,096
The effect of various miscellaneous transactions involving capital assets:	
Loss on disposal of capital asset	(11,088)
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities.	439,487
Contributions to the OPEB plan in the current fiscal year are not included on the Statement of Activities	86,956
Benefit payments paid and administrative expenses for the LEOSSA are not included on the Statement of Activities.	40,185
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
Change in unavailable revenue for tax and misc. revenues	630
Donated assets	<u>185,000</u>
	185,630

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items:

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2018

Debt issued or incurred:			
Capitalized lease financing	(1,090,403)		
Accrued interest payable	(4,163)		
		(1,094,566)	
Principal payments		1,216,638	122,072

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Compensated absences	(42,236)		
Pension expense-LGERS	(445,761)		
Pension expense-LEOSSA	(64,705)		
Pension expense-OPEB	(437,948)		
			(990,650)

Net adjustment	\$ 524,688
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G. Comparative Data

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the Town's financial position and operations.

II. Detail Notes on All Funds

A. Assets

1. Deposits

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

At June 30, 2018, the Town's deposits had a carrying amount of \$1,138,816 and a bank balance of \$1,266,465. Of the bank balance, \$412,613 was covered by federal depository insurance and the

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2018

remainder was covered by collateral held under the pooling method. At June 30, 2018, the Town's petty cash fund totaled \$1,000.

2. Investments

At June 30, 2018, the Town's investments were as follows:

Investment Type	Valuation Measurement Method	Book Value at 6/30/18	< 9 months	9 months-3 Years	3-5 Years	5-10 Years	10-15 Years
Government Agency: FNMA	Fair Value Level 2	\$ 4,043,394	\$ 198,826	\$2,366,888	\$ 986,785	\$ -	\$ 490,895
Government Agency :FHLMC	Fair Value Level 2	4,840,769	-	1,666,621	2,463,268	242,090	468,790
Government Agency:FHL Bank	Fair Value Level 2	3,885,748	-	985,250	1,960,435	477,765	462,298
Government Agency:FFC Bank	Fair Value Level 2	2,465,220	996,560	486,295	738,440	243,925	-
Government Agency: GNMA Mortgage Backed Securities	Fair Value Level 2	109,548	457	-	-	109,091	-
Wake County GO Bonds	Fair Value Level 2	103,726	-	-	-	103,726	-
Commercial Paper-JP Morgan	Amortized Cost	1,477,048	1,477,048	-	-	-	-
Commercial Paper-Bank of Canada	Amortized Cost	987,486	987,486	-	-	-	-
Commercial Paper-Credit-Suisse	Amortized Cost	494,000	494,000	-	-	-	-
NC Capital Management Trust-Term Portfolio*	Fair Value Level 1	570,944	570,944	-	-	-	-
NC Capital Management Trust-Government Portfolio*	Amortized Cost	552,139	N/A	-	-	-	-
Total		\$19,530,022	\$4,725,321	\$5,505,054	\$6,148,928	\$1,176,597	\$1,421,983

All investments are measured using the market approach: using prices and other relevant information generated by market transactions involving identical or comparable assets or a group of assets.

Town of Nags Head, North Carolina
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For the Fiscal Year Ended June 30, 2018

Level of fair value hierarchy: Level 1: Debt securities valued using directly observable, quoted prices (unadjusted) in active markets for identical assets. Level 2 debt securities are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' benchmark quoted priced.

* Because the NC Capital Management Trust Term Portfolio had duration of 0.09 years, it was presented as an investment with a maturity of less than one year.

Interest Rate As a means of limiting its exposure to fair value losses arising from rising interest rates, the Town's Investment Policy limits at least 40% of the Town's investment portfolio to maturities of less than 9 months. Per Town policy, investment maturities are required to be limited to at least 40% less than 9 months, at least 50% less than 3 years, at least 70% less than 5 years, at least 90% less than 10 years, and 100% less than fifteen years. As of June 30, 5.78% of U.S. Government Agencies, the NC Capital Management Trust portfolios (5.43%) and Commercial Paper (14.31%) matured in less than 9 months, 26.63% of U.S. Government Agencies matured in less than 3 years, 29.75% of U.S Government Agencies matured in less than 5 years, 5.69% of U.S. Government Agencies and general obligation bonds in less than 10 years, and 6.88% of U.S. Government Agencies in less than 15 years based on the \$20,669,838 cash and investment total. Also, the Town's Internal Management Policy requires purchases of securities to be laddered with staggered maturity dates. Investment income of \$337,211 was realized during fiscal year 2018. During the year no investments were sold for a realized gain or loss; however, because of the fair market value on June 30, the unrealized loss on investments held on June 30 was \$216,510. When combined, total investment income for fiscal year 2018 was a net gain of \$120,701.

Credit Risk The Town limits 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. State law and the Town's Investment Policy require that commercial paper bear the highest rating of at least one nationally recognized rating service. The Town's investments in JP Morgan, Credit-Suisse and Bank of Canada commercial paper are rated A-1 by Standard and Poor's and P-1 by Moody's Investors Service. The Town's investments in US agencies, Federal Home Loan Bank, Federal National Mortgage Association, Government National Mortgage Association, Federal Farm Credit Bank, and Federal Home Loan Mortgage Corporation were rated AA+ by Standard and Poor's and Aaa by Moody's Investors Services. The Town's investment in Wake County general obligation bonds carried a credit rating of Aaa by Moody's Investors Service and AAA by Standard and Poor's and Fitch Ratings. The Town's investment in the NC Capital Management Trust Government Portfolio carried a credit rating of AAAM by Standard and Poor's as of June 30, 2018. The Town's investment in the NC Capital Management Trust Term Portfolio is unrated. The Term Portfolio is authorized to invest in obligations of the US Government agencies, and in high grade money market instruments as permitted under G.S. 159-30 as amended.

Custodial Credit Risk For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Town's formal policy requires that the Town utilize a third party custodial agent for book entry transactions. Agents must have a trust department authorized to do trust work in North Carolina and have an account with the Federal Reserve. Certified securities are to be in the custody of the Finance Director.

Concentration of Credit Risk The Town's investment policy limits the amount that the Town may invest in any one issuer, except for U.S. Treasury securities and the North Carolina Capital Management Trust, to 30% of total investments. Investments which are restricted further are commercial paper, limited to no more than 25% of total investments and no more than \$3,000,000 in a single issuer. More than 5% of the Town's investments are in Federal National Mortgage Association (19.56%), Federal Home Loan Bank

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2018

(18.80%), Federal Farm Credit Bank (11.93%), Federal Home Loan Mortgage Corporation (23.42%), and JP Morgan commercial paper (7.15%).

3. Receivables

The receivables shown in Exhibit 1 at June 30, 2018 were

	Accounts	Taxes	Due from other Governments	Interest Receivable	Total
Governmental Activities:					
General	\$ 15,335	\$ 7,796	\$ 2,553,321	\$ 69,805	\$ 2,646,257
Allowance for doubtful accounts	-	(7,500)	-	-	(7,500)
Total governmental activities	<u>\$ 15,335</u>	<u>\$ 296</u>	<u>\$ 2,553,321</u>	<u>\$ 69,805</u>	<u>\$ 2,638,757</u>
Business-type Activities:					
Water	\$ 541,748	\$ -	\$ -	\$ 13,822	\$ 555,570
Allowance for doubtful accounts	(19,353)	-	-	-	(19,353)
Total business type activities	<u>\$ 522,395</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,822</u>	<u>\$ 536,217</u>

Due from other governments consisted of the following:

Occupancy tax	\$ 623,128
Dare County-Beach Nourishment	645,779
FEMA	301,426
Land transfer tax	185,748
Sales taxes	401,058
Sales tax reimbursement	105,179
NC Emergency Management	100,475
Utilities sales tax	132,526
Cable sales tax	29,494
Telecommunications sales tax	9,240
Other	19,268
Total	<u>\$ 2,553,321</u>

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2018

4. Capital Assets

Capital asset activity for the Primary Government for the year ended June 30, 2018, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 10,302,205	\$ 209,116	\$ -	\$ 10,511,321
Art	-	107,553	-	107,553
Construction in progress	398,588	848,098	103,939	1,142,747
Total capital assets not being depreciated	<u>10,700,793</u>	<u>1,164,767</u>	<u>103,939</u>	<u>11,761,621</u>
Capital assets being depreciated:				
Buildings	7,480,368	513,871	20,480	7,973,759
Other improvements	40,994,246	186,926	41,140,810	40,362
Improvements	-	2,028,020	-	2,028,020
Equipment	2,898,773	195,690	239,484	2,854,979
Vehicles and motorized equipment	7,990,086	679,924	230,325	8,439,685
Intangibles	171,427	-	171,427	-
Plant	867,734	-	867,734	-
Infrastructure	-	40,398,900	-	40,398,900
Total capital assets being depreciated	<u>60,402,634</u>	<u>44,003,331</u>	<u>42,670,260</u>	<u>61,735,705</u>
Less accumulated depreciation for:				
Buildings	3,687,323	210,922	17,942	3,880,303
Other improvements	36,930,274	2,940	36,914,823	18,391
Improvements	-	1,341,459	-	1,341,459
Equipment	2,098,432	189,968	134,614	2,153,786
Vehicles and motorized equipment	5,184,098	660,350	230,326	5,614,122
Intangibles	25,992	-	25,992	-
Plant	146,172	-	146,172	-
Infrastructure	-	36,632,121	-	36,632,121
Total accumulated depreciation	<u>48,072,291</u>	<u>\$ 39,037,760</u>	<u>\$ 37,469,869</u>	<u>49,640,182</u>
Total capital assets being depreciated, net	<u>12,330,343</u>			<u>12,095,523</u>
Governmental activity capital assets, net	<u>\$ 23,031,136</u>			<u>\$ 23,857,144</u>

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

General Government	\$ 394,649
Public Safety	375,213
Public Works	599,982
Environmental Protection	259,947
Streets and Drainage	241,225
Total Depreciation Expense	<u>\$ 1,871,016</u>

In Governmental activity, fixed asset category reclassification corrections totaling \$42,356,046 were done as of June 30, 2018, as part of a software conversion. Construction in progress of \$103,939 was decreased and reclassified as an increase to improvements. Capital asset disposals totaled \$301,298. Accumulated depreciation reclassifications between assets classes totaled \$37,166,744. Accumulated depreciation on disposals totaled \$290,210.

Town of Nags Head, North Carolina
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A vehicle with an acquisition cost of \$12,915, and accumulated depreciation of \$12,915, was transferred from governmental activities to business-type activities.

Capital asset activities for the Business-type activities for the year ended June 30, 2018 are as follows:

	Beginning Balances	Increases	Decreases (Transfers)	Ending Balances
Business-Type Activities:				
Water Fund				
Capital assets not being depreciated:				
Land	\$ 1,853,473	\$ -	\$ -	\$ 1,853,473
Total capital assets not being depreciated	1,853,473	-	-	1,853,473
Capital assets being depreciated:				
Plant	6,410,341	-	6,410,341	-
Building	-	3,283,693	-	3,283,693
Other	-	178,232	-	178,232
Improvements	-	666,721	-	666,721
Equipment	973,546	-	-	973,546
Vehicles and motorized equipment	196,449	43,584	-	240,033
Intangibles	4,203,619	-	-	4,203,619
Infrastructure	-	2,423,075	-	2,423,075
Total capital assets being depreciated	11,783,955	6,595,305	6,410,341	11,968,919
Less accumulated depreciation for:				
Plant	3,390,682	-	3,390,682	-
Building	-	2,282,508	-	2,282,508
Other	-	128,167	-	128,167
Improvements	-	358,473	-	358,473
Equipment	727,008	57,626	-	784,634
Vehicles and motorized equipment	131,414	48,355	-	179,769
Intangibles	2,862,142	108,403	-	2,970,545
Infrastructure	-	780,638	-	780,638
Total accumulated depreciation	7,111,246	\$ 3,764,170	\$ 3,390,682	7,484,734
Total capital assets being depreciated, net	4,672,709			4,484,186
Water Fund capital assets, net	<u>\$ 6,526,182</u>			<u>\$ 6,337,659</u>

Depreciation expense of \$360,573 was charged to business-type activities.

As used in this section, the term depreciation includes amortization of intangible assets.

In Business-type activities, fixed asset category reclassification corrections totaling \$6,410,341 were done as of June 30, 2018, as part of a software conversion. A vehicle with an acquisition cost of \$12,915, and accumulated depreciation of \$12,915, was transferred from governmental activities to business-type activities. Accumulated depreciation reclassifications between assets classes totaled \$3,390,682.

The government has active construction projects as of June 30, 2018. At year-end, the government's estimated commitments to projects ongoing are as follows:

Project	Spent-to-date	Remaining Commitment
Beach renourishment	\$ 1,249,689	\$755,282
Dowdy Park	<u>1,791,507</u>	<u>534,313</u>
Total	<u>\$3,041,196</u>	<u>\$1,289,595</u>

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2018

B. Liabilities

1. Pension Plan and Post-Employment Obligations

a. Local Governmental Employees' Retirement System

Plan Description

The Town of Nags Head is a participating employer in 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 membership is comprised of general employees and local law enforcement officers (LEOs) of participating local government entities. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. 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 or at www.osc.nc.gov.

Benefits Provided

LGERS provides retirement and survivor benefits. Retirement benefits are determined as 1.85% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. Plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service (age 55 for firefighters). Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age (15 years of creditable service for firefighters and rescue squad members who are killed in the line of duty) or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

LGERS plan members who are LEOs are eligible to retire with full retirement benefits at age 55 with five years of creditable service as an officer, or at any age with 30 years of creditable service. LEO plan members are eligible to retire with partial retirement benefits at age 50 with 15 years of creditable service as an officer. Survivor benefits are available to eligible beneficiaries of LEO members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed 15 years of service as a LEO and have reached age 50, or have completed five years of creditable service as a LEO and have reached age 55, or have completed 15 years of creditable service as a LEO if killed in the line of duty. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions.

Town of Nags Head, North Carolina
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Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. The Town of Nags Head's employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town of Nags Head's contractually required contribution rate for the year ended June 30, 2018, was 8.11% of compensation for law enforcement officers and 7.50% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town of Nags Head were \$ 480,051 for the year ended June 30, 2018.

Refunds of Contributions. Town employees, who have terminated service as a contributing member of LGERS, may file an application for a refund of their contributions. By state law, refunds to members with at least five years of service include 4% interest. State law requires a 60 days waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's right to employer contributions or any other benefit provided by LGERS.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2018, the Town reported a liability of \$1,533,223 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016. The total pension liability was then rolled forward to the measurement date of June 30, 2017 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2017, the Town's proportion was 0.10036%, which was an increase of 0.00179% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the Town recognized pension expense of \$485,712. At June 30, 2018, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 88,328	\$ 43,401
Changes of assumptions	218,965	-
Net difference between projected and actual earnings on pension plan investments	372,269	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	-	85,272
Town contributions subsequent to the measurement date	480,051	-
Total	<u>\$ 1,159,613</u>	<u>\$ 128,673</u>

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2018

\$480,051 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2019	\$ 45,003
2020	418,542
2021	202,224
2022	(114,880)
2023	-
Thereafter	-
	<u>\$ 550,889</u>

Actuarial Assumptions. The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.50 to 8.10 percent, including inflation and productivity factor
Investment rate of return	7.20 percent, net of pension plan investment expense, including inflation

The plan currently uses mortality tables that vary by age, gender, employee group (i.e. general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2016 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

Future ad hoc COLA amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2017 are summarized in the following table:

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2018

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	29.0%	1.4%
Global Equity	42.0%	5.3%
Real Estate	8.0%	4.3%
Alternatives	8.0%	8.9%
Credit	7.0%	6.0%
Inflation Protection	6.0%	4.0%
Total	<u>100%</u>	

The information above is based on 30 year expectations developed with the consulting actuary for the 2016 asset liability and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

Discount rate. The discount rate used to measure the total pension liability was 7.20%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Town's proportionate share of the net pension asset to changes in the discount rate. The following presents the Town's proportionate share of the net pension asset calculated using the discount rate of 7.20 percent, as well as what the Town's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.20 percent) or one percentage point higher (8.20 percent) than the current rate:

	<u>1% Decrease (6.20%)</u>	<u>Discount Rate (7.20%)</u>	<u>1% Increase (8.20%)</u>
Town's proportionate share of the net pension liability (asset)	\$ 4,602,770	\$ 1,533,223	\$ (1,028,880)

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued Comprehensive Annual Financial Report (CAFR) for the State of North Carolina.

b. Law Enforcement Officers Special Separation Allowance

1. *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 under the age of 62 who have completed at least 30 years of creditable

Town of Nags Head, North Carolina
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For the Fiscal Year Ended June 30, 2018

service or have attained 55 years of age and have completed five or more years of creditable service. The Separation Allowance is equal to .85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. A separate report was not issued for the plan.

All full time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2016 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

2. Summary of Significant Accounting Policies

Basis of Accounting. The Town has chosen to fund the Separation Allowance on a pay as you go basis. Pension expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting. Benefits are recognized when due and payable in accordance with the terms of the plan.

The Separation Allowance has no assets accumulated in a trust that meets the criteria which are outlined in GASB Statement 73.

3. Actuarial Assumptions

The entry age actuarial cost method was used in the December 31, 2016 valuation. The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5 percent
Salary increases	3.50 to 7.35 percent, including inflation and productivity factor
Discount rate	3.16 percent

The discount rate used to measure the Total Pension Liability (TPL) is the S&P Municipal Bond 20 Year High Grade Rate Index.

The actuarial assumptions used in the December 31, 2016 valuation were based on the results of an experience study completed by the Actuary for the Local Government Employees' Retirement System for the five year period ending December 31, 2014.

The plan currently uses mortality tables that vary by age, and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

Town of Nags Head, North Carolina
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Deaths after retirement (healthy) are based on the RP-2014 Healthy Annuitant base rates projected to 2015 using MP-2015, projected forward generationally from 2015 using MP-2015. Rates are adjusted by 104% for males and 100% for females.

Deaths before retirement are based on the RP-2014 Employee base rates projected to 2015 using MP-2015, projected forward generationally from 2015 using MP-2015.

Deaths after retirement (beneficiary) are based on RP-2014 Healthy Annuitant base rates projected to 2015 using MP-2015, projected forward generationally from 2015 using MP-2015. Rates are adjusted by 123% for males and females.

Deaths after retirement (disabled) are based on the are based on RP-2014 Disabled Retiree base rates projected to 2015 using MP-2015, projected forward generationally from 2015 using MP-2015. Rates are adjusted by 103% for males and 99% for females.

4. 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 on a pay as you go basis through appropriations made in the General Fund operating budget. The Town contributed \$39,593 as benefits come due for the reporting period. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. Administrative costs of the Separation Allowance are financed through investment earnings. There were no contributions made by employees.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2018, the Town reported a total pension liability of \$823,639. The total pension liability was measured as of December 31, 2017 based on a December 31, 2016 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2017 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2018, the Town recognized pension expense of \$64,705.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 18,243
Changes of assumptions and other inputs	41,533	13,701
Benefit payments and administrative expenses subsequent to the measurement date	21,706	-
Total	\$ 63,239	\$ 31,944

\$21,706 reported as deferred outflows of resources related to pensions resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ended June 30, 2018. Other amounts reported as deferred inflows of resources to pensions will be recognized in pension expense as follows:

Town of Nags Head, North Carolina
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Year ended June 30:	
2019	\$ 1,340
2020	1,340
2021	1,340
2022	1,340
2023	2,664
Thereafter	1,565
	<u>\$ 9,589</u>

\$21,311 paid as benefits came due and \$395 of administrative expenses subsequent to the measurement date are reported as deferred outflows of resources.

Sensitivity of the Town's total pension liability to changes in the discount rate. The following presents the Town's total pension liability calculated using the discount rate of 3.16 percent, as well as what the Town's total pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.16 percent) or 1-percentage-point higher (4.16 percent) than the current rate:

	<u>1% Decrease (2.16%)</u>	<u>Current Discount Rate</u>	<u>1% Increase (4.16%)</u>
Total pension liability	\$ 897,795	\$ 823,639	\$ 756,490

Schedule of Changes in Total Pension Liability
Law Enforcement Officers' Special Separation Allowance

	<u>2018</u>
Total Pension Liability	
Beginning balance	\$ 772,627
Service Cost at end of year	33,911
Interest on the total pension liability	29,059
Changes of benefit terms	-
Differences between expected and actual experience in the measurement of the total pension liability	(21,647)
Changes of assumptions or other inputs	49,282
Benefit payments	(39,593)
Other changes	-
Net changes in Total Pension Liability	<u>51,012</u>
Ending balance of the total pension liability	<u>\$ 823,639</u>

Town of Nags Head, North Carolina
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For the Fiscal Year Ended June 30, 2018

Total Expense, Liabilities, and Deferred Outflows and Inflows of Resources of Related to Pensions

Following is information related to the proportionate share and pension expense for all pension plans:

	LGERS	LEOSSA	Total
Pension Expense	\$ 485,712	\$ 64,705	\$ 550,417
Pension Liability	1,533,223	823,639	2,356,862
Proportionate share of the net pension liability	0.10036%	n/a	
Deferred of Outflows of Resources			
Differences between expected and actual experience	88,328	-	88,328
Changes of assumptions	218,965	41,533	260,498
Net difference between projected and actual earnings on plan investments	372,269	-	372,269
Changes in proportion and differences between contributions and proportionate share of contributions	-	-	-
Benefit payments and administrative costs paid subsequent to the measurement date	480,051	21,706	501,757
Deferred of Inflows of Resources			
Differences between expected and actual experience	43,401	18,243	61,644
Changes of assumptions	-	13,701	13,701
Net difference between projected and actual earnings on plan investments	-	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	85,272	-	85,272

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

Town of Nags Head, North Carolina
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Supplemental Retirement Income Plan for Law Enforcement Officers. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy

Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2018 were \$88,346 which consisted of \$65,915 from the Town and \$22,431 from the law enforcement officers. No amounts were forfeited.

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

Plan Description

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

Funding Policy

The Town contributes a matching amount up to two percent of each employee's salary (excluding law enforcement officers), and all amounts contributed are vested immediately. Employees may also make voluntary contributions to the plan. Total contributions for the year ended June 30, 2018 were \$287,531 which consisted of \$86,088 from the Town and \$201,443 from employees. No amounts were forfeited.

e. 457 Deferred Compensation

Plan Description

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

Funding Policy

The Town does not match contributions to the 457 deferred compensation plan. Total contributions for the year ended June 30, 2018 were \$91,968, which consisted of \$86,949 from regular employees and \$5,019 from law enforcement employees.

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, 1997. The Town pays 25% for retiree with 10 years or more of service, 50% for retirees with 15 years or more of service, 75% with 20 years or more of service, and 100% with 25 years. Coverage ends when

Town of Nags Head, North Carolina
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For the Fiscal Year Ended June 30, 2018

retirees become eligible for Medicare. Also, retirees can purchase coverage for their dependents at the Town's group rates. The Board of Commissioners may amend the benefit provisions. A separate report was not issued for the plan. Membership of the health care plan consisted of the following at June 30, 2017, the date of the latest actuarial valuation:

Inactive members or beneficiaries currently receiving benefits	9
Inactive members entitled to but not yet receiving benefits	-
Active members	108
Total membership	117

Total OPEB Liability

The Town's total OPEB liability of \$4,089,885 was measured as of June 30, 2017 and was determined by an actuarial valuation as of that date.

Actuarial assumptions and other inputs. The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Inflation	2.50 %	
Real wage growth	1.00 %	
Wage inflation	3.50 %	
Salary increases, including wage inflation		
General Employees	3.50% – 7.75%	
Firefighters	3.50% – 7.75%	
Law Enforcement Officers	3.50% – 7.35%	
Municipal Bond Index Rate		
Prior Measurement Date	3.01 %	
Measurement Date	3.56 %	
Health Care Cost Trends		
Pre-Medicare	7.50% for 2017 decreasing to an ultimate rate of 5.00% by 2023	

The discount rate used to measure the total OPEB liability was based on the June average of the Bond Buyer General 20-year Municipal Bond Index published weekly by The Bond Buyer.

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Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2018

Changes in the Total OPEB Liability

	Total OPEB Liability	
Balance at June 30, 2016	\$ 3,934,873	
Changes for the year		
Service cost at end of year (includes interest for the year)	370,146	
Interest on total OPEB liability and Cash Flows	116,800	
Changes in benefit terms	-	
Differences between expected and actual experience	(12,992)	
Changes of assumptions or other inputs	(209,200)	
Benefit payments	(109,742)	
Other changes	-	
Net changes	\$ 155,012	
Balance at June 30, 2017	\$ 4,089,885	

Mortality rates were based on the RP-2014 mortality tables, with adjustments for LGERS experience and generational mortality improvements using Scale MP-2015.

The demographic actuarial assumptions for retirement, disability incidence, withdrawal, and salary increases used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period January 1, 2010 – December 31, 2014, adopted by LGERS.

The remaining actuarial assumptions (e.g. initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2017 valuation were based on a review of recent plan experience done concurrently with the June 30, 2017 valuation.

Sensitivity of the total OPEB liability to changes in the discount rate. The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.56 percent) or 1-percentage-point higher (4.56 percent) than the current discount rate:

	<u>1% Decrease (2.56%)</u>	<u>Current Discount Rate (3.56%)</u>	<u>1% Increase (4.56%)</u>
Total OPEB liability	\$ 4,478,455	\$ 4,089,885	\$ 3,736,569

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates. The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	<u>1% Decrease</u>	<u>Current</u>	<u>1% Increase</u>
Total OPEB liability	\$ 3,584,289	\$ 4,089,885	\$ 4,698,261

Town of Nags Head, North Carolina
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For the Fiscal Year Ended June 30, 2018

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the Town recognized OPEB expense of \$467,857. At June 30, 2018, the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 11,876
Changes of assumptions or other inputs	-	191,227
Benefit payments and administrative costs subsequent to the measurement date	113,891	-
Total	\$ 113,891	\$ 203,103

\$203,103 reported as Deferred Inflows of Resources related to OPEB benefits will be recognized in OPEB Expense as follows:

Year ended June 30:

2018	\$	19,089
2019		19,089
2020		19,089
2021		19,089
2022		19,089
Thereafter		107,658
Total	\$	203,103

2. Other Employment Benefit

The Town has also elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months' salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$50,000 or be less than \$25,000. All death benefit payments are made from the Death Benefit Plan. The Town has no liability beyond the payment of monthly contributions. Contributions are determined as a percentage of monthly payroll, based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. Because the benefit payments are made by the Death Benefit Plan and not by the Town, the Town does not determine the number of eligible participants. For the fiscal year ended June 30, 2018 the Town made contributions to the State for death benefits of \$ 4,831. The Town's required contributions for employees not engaged in law enforcement and for law enforcement officers represented .060% and .140% of covered payroll, respectively. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount.

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2018

3. Payables

Payables on Exhibit 1 at June 30, 2018 were as follows:

	Vendors	Salaries and Benefits	Accrued Interest	Unearned Revenue	Customer Deposits	Total
Governmental Activities						
General	\$ 260,338	\$ 271,178	\$ 17,801	\$ 205	\$ 2,700	\$ 552,222
Beach Renourishment Fund	40,368	-	-	-	-	40,368
Total Governmental activities	\$ 300,706	\$ 271,178	\$ 17,801	\$ 205	\$ 2,700	\$ 592,590
Business-type Activities						
Water	\$ 133,512	\$ 14,293	\$ 751	\$ -	\$ 434,416	\$ 582,972
Total Business-type activities	\$ 133,512	\$ 14,293	\$ 751	\$ -	\$ 434,416	\$ 582,972

4. Deferred Outflows and Inflows of Resources

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

	Statement of <u>Net Position</u>
Benefit payments made for LEOSSA subsequent to measurement date	\$ 21,706
Contributions to pension plan in current fiscal year-LGERS	480,051
Benefit payments made for OPEB subsequent to measurement date	113,891
Differences between expected and actual experience-LGERS	88,328
Changes of assumptions-LGERS	218,965
Net difference between projected and actual earnings on plan investments-LGERS	372,269
Changes in proportion and difference between contributions and proportionate share of contributions-LGERS	-
Changes of assumptions and other inputs-LEOSSA	<u>41,533</u>
Total	<u>\$1,336,743</u>

Town of Nags Head, North Carolina
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For the Fiscal Year Ended June 30, 2018

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

	<u>Statement of Net Position</u>	<u>Government Funds Balance Sheet</u>
Property taxes receivable (General Fund)	\$ -	\$ 296
Business licenses and special assessments receivable	-	11,432
Prepaid impact fees	122,000	-
Differences between expected and actual experience-LEOSSA	18,243	-
Differences between expected and actual experience-OPEB	11,876	-
Differences between expected and actual experience-LGERS	43,401	-
Net difference between projected and actual earnings on plan investments-LGERS	-	-
Changes in proportion and difference between contributions and proportionate share of contributions-LGERS	85,272	-
Changes of assumptions and other inputs-LEOSSA	13,701	-
Changes of assumptions and other inputs-OPEB	<u>191,227</u>	<u>-</u>
Total	<u>\$ 485,720</u>	<u>\$ 11,728</u>

5. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in three self-funded risk-financing pools administered by the North Carolina League of Municipalities. Through these pools, the Town obtains general liability and auto liability coverage of \$2 million per occurrence, property coverage up to the total insurance values of the property policy, and workers' compensation coverage up to statutory limits, and employee health coverage. The liability and property exposures are reinsured through commercial carriers for claims in excess of retentions as selected by the Board of Trustees each year. Stop loss insurance is purchased by the Board of Trustees to protect against large medical claims that exceed certain dollar cost levels. Specific information on the limits of the reinsurance, excess and stop loss policies purchased by the Board of Trustees can be obtained by contacting Risk Management Services Department of the NC League of Municipalities. The pools are audited annually by certified public accountants, and the audited financial statements are available to the Town upon request.

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

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

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For the Fiscal Year Ended June 30, 2018

In accordance with G.S. 159-29, the Town's employees that have access to \$100 or more of the Town's funds at any given time of the Town's funds are performance bonded through a commercial surety bond. The finance director 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

Pending or Threatened Litigation, Claims and Assessments: As part of the Town's 2011 Beach Nourishment Project, the Town sought to obtain easements on all oceanfront properties within the 11 mile project area. The majority of owners either provided the Town an easement without requiring payment or accepted \$50 per lot as full compensation for the easement rights sought by the Town. However, a group of owners resisted the 2011 project and refused to voluntarily give the Town an easement. The Town filed condemnation actions to obtain the necessary easement rights. As of June 30, 2018, the owners of 10 properties contended that they were entitled to more than \$50 per lot for the Town's condemnation of the easement rights. These cases remain in litigation and are represented by a single law firm. All of the cases have been assigned to the same special superior court judge, Gary E. Trawick. Of those 10 cases, the property owners have not provided precise discovery as to the request to compensation in 8 cases. In 2 cases, the owners have sought compensation ranging between \$135,000 and \$233,000 for the easement rights. One of these cases, *Town of Nags Head v. Richardson*, was tried in February 2016. Although the jury awarded a verdict for approximately \$60,000 as just compensation for the easement rights taken, the trial court set that judgment aside and entered judgment in the amount of \$0. The trial court's decision was appealed to the North Carolina Court of Appeals. In July of 2018, the Court of Appeals reversed the trial court's decision and remanded the case back for a new trial. Both parties have appealed that decision to the North Carolina Supreme Court. Until the appeal has been resolved, it is impossible to say within a certainty whether any compensation will be due to these owners or not, and the potential amounts recoverable range between \$0 and as much as \$200,000 apiece. The Town anticipates that the legal issues in at least the *Richardson* case will be resolved by a decision from the Supreme Court during fiscal year 2019.

Unasserted Claims and Assessments: As a result of the recent decision in *Quality Built Homes v. Town of Carthage*, the Town, like other municipalities across the state, faces potential litigation over utility impact fees collected over the last several years. The Court of Appeals in *Town of Carthage* held that impact fees collected without express, local legislation permitting the same were unauthorized. Over the last three years, the Town has collected several hundred thousand dollars in impact fees. If a claim for recovery of fees paid succeeds, the payer would also be entitled to recover interest at the rate of 6% annually from when the fee was actually paid. The Town would also have various and numerous defenses to any such claim, including the Statute of Limitations. In light of the complexity of the issues involved, the potential for defenses, and unknown timing of any future claim, an opinion cannot be provided as to the Town's potential exposure, if any, for such a claim at this time.

The Town is unaware of any other unasserted claims or assessments for the reporting period.

7. Long-Term Debt

a. Capital Leases and Installment Finance Contracts

The Town entered into a fifteen year installment financing contract in 2005 with RBC Centura for the construction of the fire 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 \$106,667 plus accrued interest with final payment due on May 30, 2019. The Town prepaid \$125,068

Town of Nags Head, North Carolina
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during the fiscal year ending June 30, 2006 from unused escrow funds and the remaining principal was re-amortized with payments due in annual installments of \$97,046 plus accrued interest through May 17, 2019. On May 17, 2016, the Town negotiated a rate reduction with PNC to 2.25% with annual installments of \$96,666 plus accrued interest through May 17, 2019. The outstanding balance at June 30, 2018 is \$96,666.

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 \$102,841 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 re-amortized with payments due in annual installments of \$93,875 including accrued interest through May 17, 2019. On May 17, 2016, the Town negotiated a rate reduction with PNC to 2.25% with annual installments of \$86,666 plus accrued interest through May 17, 2019. The outstanding balance at June 30, 2018 is \$86,666.

In May 2013, the Town entered into a 10 year lease agreement with SunTrust borrowing \$722,158. The interest rate is 1.60% per annum fixed. The money was placed in an interest-bearing account until related assets were acquired. The lease requires annual payments of \$77,482. The outstanding balance at June 30, 2018 is \$297,918.

Leased Item	Function	Fixed Asset Value
Quint Apparatus Fire Truck	Public Safety	\$ 723,158

In February 2015, the Town entered into a 5 year lease agreement with BB&T borrowing \$480,605. The interest rate is 1.41% per annum fixed. The money was placed in an interest-bearing account until related assets were acquired. The lease requires annual payments of \$86,695. The outstanding balance at June 30, 2018 is \$85,321.

Leased Item	Function	Fixed Asset Value
Dumpster Truck	Environmental Protection	\$ 185,855
Residential Truck	Environmental Protection	287,512

In November 2015, the Town entered into a 5 year lease agreement with Southern Bank borrowing \$305,231. The interest rate is 1.59% per annum fixed. The money was placed in an interest-bearing account until related assets were acquired. The lease requires annual payments of \$62,992. The outstanding balance at June 30, 2018 is \$123,082.

Leased Item	Function	Fixed Asset Value
Sanitation Heil	Environmental Protection	\$ 307,231

In May 2016, the Town entered into a 4 year lease agreement with PNC borrowing \$245,420. The interest rate is 2.25% per annum fixed. The money was placed in an interest-bearing account until related assets were acquired. The lease requires annual payments of \$63,261. The outstanding balance at June 30, 2018 is \$61,903.

Leased Item	Function	Fixed Asset Value
Side Loading Dumpster Truck	Environmental Protection	\$ 245,420

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In December 2016, the Town entered into a 5 year lease agreement with BB&T borrowing \$309,200. The interest rate is 1.69% per annum fixed. The money was placed in an interest-bearing account until related assets were acquired. The lease requires annual payments of \$65,010. The outstanding balance at June 30, 2018 is \$249,415.

Leased Item	Function	Fixed Asset Value
2017 Sanitation Front Loader	Environmental Protection	310,100

In December 2016, the Town entered into a 5 year lease agreement with BB&T borrowing \$342,109. The interest rate is 1.6% per annum fixed. The money was placed in an interest-bearing account until related assets were acquired. The lease requires annual payments of \$70,611. The outstanding balance at June 30, 2018 is \$205,231.

Leased Item	Function	Fixed Asset Value
Financial Software	General Government	138,493
Financial Software	Water Operations	9,950

In December 2016, the Town entered into a 4 year lease agreement with BB&T borrowing \$410,314. The interest rate is 1.5% per annum fixed. The money was placed in an interest-bearing account until related assets were acquired. The lease requires annual payments of \$101,881. The outstanding balance at June 30, 2018 is \$205,135.

Leased Item	Function	Fixed Asset Value
3 Police Vehicles	Public Safety	109,339
Fire Air Compressor	Public Safety	26,821
2017 Chevy Truck Ocean Rescue	Public Safety	39,129
2017 F-150 PW Admin	Public Works	32,609
2017 F-150 PW Facilities Maint	Public Works	27,877
2017 PW Garage Service Truck	Public Works	73,527
Storm Water Culvert Cleaner	Public Works	52,079
Excavator	Public Works	33,174

The Town entered into a five year installment financing contract in September 2017 with First National Bank for construction of the Bonnett Street bath house. The amount borrowed was \$460,000 at an interest rate of 1.94%. The money was placed in an interest-bearing account until construction was complete. The contract requires annual installments of \$92,000 plus accrued interest through September 22, 2021. The outstanding balance at June 30, 2018 is \$368,000.

In February 2018, the Town entered into a 3 year lease agreement with Southern Bank borrowing \$374,829. The interest rate is 2.75% per annum fixed. The money was placed in an interest-bearing account until related assets were acquired. The lease requires annual payments of \$128,347. The outstanding balance at June 30, 2018 is \$246,482.

Leased Item	Function	Fixed Asset Value
2018 F-150 Town Manager	General Government	33,908
Time and attendance software	General Government	24,348

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2018 F-150 Planning	General Government	35,104
Four (4) Police vehicles	Public Safety	169,631
2018 F-150 Water Distribution	Water	30,669
Permitting software	General Government	15,266
Mobile vision Software	Public Safety	42,376

In February 2018, the Town entered into a 5 year lease agreement with Southern Bank borrowing \$285,350. The interest rate is 2.91% per annum fixed. The money was placed in an interest-bearing account until related assets were acquired. The lease requires annual payments of \$60,390. The outstanding balance at June 30, 2018 is \$224,960.

Leased Item	Function	Fixed Asset Value
Knuckle Boom	Environmental Protection	133,288
Tractor	Public Works	154,062

The gross value of all assets recorded under capital leases and installment finance contracts is \$6,644,887. The following is an analysis of the assets recorded under capital leases and installment finance contracts in the Town's governmental and water funds at June 30, 2018:

Classes of Property	Cost	Accumulated Depreciation	Net Book Value
Governmental Fund:			
Buildings	\$ 2,195,019	\$ 520,775	\$ 1,674,244
Vehicles	2,869,750	500,192	2,369,558
Equipment	299,384	14,666	284,718
Water Fund:			
Buildings	1,206,941	291,067	915,874
Vehicles	30,669	4,600	26,069
Equipment	43,124	6,594	36,530
Total	\$ 6,644,887	\$ 1,337,894	\$ 5,306,993

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

	Beginning Balance, as restated	Increases	Decreases	Ending Balance	Current Portion of Balance
Finance contract	\$ 343,333	\$ 460,000	\$ 338,667	\$ 464,666	\$ 188,666
Capital leases	1,886,898	630,403	877,971	1,639,330	660,570
Total OPEB liability	3,602,027	142,263	-	3,744,290	-
Total pension liability (LEOSSA)	772,627	51,012	-	823,639	-
Net pension liability (LGERS)	1,910,611	-	506,945	1,403,666	-
Compensated absences	597,859	431,317	389,081	640,095	310,000
Governmental activities long-term liabilities	\$ 9,113,355	\$ 1,714,995	\$ 2,112,664	\$ 8,715,686	\$ 1,159,236

Town of Nags Head, North Carolina
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A summary of changes in the Business type long-term debt follows:

	Beginning Balance, as restated	Increases	Decreases	Ending Balance	Current Portion of Balance
Finance contract	\$ 173,333	\$ -	\$ 86,667	\$ 86,666	\$ 86,666
Capital leases	87,901	29,776	57,560	60,117	25,746
Total OPEB liability	332,846	12,749	-	345,595	-
Net pension liability (LGRS)	181,375	-	51,818	129,557	-
Compensated absences	46,071	38,024	38,202	45,893	20,000
Business-type activities long-term liabilities	<u>\$ 821,526</u>	<u>\$ 80,549</u>	<u>\$ 234,247</u>	<u>\$ 667,828</u>	<u>\$ 132,412</u>

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

Year Ending June 30	Principal	Interest
2019	\$ 849,236	\$ 41,499
2020	615,545	24,646
2021	348,340	12,483
2022	290,875	5,793
Total	<u>\$ 2,103,996</u>	<u>\$ 84,421</u>

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

Year Ending June 30	Principal	Interest
2019	\$ 112,412	\$ 3,120
2020	26,260	656
2021	8,111	130
Total	<u>\$ 146,783</u>	<u>\$ 3,906</u>

b. Changes in Long-Term Liabilities

Compensated absences for governmental activities have typically been liquidated in the General Fund and are accounted for on a FIFO basis. Pension and OPEB liabilities for governmental activities have typically been liquidated in the General Fund.

At June 30, 2018, the Town had a legal debt margin of \$189,997,811.

8. Operating Leases

The Town entered into a lease on June 15, 2018, for one copier for a period of 60 months in the amount of \$295 per month plus monthly copy charges based on actual usage.

Town of Nags Head, North Carolina
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For the Fiscal Year Ended June 30, 2018

Total minimum lease payments for the remaining term of the contract at June 30, 2018, are as follows:

2019	\$ 3,540
2020	\$ 3,540
2021	\$ 3,540
2022	\$ 3,540
2023	<u>\$ 3,245</u>
Total	<u>\$17,405</u>

During the year ended June 30, 2018, the total amount expended by the Town under the above operating lease was \$295, including both minimum monthly rentals and overage per copy charges.

The Town leased clinic space to Outer Banks Community Care Clinic. The amount earned as of June 30, 2018 was \$12,300.

The Town leases space on the cell tower at Town Hall to AT&T. The amount earned for the year ended June 30, 2018 was \$18,847. Additional space was rented on this cell tower to Verizon in the amount of \$ 47,883 and Sprint in the amount of \$ 11,395.

The Town also leased space on the water tower in South Nags Head to AT&T in the amount of \$ 33,305 for the year ended June 30, 2018.

9. 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, 2018, 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 722 WCU's which are guaranteed by the Town and are valued at \$1,444,000.

The Town has reimbursed Ammons-Dare Corporation for the following unused WCU's :

Fiscal Year	Number of WCU's	Amount
June 30, 1992	100	\$ 200,000
June 30, 1993	50	100,000
June 30, 1995	15	30,000
June 30, 1996	31	62,000
June 30, 2014	21	42,000

The remaining 61 WCU's in the amount of \$122,000 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.

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2018

C. Interfund Balances and Activity

The Capital Reserve Fund is consolidated into the General Fund for financial statement purposes and does not reflect a liability in the General Fund of \$85,029 and a corresponding receivable in the Capital Reserve Fund. The original advance amount of \$438,481 represents reimbursement of funds collected in the Capital Reserve Fund originally intended to offset the cost of the municipal complex. Instead, these funds were used to pay off the higher interest rate Fire Station debt. This amount is to be paid back from the General Fund to the Capital Reserve Fund with fire facility fee revenues. The amounts and timing of the repayments will be determined by availability of collected fees and decided by the Board of Commissioners. During the current year, no repayment was made.

Transfers and Capital Contributions to/from other funds for the year ended June 30, 2018 consisted of the following:

Transfers from General Fund to Capital Reserve Fund for the following purposes:

Beach nourishment taxes designated for future beach nourishment	\$ 648,224
Municipal Service District (MSD) taxes collected	1,412,472
FEMA/NCDEM grant funds receivable-Hurricane Matthew	401,902
Facility fees	58,372
Penny of tax rate designated for Storm Water	236,158
Penny of tax rate designated for parks and paths	236,158
	\$ 2,993,286

Transfer from Capital Reserve Fund to Beach Renourishment Fund for the purpose of funding a change order for engineering support services for post-Matthew FEMA Disaster Public Assistance

\$ 12,000

Transfers from Capital Reserve Fund to General Fund for the following purposes:

Parks and paths	\$ 212,795
Storm Water	325,435
Administration facility fees	47,982
Fire facility fees	25,000
Police facility fees	16,780
	\$ 627,992

D. Net Investment in Capital Assets

	Governmental	Business-type
Capital assets	\$ 23,857,144	\$ 6,337,658
Less: long term debt	(2,103,996)	(146,783)
Add: unexpended debt proceeds	199,238	29,975
Net investment in capital assets	\$ 21,952,386	\$ 6,220,850

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2018

E. 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	\$ 17,178,816
Less:	
Nonspendable	(66,336)
Stabilization by State Statute	(3,187,758)
Restricted for Public Safety	(26,100)
Restricted for State Street Aid	(106,824)
Restricted for capital reserve fund	(6,739,739)
Committed for health insurance	(40,000)
Committed for LEO separation	(183,371)
Assigned for 2017-2018 budget	(450,000)
Fund Balance Policy	<u>(\$ 6,378,688)</u>
Fund Balance Remaining	<u>\$ -</u>

The Town of Nags Head has adopted a minimum fund balance policy for the general fund which instructs management to strive to maintain an unassigned general fund balance of 50% of expenditures less bond debt, but not less than \$ 5 million as per audited financial statements at the end of each fiscal year. The \$ 6,378,688 reported above is less than the 50% of expenditures calculation of \$14,285,625 but more than the \$ 5,000,000 minimum required.

At June 30, 2018, the following amounts represent open purchase orders and contracts outstanding at June 30, 2018. These encumbrances outstanding will be re-appropriated in the subsequent year's budget.

General Fund	\$ 1,212,510
Capital Project Fund (beach nourishment)	755,282
Water Fund	<u>210,208</u>
Total	<u>\$ 2,178,000</u>

F. Facility Fees

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

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.

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2018

At June 30, 2018, the facility fees were transferred to the Capital Reserve Fund where they will remain until funds are needed for appropriate capital expenditures.

The following schedule summarizes facility fees collected and used during the current year:

	Admin.	Fire	Police	Sanitation	Recreation	Total
Beginning of year balance	\$ 63,491	\$ 26,750	\$ 19,806	\$ 15,070	\$ 23,849	\$ 148,966
Current year additions (including interest)	18,440	8,585	10,613	9,002	14,840	61,480
Current year expenses	(47,982)	(25,000)	(16,780)	-	-	(89,762)
End of year balance	\$ 33,949	\$ 10,335	\$ 13,639	\$ 24,072	\$ 38,689	\$ 120,684

G. Beach Nourishment and Renourishment

The Town originally adopted a capital project ordinance on June 15, 2016, which has been amended several times resulting in a budgeted project cost of \$ 27,096,711 at June 30, 2018. The project will be financed with a special obligation bond secured by the Town's occupancy tax and an up-front payment from Dare County pursuant to an inter-local agreement, as well as 5 additional annual debt payment supplements from Dare County. The Town's beach nourishment fund balance in the Capital Reserve fund will be used to defray borrowing.

Repayment of the bond proceeds and interest will be provided by both a town wide tax and additional taxes on the properties located in the municipal service districts (MSD). The MSD tax in fiscal year 2018 is 17.5 cents, with the town-wide tax remaining unchanged at 2.7 cents. Funds received from the town wide tax and MSD tax in the amounts of \$ 648,224 and \$1,412,472, respectively, were transferred from the General Fund to the Capital Reserve Fund and are restricted for future beach nourishment. Since no MSD taxes were levied in fiscal year 2017, no sales tax revenues were derived from the MSD. Erosion control funds for the purpose of beach nourishment, accumulated through prior year ad valorem tax designation, were restricted in the Capital Reserve Fund and consolidated with the beach nourishment tax capital reserve.

Federal Emergency Management Agency (FEMA) has agreed to provide an additional \$16,233,837 in grant funding towards the project as a 75%/25% split with North Carolina Division of Emergency Management (NCDEM) for the sand lost as a result of Hurricane Matthew in October 2016. The FEMA funds have been released to the NCDEM for administration and will provide a pledged revenue source for an additional special obligation in the grant amount. A receivable of \$401,902 has been booked for uninsured losses for eligible work incurred resulting from Hurricane Matthew through fiscal year 2017-2018, upon formal notification that the grant funds had been committed and released to the NCDEM on May 31, 2018. These grant funds have been transferred to the Capital Reserve Fund and will be used to offset the debt payments of the special obligation bond.

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2018

The amount in the capital reserve fund restricted for future beach nourishment at June 30, 2018, total \$ 6,413,923 as shown below:

	Beach nourishment taxes (MSD and town-wide)	Restricted sales taxes from municipal service district tax	FEMA/NCDEM funds receivable	Total
Beginning of year balance	\$ 1,065,537	\$ 2,778,485	\$ -	\$ 3,844,022
Current year additions	2,060,696	-	401,902	2,462,598
Current year net interest	38,522	50,595	-	89,117
Consolidate erosion control	30,186	-	-	30,186
Current year uses	(12,000)	-	-	(12,000)
End of year balance	\$ 3,182,941	\$ 2,829,080	401,902	\$ 6,413,923

Beach nourishment construction will begin in the summer of 2019. Special obligation bonds will be issued in January 2019, with the first debt payments to be made July 2019. Additionally, \$1,550,000 from the beach nourishment capital reserve will be used for pay-as-you-go projects including a 30-year beach study at \$750,000 and \$800,000 towards annual maintenance for profile monitoring, sprigging, and sand fencing.

H. Tax Funds Designated

Beginning in the June 30, 2014, fiscal year, the Town designated one penny of its tax rate for parks and paths. Beginning in the June 30, 2017, fiscal year, the Town designated one penny of its tax rate for Storm Water in lieu of a Storm Water fee. The June 30, 2016, ending Fund Balance in the Storm Water Enterprise Fund was transferred into the Storm Water Capital Reserve on July 1, 2016. Any amounts not spent during the fiscal year are transferred to the capital reserve fund for use in a subsequent year. During the current fiscal year ending June 30, 2018, \$ 236,158 was the amount designated each for parks and paths and Storm Water and the balance at June 30, 2018 included in the capital reserve fund for this purpose is:

	Parks and Paths	Storm Water
Beginning of year balance	\$ 22,035	\$ 158,465
Current year additions	236,158	236,158
Current year interest	1,609	3,906
Current year uses	(212,795)	(325,435)
End of year balance	\$ 47,007	\$ 73,094

I. Volunteer Incentive Pay Agreement

The Board of Commissioners maintains an agreement for volunteer firefighter pay that calls for incentive pay based on an individual members qualifications, training, and call response. The method of calculation of incentive pay was amended administratively by the Board of Commissioners during the fiscal year ending June 30, 2006 as was the twelve month period for calculation to coincide with the Town's fiscal year from July through June. Beginning in FY 08-09 incentive pay was changed from annual payments to monthly. The amount expended under this agreement for the full year ending June 30, 2018 was \$2,120 plus an additional \$162 in related FICA.

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2018

III. Joint Ventures

The Town and the members of the Town's fire department each appoint two members to the five-member local board of trustees for the Firefighter's Relief Fund. The State Insurance Commissioner appoints one additional member to the local board of trustees. The Firefighter's Relief Fund is funded by a portion of the fire and lightning insurance premiums that insurers remit to the State. The State passes these moneys to the local board of the Firefighter's Relief Fund. The funds are used to assist fire fighters in various 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, 2018. The Firefighter's Relief Fund does not issue separate audited financial statements. Instead, the local board of trustees files an annual financial report with the State Firefighter's Association. This report can be obtained from the Association at 323 West Jones Street, Suite 401, Raleigh, North Carolina, 27603.

On April 20, 2007, the Town acquired a 34.783% interest in property jointly owned with the Outer Banks Visitors Bureau, that acquired the remaining 65.217% interest. The total cost for the Town's share was \$1,623,174. The Town's share of the amount donated by the seller was an additional \$626,094. The funding for this purchase came from the Town's Water Fund. Transfer and payment for the purchase by the General Fund began in the year ending June 30, 2013, in the amount of \$300,000, and will continue each year as determined by the Board of Commissioners until the Water Fund has been fully reimbursed and the property fully transferred to the Towns General Fund. The General Fund transferred an additional \$300,000 in the June 30, 2014 fiscal year for a total transferred of \$600,000 as of June 30, 2017. On November 14, 2008, the Town acquired a 17.949% interest in property owned jointly with the Outer Banks Visitors Bureau, that acquired 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 April 1, 2015, the parties entered into a memorandum of understanding which designated the site as the Outer Banks Event Site for a period of approximately ten years which began in late 2012. The parties agree that the Dare County Tourism Board shall make all decisions relating to the Site's management and will be responsible for collecting rental proceeds from users of the property and for paying expenses related to the property. The parties agreed that any transfers of their interests in the property can only be made to the other party based on a value determined in accordance with the memorandum of agreement.

IV. Summary Disclosure of Significant 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. Municipal Waste Management Agreement

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

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2018

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 2017-18 year was \$73.15 per ton.

C. 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, 2018, accumulated amortization totaled \$2,970,546.

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

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

V. Subsequent Events

A system development fee and Water Capital Reserve Fund have been adopted in accordance with North Carolina General Statutes. Through direct appropriation from the Water Fund, the system development fees will accumulate in the Water Capital Reserve Fund. Direct transfers to the Water Fund will be made from the Water Capital Reserve Fund in order to assist with funding capital improvements and debt payments related to the Town's water system.

The Town is under contract for construction of a 3.7 million cubic yard beach nourishment maintenance collaborative project to add sand along its shoreline during the summer of 2019. The joint project has a budget of \$42,824,439. To provide funding for 2.3 million cubic yards of sand, up to \$12,573,356 will come from a combination of up-front and debt payment supplements from Dare County in accordance with an inter-local agreement, and a special revenue bond of \$11,380,000, Series 2019A, with occupancy tax revenue being pledged as collateral. The first of five annual debt payments at \$2,451,252 will be made commencing July 2019, with subsequent semiannual interest only payments until final maturity in July 2023. Excess beach nourishment capital reserves of \$5,637,246 will defray debt borrowing as well as fund pay as you go projects.

The cost sharing project is with the Federal Emergency Management Agency (FEMA) and the North Carolina Division of Emergency Management (NCDEM). FEMA has agreed to provide \$16,233,837 in grant funding as a 75%/25% split with NCDEM for the 1.4 million cubic yards lost as a result of Hurricane

Town of Nags Head, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2018

Matthew in October 2016. The grant was calculated using a pro-rata distribution of certain project costs, proportionate to the total amount of sand being placed. The FEMA funds have been released to the NCDEM for administration and are a pledged revenue source for special obligation bond Series 2019B in the same amount. The Series 2019B bond will be issued in fiscal year 2019, with the first semiannual interest only payment of \$228,897 commencing July 2019 until balloon principal is made July 2020. A receivable of \$401,902 has been booked for uninsured losses for eligible work incurred resulting from Hurricane Matthew through fiscal year 2017-2018, upon formal notification that the grant funds had been committed and released to the NCDEM on May 31, 2018. These grant funds have been transferred to the Capital Reserve Fund and will be used to offset the debt payments of the Series 2019B special obligation bond.

VI. Change in Accounting Principles/Restatement

The Town implemented Governmental Accounting Standards Board (GASB) No. Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in the fiscal year ending June 30, 2018. The implementation of the statement required the Town to record beginning total OPEB liability and the effects on net position of benefit payments and administrative expenses paid by the Town related to OPEB during the measurement period (fiscal year ending June 30, 2017). Beginning deferred outflows and inflows of resources associated with the implementation were excluded from the restatement. As a result, net position for the governmental activities decreased \$2,244,277 and \$231,674 for the business-type activities.

REQUIRED SUPPLEMENTAL INFORMATION

This section contains additional information required by generally accepted accounting principles.

- Schedule of Proportionate Share of Net Pension Liability (Asset) for the Local Government Employees' Retirement System
- Schedule of Contributions to the Local Government Employees' Retirement System
- Schedule of Change in Total Pension Liability for the Law Enforcement Officers' Special Separation Allowance
- Schedule of Total Pension Liability as a Percentage of Covered Payroll for the Law Enforcement Officers' Special Separation Allowance
- Schedule of Changes in the Total OPEB liability

Town of Nags Head, North Carolina
Town of Nags Head's Proportionate Share of Net Pension Liability (Asset)
Required Supplementary Information
Last Five Fiscal Years *
Local Government Employees' Retirement System

A-1

	2018	2017	2016	2015	2014
Town of Nags Head's proportion of the net pension liability (asset) (%)	0.10036%	0.09857%	0.11405%	0.10721%	0.10930%
Town of Nags Head's proportion of the net pension liability (asset) (\$)	\$ 1,533,223	\$ 2,091,986	\$ 511,850	\$ (632,268)	\$ 1,317,485
Town of Nags Head's covered-employee payroll	\$ 6,008,611	\$ 5,807,371	\$ 5,376,833	\$ 5,585,383	\$ 5,159,503
Town of Nags Head's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	25.52%	36.02%	9.52%	-11.32%	25.54%
Plan fiduciary net position as a percentage of the total pension liability**	94.18%	91.47%	98.09%	102.64%	94.35%

* The amounts presented for each fiscal year were determined as of the prior fiscal year ending June 30.

Town of Nags Head, North Carolina
Town of Nags Head's Contributions
Required Supplementary Information
Last Five Fiscal Years
Local Government Employees' Retirement System

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 484,882	\$ 448,317	\$ 396,478	\$ 384,097	\$ 397,372
Contributions in relation to the contractually required contribution	484,882	448,317	396,478	384,097	397,372
Contribution deficiency (excess)	<u>\$ -</u>				
Town of Nags Head's covered-employee payroll	\$ 6,293,652	\$ 6,008,611	\$ 5,807,371	\$ 5,376,833	\$ 5,585,383
Contributions as a percentage of covered-employee payroll	7.70%	7.46%	6.83%	7.14%	7.11%

Town of Nags Head, North Carolina
Schedule of Changes in Total Pension Liability
Law Enforcement Officers' Special Separation Allowance
June 30, 2018

A-3

	<u>2018</u>	<u>2017</u>
Total Pension Liability		
Beginning balance	\$ 772,627	\$ 769,077
Service Cost at end of year	33,911	38,198
Interest on the total pension liability	29,059	26,713
Changes of benefit terms	-	-
Differences between expected and actual experience in the measurement of the total pension liability	(21,647)	-
Changes of assumptions or other inputs	49,282	(19,711)
Benefit payments	(39,593)	(41,650)
Other changes	-	-
Net change in Total Pension Liability	<u>51,012</u>	<u>3,550</u>
Ending balance of the total pension liability	<u>\$ 823,639</u>	<u>\$ 772,627</u>

The amounts presented for each fiscal year were determined as of the prior fiscal year ending December 31.

Town of Nags Head, North Carolina

A-4

Schedule of Total Pension Liability as a Percentage of Covered Payroll

Law Enforcement Officers' Special Separation Allowance

June 30, 2018

	<u>2018</u>	<u>2017</u>
Total pension liability	\$ 823,639	\$ 772,627
Covered-employee payroll	1,227,153	1,386,134
Total Pension Liability as a percentage of of covered-employee payroll	67.12%	55.74%

Notes to the schedules:

The Town of Nags Head has no assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 73 to pay related benefits.

Schedule of Changes in the Total OPEB Liability and Related Ratios

June 30, 2018

	<u>2018</u>
Total OPEB Liability	
Service Cost at end of year (includes interest for the year)	\$ 370,146
Interest on Total OPEB Liability and Cash Flows	116,800
Change in benefit terms	-
Difference between expected and actual experience	(12,992)
Changes of assumptions or other inputs	(209,200)
Benefit payments	(109,742)
Other	-
Net change in total OPEB liability	<u>155,012</u>
Total OPEB liability-beginning	<u>3,934,873</u>
Total OPEB liability-ending	<u>\$ 4,089,885</u>
Covered payroll	\$ 5,922,513
Total OPEB liability as a percentage of covered payroll	69.06%

Notes to Schedule

Changes of assumptions: Changes of assumptions and other inputs reflect the effects of changes in the discount rate of each period. The following are the discount rates used in each period:

Fiscal year	Rate
2018	3.56%

MAJOR GOVERNMENTAL FUNDS

The **General Fund** is used to account for resources traditionally associated with governments that are not required legally or by sound financial management to be accounted for in another fund.

The **Capital Reserve Fund** is a legally adopted Capital Reserve Fund, which has been consolidated with the General Fund in the basic financial statements, and accounts for the accumulation of funds for recreation, street, and shoreline project uses.

The **Beach Renourishment Capital Project Fund** is used to account for the Town's activities for a beach nourishment maintenance project.

**Town of Nags Head, North Carolina
General Fund**

Schedule 1

**Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual
For the Year Ended June 30, 2018
With Comparative Actual Amounts for the Year Ended June 30, 2017**

	2018		Variance Over (Under)	2017
	Budget	Actual		Actual
REVENUES				
Ad Valorem Taxes:				
Current year		\$ 7,012,961		\$ 6,940,373
Municipal service district		1,412,472		-
Prior year		26		1,439
DMV current year		126,918		116,317
DMV prior year		27		883
Penalties and interest		7,348		8,284
Total	\$ 8,431,670	8,559,752	\$ 128,082	7,067,296
Other Taxes and Licenses:				
Occupancy tax		2,419,390		2,572,622
Land Transfer tax		592,775		617,313
Local governmental sales tax		1,414,213		1,425,940
1/2% sales tax revenue		925,421		1,107,060
Special assessments		162		18,478
Special assessment interest		66		477
Privilege licenses and Business registrations		19,395		19,508
Mixed beverage tax		39,053		37,229
Privilege license penalties		854		541
Total	5,116,147	5,411,329	295,182	5,799,168
Intergovernmental Revenues:				
Unrestricted:				
Utility sales tax		631,406		740,116
Telecommunications tax		36,974		45,782
Natural Gas sales tax		4,246		3,863
Solid Waste Disposal fees		1,978		1,984
Video programming tax		119,775		139,522
Cable Franchise - PEG fund fees		54,063		55,365
Beer and wine		12,894		13,370
ABC revenue		18,664		18,342
Total	929,000	880,000	(49,000)	1,018,345
Restricted:				
Federal:				
Controlled substance excise tax		1,839		-
FEMA reimbursement		301,426		95,127
State:				
State Street Aid allocation-Powell Bill		119,263		119,516
NC Department of Commerce		-		366,734
State DPI Grant		41,718		41,087
Governor's Crime Commission		7,631		22,676
CAMA Reimbursement		3,890		5,930
Controlled substance excise tax		16,879		6,930
NCEM Reimbursement		100,475		31,709
Miscellaneous		3,895		9,450

**Town of Nags Head, North Carolina
General Fund**

Schedule 1

**Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual
For the Year Ended June 30, 2018
With Comparative Actual Amounts for the Year Ended June 30, 2017**

	2018		Variance Over (Under)	2017
	Budget	Actual		Actual
Local:				
Contributions from Dare County		24,500		24,000
Government Access Channel Grant		6,490		9,955
Outer Banks Visitor Bureau grant		10,000		260,000
Trillium Grant		-		739,257
Dominion Community Grant		-		10,000
Total	237,997	638,006	400,009	1,742,369
Total Intergovernmental Revenues	1,166,997	1,518,006	351,009	2,760,714
Permits and Fees:				
Building permits		229,929		199,232
Facility fees		58,372		32,339
Inspection and review fees		36,193		38,652
Beach driving permits		29,289		27,631
CAMA permits		7,400		5,300
Court costs and fees		4,343		5,661
Cart rollback		-		14,756
Civil penalties		1,000		1,050
Automobile town tags		688		885
Total	328,800	367,214	38,414	325,505
Sales and Services:				
Sale of materials		69,837		92,226
Total	80,750	69,837	(10,913)	92,226
Investment Earnings:				
Investment Earnings		166,095		112,753
Change in fair market value of investments		(96,388)		(53,880)
Net investment earnings	120,000	69,707	(50,293)	58,873
Other Revenues:				
Other rents		123,730		109,904
Cable franchise fees		-		48,627
Miscellaneous		49,417		38,975
Contributions to Police, Fire & Rescue Benevolent Fund		13,408		16,952
Total	164,500	186,555	22,055	214,458
Total Revenues	15,408,864	16,182,400	773,536	16,318,240

Town of Nags Head, North Carolina
General Fund

Schedule 1

Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual
For the Year Ended June 30, 2018
With Comparative Actual Amounts for the Year Ended June 30, 2017

	2018		Variance Over (Under)	2017
	Budget	Actual		Actual
EXPENDITURES				
General Government:				
Governing Body:				
Fees paid to elected officials		34,802		34,114
FICA expense		2,662		2,610
Contracted services		44,316		40,358
Department supplies and materials		5,049		3,985
Special events		832		308
Dues and subscriptions		8,847		8,873
Advertising		80		-
Printing		1,450		1,787
Travel and Training		6,219		3,751
Equipment rental		5		21
Contribution to Government Access Channel		55,063		56,365
Contributions, miscellaneous		10,425		14,000
Reimbursement from Water Fund		(16,386)		(13,922)
Total	174,497	153,364	(21,133)	152,251
Administration:				
Salaries and wages		600,940		565,842
FICA expense		43,110		40,501
Group insurance		110,359		98,992
Group insurance - retiree		13,467		12,627
Retirement		44,956		40,950
401(k) account		11,815		11,180
Contracted services		32,839		19,231
Travel and Training		11,660		19,592
Professional services		327		-
Advertising		6,030		6,512
Printing		450		-
Departmental supplies		8,824		7,672
Dues and subscriptions		9,063		4,934
Equipment rental		5,213		4,454
Telephone		6,300		6,226
Postage		236		1,858
Repairs and maintenance, vehicles		868		-
Automotive Supplies		1,141		927
Capital outlay, other		9,060		-
Capital outlay, vehicles		33,908		-
Reimbursement from Water Fund		(124,387)		(105,686)
Debt service, capital lease		11,272		-
Total	876,665	837,451	(39,214)	735,813

Town of Nags Head, North Carolina
General Fund

Schedule 1

Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual
For the Year Ended June 30, 2018
With Comparative Actual Amounts for the Year Ended June 30, 2017

	2018		Variance Over (Under)	2017
	Budget	Actual		Actual
Administrative Services:				
Salaries and wages		332,721		318,015
FICA expense		24,214		23,305
Group insurance expense		59,508		55,891
Retirement		23,961		22,191
401(k) account		6,335		5,680
Unemployment expense		3,317		10,213
Insurance		313,854		338,594
Contracted services		38,006		25,684
Professional services		16,310		20,952
Fines and forfeitures		7,482		4,708
Departmental supplies and materials		10,448		8,162
Postage		5,497		5,525
Telephone		3,432		3,389
Travel and Training		8,921		3,112
Equipment rental		3,064		4,905
Repairs and maintenance, equipment		138		125
Wellness program		4,175		8,675
Special contracted services		4,680		4,597
Dues and subscriptions		1,490		1,148
Purchases for resale		233		211
Advertising		214		260
Repairs and maintenance, vehicles		546		495
Automotive supplies		288		360
Contributions to PEAK		-		366,734
Capital outlay, equipment		61,521		138,494
Reimbursement from Water Fund		(77,122)		(65,527)
Debt service, capital lease		74,256		62,371
Debt service, interest		3,837		-
Total	1,173,020	931,326	(241,694)	1,368,270
Information Technology:				
Salaries and wages		113,352		124,847
FICA expense		8,649		9,521
Group insurance		14,708		15,819
Retirement		8,559		9,130
401(k) account		1,667		1,624
Contracted services		15,929		4,944
Contracted services, GIS		630		-
Contracted services, website		5,035		2,282
Contracted services, annual contracts		42,841		21,248
Travel and Training		4,163		-
Professional services		150		200
Departmental supplies		497		271
Telephone		6,127		6,112
Postage		133		16
Repairs and maintenance, equipment		5,193		9,789
Other supplies		41,185		24,080
Internet costs		7,620		7,620
Equipment rental		8,840		9,079
Dues and subscriptions		50		-

Town of Nags Head, North Carolina
General Fund

Schedule 1

Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual
For the Year Ended June 30, 2018
With Comparative Actual Amounts for the Year Ended June 30, 2017

	2018		Variance Over (Under)	2017
	Budget	Actual		Actual
Information Technology (continued):				
Capital outlay, equipment		7,150		-
Reimbursement from Water Fund		(36,507)		(31,019)
Total	293,172	255,971	(37,201)	215,563
Planning and Development:				
Salaries and wages		548,413		507,723
FICA expense		40,271		37,489
Group insurance		99,758		91,067
Group insurance - retiree		5,892		8,790
Retirement		40,688		36,814
401(k) account		10,256		9,507
Planning board, board of adjustment		6,840		9,230
Professional services		1,490		525
Departmental supplies		8,149		8,514
Special events		8,293		-
Uniforms		508		-
Travel and Training		6,472		4,485
Advertising		766		785
Telephone		5,557		4,985
Postage		3,498		956
Repairs and maintenance, vehicles		1,069		964
Printing		660		937
Contracted services		42,446		33,446
Other supplies		520		1,874
Automotive supplies		3,312		3,490
Equipment rental		7,080		5,214
Dues and subscriptions		2,723		2,445
Capital outlay, other		70,586		13,255
Capital outlay, equipment		15,266		-
Capital outlay, vehicles		35,104		-
Debt service, capital lease		35,159		7,904
Debt service, interest		99		197
Reimbursement from Water Fund		(116,773)		(99,218)
Total	970,690	884,102	(86,588)	691,380
Legal Services:				
Professional services		107,908		113,864
Reimbursement from Water Fund		(14,779)		(12,557)
Total	94,701	93,129	(1,572)	101,307
Total General Government	3,582,745	3,155,343	(427,402)	3,264,585

Town of Nags Head, North Carolina
General Fund

Schedule 1

Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual
For the Year Ended June 30, 2018
With Comparative Actual Amounts for the Year Ended June 30, 2017

	2018		Variance Over (Under)	2017
	Budget	Actual		Actual
Public Safety:				
Police Department:				
Salaries and wages		1,435,766		1,367,879
FICA expense		104,271		99,425
Group insurance		323,898		307,669
Group insurance - retiree		40,313		37,815
Retirement		117,222		108,164
401(k) account		68,162		64,696
Separation Allowance		42,621		44,261
Automotive supplies		54,829		47,898
Departmental supplies		58,439		40,485
Repairs and maintenance, vehicles		29,051		22,836
Repairs and maintenance, equipment		30,512		35,161
Telephone		22,964		22,330
Other supplies		6,522		6,955
Uniforms		15,520		11,043
Equipment rental		9,256		8,624
Travel and Training		25,569		20,967
Professional services		4,781		12,064
Postage		941		959
Dues and subscriptions		1,026		1,022
Advertising		-		49
Printing		189		425
Contracted services		2,577		1,405
Special investigations		1,000		-
Capital outlay, equipment		-		134,405
Capital outlay, vehicles		169,631		-
Capital outlay, equipment Governor's grant		42,376		24,500
Debt service, capital lease		135,894		130,446
Debt service, interest		1,961		1,602
Total	2,788,655	2,745,291	(43,364)	2,553,085
Drug Forfeiture:				
Department supplies		4,805		380
Capital outlay, other		15,500		-
Total	20,394	20,305	(89)	380
Fire Department:				
Salaries and wages		1,530,045		1,473,895
FICA expense		109,367		104,944
Group insurance		360,407		357,393
Group insurance, retiree		13,438		12,627
Retirement expense		115,111		110,624
401(k) account		28,162		26,736
Incentive pay		2,120		2,690
Supplemental pension fund		2,710		-
Departmental supplies		59,981		51,117
Repairs and maintenance, buildings		29,260		13,020

Town of Nags Head, North Carolina
General Fund

Schedule 1

Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual
For the Year Ended June 30, 2018
With Comparative Actual Amounts for the Year Ended June 30, 2017

	2018		Variance Over (Under)	2017
	Budget	Actual		Actual
Fire Department (continued):				
Repairs and maintenance, vehicles		27,535		24,284
Uniforms		15,826		14,921
Repairs and maintenance, equipment		4,897		6,247
Automotive supplies		14,685		13,850
Telephone		8,913		8,855
OSHA Compliance		2,041		6,106
Travel and Training		18,535		15,039
Safety training		4,862		5,590
Other supplies		4,273		7,596
Equipment rental		4,445		3,109
Dues and subscriptions		2,497		2,184
Professional services		13,977		13,280
Advertising		100		2
Postage		316		473
Contracted Services		14,407		17,635
Printing		388		1,058
Capital outlay, equipment		18,159		45,528
Capital outlay, other		-		41,214
Debt service, capital lease		186,318		199,833
Debt service, interest		10,710		13,994
Total	2,626,678	2,603,485	(23,193)	2,593,845
Ocean Rescue:				
Salaries and wages		459,987		423,579
FICA expense		28,717		28,890
Group insurance		9,107		7,567
Retirement expense		2,867		2,672
401(k) account		758		729
Departmental supplies		22,749		18,077
Uniforms		12,782		12,830
Automotive supplies		9,041		8,438
Repairs and maintenance, buildings		72		-
Repairs and maintenance, equipment		4,532		3,274
Travel and Training		7,034		3,819
Repairs and maintenance, vehicles		1,245		3,019
Professional fees		1,894		2,347
Contracted Services		1,264		1,492
Telephone		960		919
Printing		1,611		1,323
Dues and subscriptions		1,980		1,480
Postage		97		72
Advertising		675		-
Capital outlay, equipment		9,998		49,129
Debt service, capital lease		20,819		21,107
Debt service, interest		569		283
Total	621,476	598,758	(22,718)	591,047
Total Public Safety	6,057,203	5,967,839	(89,364)	5,738,357

Town of Nags Head, North Carolina
General Fund

Schedule 1

Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual
For the Year Ended June 30, 2018
With Comparative Actual Amounts for the Year Ended June 30, 2017

	2018		Variance Over (Under)	2017
	Budget	Actual		Actual
Environmental Protection:				
Sanitation:				
Salaries and wages		419,434		380,569
FICA expense		30,007		27,396
Group insurance		111,052		95,458
Retirement		29,763		26,143
401(k) account		2,810		2,986
Repairs and maintenance, vehicles		128,251		107,611
Automotive supplies		94,433		66,288
Department supplies		12,278		11,159
Uniforms		2,729		4,071
Contracted services		9,939		14,287
Recycling		84,457		101,727
Recycling carts		-		5,591
Purchases for resale		-		(3,250)
Repairs and maintenance, equipment		2,747		630
Telephone		2,503		2,888
Advertising		501		453
Capital outlay, equipment		-		566,225
Capital outlay, other		15,309		-
Capital outlay, vehicles		133,288		-
Debt service, capital lease		390,938		344,625
Debt service, interest		14,530		14,384
Total	1,572,908	1,484,969	(87,939)	1,769,239
Solid Waste:				
Tipping fees		658,633		683,858
Total	666,000	658,633	(7,367)	683,858
Total Environmental Protection	2,238,908	2,143,602	(95,306)	2,453,098
Public Works:				
Administration:				
Salaries and wages		194,053		186,605
FICA expense		14,010		13,412
Group insurance		41,674		39,933
Retirement		14,620		13,640
401(k) account		3,484		3,184
Contracted services		3,178		3,077
Purchase for resale		52,953		107,651
Telephone		2,431		2,272
Departmental supplies		4,901		4,722
Advertising		91		-
Equipment rental		2,675		1,311
Automotive supplies		2,204		2,302
Travel and Training		146		-

Town of Nags Head, North Carolina
General Fund

Schedule 1

Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual
For the Year Ended June 30, 2018
With Comparative Actual Amounts for the Year Ended June 30, 2017

	2018		Variance Over (Under)	2017
	Budget	Actual		Actual
Public Works:				
Administration (continued):				
Dues and subscriptions		850		2,691
Postage		64		56
Repairs and maintenance, vehicles		444		2,887
Uniforms		587		795
Capital outlay, equipment		-		32,609
Debt service, capital lease		7,739		8,092
Debt service, interest		354		-
Reimbursement from Water Fund		(65,312)		(55,493)
Total	384,973	281,146	(103,827)	369,744
Public Facilities Maintenance:				
Salaries and wages		426,854		436,054
FICA expense		31,719		32,354
Group insurance		103,566		105,074
Group insurance, retiree		13,847		12,627
Retirement		31,597		31,068
401(k) account		6,871		7,604
Repairs and maintenance, facilities		134,032		92,148
Utilities		189,174		178,177
Contracted services		52,742		36,175
Department supplies		19,072		20,739
Repairs and maintenance, equipment		29,317		33,140
Signs		14,661		14,983
Automotive supplies		17,413		15,833
Repairs and maintenance, other		34,879		39,077
Other supplies		14,564		15,591
Professional services		4,675		240
Uniforms		3,107		2,638
Repairs and maintenance, vehicles		7,781		10,074
Travel and Training		2,564		1,565
Telephone		2,478		2,903
Special Projects, sand fencing		24,000		48,000
Dues and subscriptions		50		50
Reimbursement from Water Fund		(161,081)		(136,864)
Capital outlay, Dowdy Park		82,929		1,610,776
Capital outlay, other		-		166,328
Capital outlay, equipment		160,168		27,877
Capital outlay, land		24,116		2,022
Capital outlay, building		454,489		99,488
Debt service, capital lease		324,433		248,408
Debt service, interest		3,886		7,690
Total	2,941,070	2,053,903	(887,167)	3,161,839

Town of Nags Head, North Carolina
General Fund

Schedule 1

Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual
For the Year Ended June 30, 2018
With Comparative Actual Amounts for the Year Ended June 30, 2017

	2018		Variance Over (Under)	2017
	Budget	Actual		Actual
Maintenance Garage:				
Salaries and wages		196,978		191,673
FICA account		14,342		13,920
Group insurance		51,645		49,011
Retirement		14,872		14,001
401(k) account		3,475		3,381
Other supplies		12,523		8,152
Departmental supplies		15,648		12,984
Uniforms		1,936		1,614
Contracted services		1,652		2,047
Automotive supplies		246		1,851
Repairs and maintenance, vehicles		139		2,223
Travel and Training		70		70
Repairs and maintenance, equipment		587		1,824
Capital outlay, equipment		-		73,527
Reimbursement from Water Fund		(43,010)		(36,544)
Debt service, capital lease		17,450		18,247
Debt service, interest		797		-
Total	306,202	289,350	(16,852)	357,981
Total Public Works	3,632,245	2,624,399	(1,007,846)	3,889,565
Streets and Drainage:				
State Street Aid:				
Street supplies, Powell Bill		20,789		10,396
Capital outlay, infrastructure		15,432		-
Capital outlay, other		10,000		76,825
Total	120,000	46,221	(73,779)	87,221
Storm Water Maintenance:				
Utilities		972		1,110
Fuel costs		1,389		1,395
Department Supplies		4,118		5,223
Maintenance and repairs equipment		2,017		2,275
Professional services		3,000		1,000
Professional fees/Water quality testing		360		460
Contracted services		36,672		120,000
Capital outlay, equipment		-		52,079
Capital outlay, infrastructure		274,768		-
Debt Service, capital lease		12,360		12,924
Debt Service, interest		565		-
Total	405,726	336,221	(69,505)	196,466
Total Streets and Drainage	525,726	382,442	(143,284)	283,687
Contingency	1	-	(1)	-
Total Expenditures	16,036,828	14,273,625	(1,763,203)	15,629,290
Revenues Over (Under) Expenditures	(627,964)	1,908,775	2,536,739	688,950

Town of Nags Head, North Carolina
General Fund

Schedule 1

Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual
For the Year Ended June 30, 2018
With Comparative Actual Amounts for the Year Ended June 30, 2017

	2018		Variance Over (Under)	2017
	Budget	Actual		Actual
Other Financing Sources (Uses):				
Capital lease issued	1,090,403	1,090,403	-	988,525
Transfers to Capital Reserve Funds	(2,537,327)	(2,993,287)	(455,960)	(1,739,256)
Transfers from Capital Reserve Funds	716,254	627,992	(88,262)	545,491
Sale of capital assets	20,000	21,594	1,594	22,747
Appropriated Fund Balance	1,338,634	-	(1,338,634)	-
Other financing sources (uses), net	627,964	(1,253,298)	(1,881,262)	(182,493)
Net change in fund balance	<u>\$ -</u>	655,477	<u>\$ 655,477</u>	506,456
FUND BALANCE, beginning of year		<u>9,783,600</u>		<u>9,277,144</u>
FUND BALANCE, ending		<u>\$ 10,439,077</u>		<u>\$ 9,783,600</u>

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 Year Ended June 30, 2018
 With Comparative Actual Amounts for the Year Ended June 30, 2017

	2018		Variance Over (Under)	2017
	Budget	Actual		Actual
Revenues:				
Investment earnings	\$ -	\$ 91,359	91,359	\$ 41,752
Change in fair market value of investments		(78,648)	(78,648)	(23,293)
Total revenues	-	12,711	12,711	18,459
Other financing sources (uses):				
Transfers from:				
General Fund	2,537,327	2,993,287	455,960	1,739,256
Storm Water Enterprise Fund	-	-	-	69,670
Beach Nourishment Fund	-	-	-	71
Transfers to:				
Beach Renourishment Capital Project Fund	(5,950,000)	(12,000)	5,938,000	(2,674,211)
General Fund	(716,254)	(627,992)	88,262	(545,491)
Appropriated Fund Balance	4,128,927	-	(4,128,927)	-
Total other financing sources (uses)	-	2,353,295	2,353,295	(1,410,705)
Net change in fund balance	\$ -	2,366,006	\$ 2,366,006	(1,392,246)
Fund balances, beginning of year		4,373,733		5,765,979
Fund balances, end of year		\$ 6,739,739		\$ 4,373,733

Town of Nags Head, North Carolina
Beach Renourishment 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, 2018

Schedule 3

	Project Authorization	Actual		Total to Date	Variance Over (Under)
		Prior Years	Current Year		
Revenues					
Investment Earnings	\$ -	\$ 28,336	\$ 24,180	\$ 52,516	\$ 52,516
Change in fair market value of investments	-	(18,860)	(8,083)	(26,943)	(26,943)
Restricted intergovernmental	9,573,356	-	645,779	645,779	(8,927,577)
Total revenues	9,573,356	9,476	661,876	671,352	(8,902,004)
Expenditures					
Professional Fees	587,500	86,044	99,318	185,362	(402,138)
Capital Construction Oversight	1,684,211	294,650	748,779	1,043,429	(640,782)
Pumping Costs	17,250,000	-	-	-	(17,250,000)
Mobilization	5,000,000	-	-	-	(5,000,000)
Contingency	250,000	-	-	-	(250,000)
Monitoring	500,000	-	-	-	(500,000)
Thirty Year Beach Study	750,000	-	-	-	(750,000)
Sprigging	450,000	-	-	-	(450,000)
Turtle Monitoring	50,000	-	-	-	(50,000)
Ocean Outfall	300,000	-	-	-	(300,000)
Other Costs	275,000	4,640	16,258	20,898	(254,102)
Total Expenditures	27,096,711	385,334	864,355	1,249,689	(25,847,022)
Revenues over (under) expenditures	(17,523,355)	(375,858)	(202,479)	(578,337)	16,945,018
Other financing sources (uses):					
Bonds issued	11,573,355	-	-	-	(11,573,355)
Transfers from Capital Reserve Fund	5,950,000	2,674,211	12,000	2,686,211	(3,263,789)
Total other financing sources (uses)	17,523,355	2,674,211	12,000	2,686,211	(14,837,144)
Net change in fund balance	\$ -	\$ 2,298,353	(190,479)	\$ 2,107,874	\$ 2,107,874
Fund balance, beginning of year			<u>2,298,353</u>		
Fund balance, end of year			<u>\$ 2,107,874</u>		

PROPRIETARY FUND ENTERPRISE FUND

Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises – where the intent of the government’s council is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the government’s council has decided that periodic determination of net income is appropriate for accountability purposes.

Major Enterprise Fund

Water Fund. This fund is used to account for activities of the Water Department.

Town of Nags Head, North Carolina
Enterprise Fund - Water Fund
Schedule of Revenues and Expenditures-Budget and Actual (Non-GAAP)
For the Year Ended June 30, 2018
With Comparative Actual Amounts for the Year Ended June 30, 2017

Schedule 4

	2018		Variance Over (Under)	2017
	Budget	Actual		Actual
REVENUES				
Operating Revenues:				
Water sales		\$ 2,631,286		\$ 2,485,693
Tap and connection fees		31,728		14,508
Late payment penalties and interest		28,536		25,706
Water cutoff tag fees		5,100		7,100
Miscellaneous		2,951		4,490
Total Operating Revenues	2,659,069	2,699,601	40,532	2,537,497
Non-operating Revenues:				
Interest earned on investments		55,577		41,630
Change in fair market value of investments		(33,391)		(20,361)
Total Non-operating Revenues	36,250	22,186	(14,064)	21,269
Total Revenues	2,695,319	2,721,787	26,468	2,558,766
EXPENDITURES				
Administration:				
Salaries and wages		119,800		110,676
FICA expense		8,363		7,750
Group insurance		32,185		29,980
Retirement expense		9,010		8,133
401(k) account		1,483		1,329
Reimburse General Fund administrative expenses		61,971		46,493
Contracted services		6,480		4,618
Postage		10,098		10,417
Travel and Training		62		269
Supplies and materials		3,501		2,114
Professional fees		9,499		12,419
Repairs and maintenance, equipment		-		1,312
Total Administration	290,909	262,452	(28,457)	235,510
Septic Health:				
Salaries and wages		29,641		28,922
FICA expense		2,125		2,001
Group insurance		6,830		9,904
Retirement		2,223		2,140
401(k) account		588		574
Reimburse General Fund administrative expenses		86,804		39,539
Inspection rebates		9,950		9,075
Pumping credits		1,770		2,220
Postage		1,025		2,136
Advertising		-		1,800

Town of Nags Head, North Carolina
Enterprise Fund - Water Fund
Schedule of Revenues and Expenditures-Budget and Actual (Non-GAAP)
For the Year Ended June 30, 2018
With Comparative Actual Amounts for the Year Ended June 30, 2017

Schedule 4

	2018		Variance Over (Under)	2017
	Budget	Actual		Actual
Septic Health (continued):				
Travel and Training		23		252
Water quality testing		43,539		43,224
Contracted services		8,065		2,145
Telephone		205		201
Printing		699		1,521
Automotive supplies		834		767
Repairs and maintenance, vehicles		36		92
Departmental supplies		604		365
Total Septic Health	211,204	194,961	(16,243)	146,878
Operations:				
Salaries and wages		207,904		200,680
FICA expense		14,842		14,225
Group insurance		53,632		50,397
Retirement		15,677		14,607
401(k) account		2,780		2,106
Purchases for resale		831,799		828,857
Reimburse General Fund administrative expenses		379,511		331,736
Insurance		50,984		48,456
Utilities		47,806		47,630
Contracted services		7,888		6,190
Departmental supplies		22,993		22,503
Professional fees		2,400		3,200
Other supplies		5,399		1,811
Repairs and maintenance, equipment		23,024		26,936
Repairs and maintenance, buildings		1,265		610
Postage		1,773		1,542
Telephone		4,389		3,248
Uniforms		1,099		1,333
Dues and subscriptions		2,496		2,452
Equipment rental		976		1,032
Printing		2,869		2,814
Automotive supplies		5,434		3,612
Travel and Training		1,669		3,533
Advertising		-		243
Repairs and maintenance, vehicles		1,190		471
Total Operations	1,733,355	1,689,799	(43,556)	1,620,224
Operations Distribution:				
Salaries and wages		188,263		186,606
FICA expense		12,978		13,257
Group insurance		65,491		53,028
Group insurance, retiree		26,912		25,254
Retirement		14,134		13,670

Town of Nags Head, North Carolina
Enterprise Fund - Water Fund
Schedule of Revenues and Expenditures-Budget and Actual (Non-GAAP)
For the Year Ended June 30, 2018
With Comparative Actual Amounts for the Year Ended June 30, 2017

Schedule 4

	2018		Variance Over (Under)	2017
	Budget	Actual		Actual
Operations Distribution (continued):				
401(k) account		3,608		3,704
Reimburse General Fund administrative expenses		127,071		139,062
Contracted services		8,554		11,079
Other supplies		19,073		17,361
Repairs and maintenance, other		24,297		38,666
Automobile supplies		7,802		7,253
Departmental supplies		16,484		14,810
Professional fees		-		350
Uniforms		2,576		1,912
Repairs and maintenance, vehicles		1,828		3,131
Telephone		1,636		1,872
Dues and subscriptions		1,364		1,229
Advertising		928		976
Repairs and maintenance, equipment		40,722		2,782
Travel and Training		4,074		2,570
Total Operations Distribution	755,639	567,795	(187,844)	538,572
Contingency	25,750	-	(25,750)	-
Capital Outlay:				
Machinery and equipment	54,975			49,851
Buildings	-			205,178
Infrastructure	-	141,380		
Vehicles	30,776	30,669		
Other	150,000	-		-
Total Capital Outlay	235,751	172,049	(63,702)	255,029
TOTAL EXPENDITURES	3,252,608	2,887,056	(365,552)	2,796,213
REVENUES OVER (UNDER) EXPENDITURES	(557,289)	(165,269)	392,020	(237,447)
Other Financing Sources and (Uses):				
Appropriated Net Position	703,489	-		-
Capital lease issued	29,776	29,776		73,099
Debt interest	(5,161)	(5,215)		(6,570)
Debt principal	(145,815)	(144,227)		(134,702)
Septic Health Loans provided to customers	(50,000)	(43,095)		(57,680)
Principal repayments Septic Health Loans	25,000	44,117		28,503
Total Other Financing Sources and (Uses)	557,289	(118,644)	(675,933)	(97,350)
Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	\$ -	\$ (283,913)	\$ (283,913)	\$ (334,797)

Town of Nags Head, North Carolina
Enterprise Fund - Water Fund
Schedule of Revenues and Expenditures-Budget and Actual (Non-GAAP)
For the Year Ended June 30, 2018
With Comparative Actual Amounts for the Year Ended June 30, 2017

Schedule 4

	2018		Variance Over (Under)	2017
	Budget	Actual		Actual
RECONCILIATION OF MODIFIED ACCRUAL TO FULL ACCRUAL BASIS				
Revenues over (under) expenditures		\$ (283,913)		\$ (334,797)
Reconciling items:				
Septic Health Loans		43,095		57,680
Principal repayments Septic Health Loans		(44,117)		(28,503)
Payment of debt principal		144,227		134,702
Decrease (increase) in accrued interest payable		335		(33)
Decrease in accrued vacation payable		178		294
(Decrease) increase in deferred outflows of resources-pensions		(56,990)		127,263
Increase in deferred outflows of resources-OPEB		26,935		-
Decrease (increase) in net pension liability		51,818		(145,597)
Decrease in deferred inflows of resources-pensions		5,786		4,377
(Increase) in OPEB liability		(12,749)		-
(Increase) in deferred inflows of resources-OPEB		(17,162)		(37,205)
Capital lease issued		(29,776)		(73,099)
Capital contributions		145,000		104,500
Capital outlay		172,049		255,029
Depreciation and amortization		(360,573)		(327,864)
Change in net position		<u>\$ (215,857)</u>		<u>\$ (263,253)</u>

SUPPLEMENTARY SCHEDULES

Schedule of Ad Valorem Taxes Receivable

Analysis of Current Tax Levy

TOWN OF NAGS HEAD, NORTH CAROLINA
Schedule of Ad Valorem Taxes Receivable
June 30, 2018

Schedule 5

Fiscal Year	Uncollected Balance June 30, 2017	Additions	Collections And Credits	Adjustments	Uncollected Balance June 30, 2018
2017-2018	\$ -	\$ 6,951,626	\$ 7,139,879	\$ 188,690	\$ 437
2017-2018 MSD	-	1,408,783	1,412,472	3,690	1
2016-2017	196	-	20	-	176
2015-2016	76	-	4	-	72
2015-2016 MSD	2	-	-	-	2
2014-2015	106	-	2	-	104
2014-2015 MSD	-	-	-	-	-
2013-2014	1,183	-	-	-	1,183
2013-2014 MSD	37	-	-	-	37
2012-2013	1,910	-	27	-	1,883
2012-2013 MSD	2	-	-	-	2
2011-2012	1,092	-	-	-	1,092
2011-2012 MSD	19	-	-	-	19
2010-2011	1,155	-	-	-	1,155
2009-2010	922	-	-	-	922
2008-2009	711	-	-	-	711
2007-2008	964	-	964	-	-
Total	\$ 8,375	\$ 8,360,409	\$ 8,553,368	\$ 192,380	7,796

Less allowance for uncollectible
ad valorem taxes receivable

\$ 7,500

Ad Valorem Taxes Receivable, net

\$ 296

Reconcilement with revenues:

Taxes, ad valorem , General Fund	\$ 7,147,280
Taxes, ad valorem , General Fund, MSD	1,412,472
Reconciling items:	
Amounts written off for tax year 2007-08	136
DMV written off for tax year 2007-08	828
Penalties and interest	(7,348)
Subtotal	(6,384)
Total collections and credits	\$ 8,553,368

Town of Nags Head, North Carolina
 Analysis of Current Tax Levy
 June 30, 2018

Schedule 6

	Town - Wide		Total Levy		
			Property Excluding Registered Motor Vehicles	Registered Motor Vehicles	
	Property Valuation	Rate	Total Levy		
Original levy:					
Property taxed at current year's rate	\$ 2,339,151,453	\$ 0.2970	\$ 6,947,283	\$ 6,947,283	\$ -
Registered Motor Vehicles taxed at current year rates	33,848,230	0.2970	99,380	-	99,380
Registered Motor Vehicles taxed at 2016 year's rate	9,272,078	0.2670	27,538	-	27,538
Penalties	-	0.2670	4,343	4,343	-
Total	2,382,271,761		7,078,544	6,951,626	126,918
Discoveries and Adjustments:					
Current year discoveries and adjustments	21,308,439	0.2700	57,533	57,533	
Town wide beach nourishment		-	5,753	5,753	
Total	21,308,439		63,286	63,286	
Releases and Adjustments:					
Current year releases and adjustments	(472,819)	0.2700	(1,277)	(1,277)	
Town wide beach nourishment			(128)	(128)	
Penalty Releases	-	-	(105)	(105)	
Total	(472,819)		(1,510)	(1,510)	
Write-offs or Adjustments:			(5)	(5)	
Total property valuation	<u>\$ 2,403,107,381</u>				
Net levy			7,140,316	7,013,398	126,918
Uncollected taxes at June 30, 2018			(437)	(437)	-
Current year taxes collected			<u>\$ 7,139,879</u>	<u>\$ 7,012,961</u>	<u>\$ 126,918</u>
Current levy collection percentage			<u>99.994%</u>	<u>99.994%</u>	<u>100.00%</u>

STATISTICAL SECTION

This part of the Town of Nags Head's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Town's overall financial health.

Contents	Page
Financial Trends	94
These tables contain trend information to help the reader understand how the Town's financial performance and well-being have changed over time.	
Revenue Capacity	98
These tables contain information to help the reader assess the Town's most significant local revenue source: property tax.	
Debt Capacity	102
These schedules present information to help the reader assess the affordability of the Town's current levels of outstanding debt and the government's ability to issue additional debt in the future.	
Demographic and Economic Information	105
These tables offer demographic and economic indicators to help the reader understand the environment within which the Town's financial activities take place.	
Operating Information	107
These tables contain service and infrastructure data to help the reader understand how the information in the Town's financial report relates to the services the Town provides and the activities it performs.	

Sources: Unless otherwise noted, the information in these tables is derived from the comprehensive annual financial reports for the relevant year.

TABLE 1

TOWN OF NAGS HEAD, NORTH CAROLINA
NET POSITION BY COMPONENT,
LAST TEN FISCAL YEARS
 (accrual basis of accounting)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Governmental activities										
Net investment in capital assets	\$ 15,440,091	\$ 15,867,188	\$ 16,675,551	\$ 39,461,419	\$ 36,870,772	\$ 33,903,387	\$ 31,135,962	\$ 27,708,368	\$ 20,966,687	\$ 21,952,386
Restricted	149,282	107,450	43,920,188	2,841,491	4,215,704	5,228,502	6,624,621	9,021,585	8,329,744	11,467,485
Unrestricted	9,265,539	8,860,527	(17,756,013)	7,010,760	6,290,213	5,800,045	3,898,698	3,755,364	4,890,365	1,878,340
Total governmental activities net position	<u>\$ 24,854,912</u>	<u>\$ 24,835,165</u>	<u>\$ 42,839,726</u>	<u>\$ 49,313,670</u>	<u>\$ 47,376,689</u>	<u>\$ 44,931,934</u>	<u>\$ 41,659,281</u>	<u>\$ 40,485,317</u>	<u>\$ 34,186,796</u>	<u>\$ 35,298,211</u>
Business-type activities										
Net investment in capital assets	\$ 7,238,027	\$ 7,198,997	\$ 6,998,911	\$ 7,290,657	\$ 6,956,945	\$ 6,615,501	\$ 6,893,822	\$ 7,151,840	\$ 6,294,923	\$ 6,220,850
Unrestricted	3,969,233	3,595,538	3,612,184	3,435,118	3,503,486	3,714,971	3,552,268	3,666,132	3,314,466	2,914,008
Total business-type activities net position	<u>\$ 11,207,260</u>	<u>\$ 10,794,535</u>	<u>\$ 10,611,095</u>	<u>\$ 10,725,775</u>	<u>\$ 10,460,431</u>	<u>\$ 10,330,472</u>	<u>\$ 10,446,090</u>	<u>\$ 10,817,972</u>	<u>\$ 9,609,389</u>	<u>\$ 9,161,858</u>
Primary government										
Net investment in capital assets	\$ 22,678,118	\$ 23,066,185	\$ 23,674,462	\$ 46,752,076	\$ 43,827,717	\$ 40,518,888	\$ 38,029,784	\$ 34,860,208	\$ 27,261,610	\$ 28,173,236
Restricted	149,282	107,450	43,920,188	2,841,491	4,215,704	5,228,502	6,624,621	9,021,585	8,329,744	11,467,485
Unrestricted	13,234,772	12,456,065	(14,143,829)	10,445,878	9,793,699	9,515,016	7,450,966	7,421,496	8,204,831	4,819,348
Total primary government activities net position	<u>\$ 36,062,172</u>	<u>\$ 35,629,700</u>	<u>\$ 53,450,821</u>	<u>\$ 60,039,445</u>	<u>\$ 57,837,120</u>	<u>\$ 55,262,406</u>	<u>\$ 52,105,371</u>	<u>\$ 51,303,289</u>	<u>\$ 43,796,185</u>	<u>\$ 44,460,069</u>

Note:

The Town adopted GASB Statement No. 68 for fiscal year 2015; prior years are not restated.

The Town adopted GASB Statement No. 73 for fiscal year 2016; prior years are not restated.

The Town adopted GASB Statement No. 73 for fiscal year 2017; prior years are not restated.

The Town adopted GASB Statement No. 75 for fiscal year 2018; prior years are not restated.

TOWN OF NAGS HEAD, NORTH CAROLINA

**CHANGES IN NET POSITION,
LAST TEN FISCAL YEARS**

(accrual basis of accounting)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Expenses										
Governmental activities:										
General government	\$ 2,367,328	\$ 2,180,840	\$ 2,312,288	\$ 2,522,896	\$ 9,253,686	\$ 9,408,905	\$ 10,812,062	\$ 9,974,716	\$ 10,328,168	\$ 3,548,805
Public safety	4,502,963	4,275,197	4,414,594	4,779,911	4,894,679	5,251,148	5,274,035	5,402,779	5,501,986	5,791,918
Public Works/Transportation	1,648,013	1,618,287	1,692,863	2,041,283	1,972,369	2,158,516	2,137,237	2,174,552	4,728,501	2,146,924
Environmental protection	1,638,552	1,662,597	1,595,804	1,725,879	1,721,611	1,744,024	1,726,901	1,886,219	1,730,249	1,857,765
Streets and Drainage	-	-	-	-	-	-	-	-	545,888	310,542
Interest on long-term debt	135,207	108,592	79,966	520,237	409,005	319,462	226,348	143,298	40,122	41,470
Total Governmental activities expenses	<u>10,292,063</u>	<u>9,845,513</u>	<u>10,095,515</u>	<u>11,590,206</u>	<u>18,251,350</u>	<u>18,882,055</u>	<u>20,176,583</u>	<u>19,581,564</u>	<u>22,874,914</u>	<u>13,697,424</u>
Business-type activities:										
Water Fund	2,869,842	2,735,581	2,708,563	2,470,495	2,771,846	2,634,525	2,721,655	2,616,111	2,926,519	3,082,644
Storm Water Fund	127,786	38,099	48,191	45,573	29,519	41,395	70,127	102,667	875,662	0
Total Business-type activities expenses	<u>2,997,628</u>	<u>2,773,680</u>	<u>2,756,754</u>	<u>2,516,068</u>	<u>2,801,365</u>	<u>2,675,920</u>	<u>2,791,782</u>	<u>2,718,778</u>	<u>3,802,181</u>	<u>3,082,644</u>
Total primary government activities expenses	<u>\$ 13,289,691</u>	<u>\$ 12,619,193</u>	<u>\$ 12,852,269</u>	<u>\$ 14,106,274</u>	<u>\$ 21,052,715</u>	<u>\$ 21,557,975</u>	<u>\$ 22,968,365</u>	<u>\$ 22,300,342</u>	<u>\$ 26,677,095</u>	<u>\$ 16,780,068</u>
Program revenues										
Governmental activities:										
Charges for services:										
General government	\$ 382,541	\$ 269,415	\$ 229,014	\$ 261,452	\$ 380,445	\$ 426,391	\$ 470,792	\$ 407,776	\$ 429,748	\$ 556,438
Public safety	27,124	4,494	5,123	3,713	3,099	2,018	3,278	3,913	5,661	4,343
Operating grants and contributions:										
General government	9,350	12,955	8,020	8,275	6,915	27,570	32,057	185,181	396,069	24,275
Public safety	16,613	37,367	23,660	36,007	34,277	111,572	73,833	70,628	84,511	58,844
Public Works/Transportation	3,929	154,109	23,176	404,290	43,934	24,000	24,000	24,000	38,720	24,000
Environmental protection	-	-	-	-	-	-	-	30,000	92,574	-
Streets and Drainage	-	-	-	-	-	-	-	-	42,691	93,831
Capital grants and contributions:										
General Government	-	-	18,002,904	2,016,879	2,020,000	1,525,325	2,000,000	2,000,000	6,000	1,047,680
Public safety	-	-	126,402	-	-	83,843	-	7,000	22,676	23,131
Public Works/Transportation	1,331,002	211,293	117,984	225,246	309,639	209,432	253,784	136,076	999,257	185,000
Streets and Drainage	-	-	-	-	-	-	-	-	952,487	25,432
Total Governmental activities program revenues	<u>1,770,559</u>	<u>689,633</u>	<u>18,536,283</u>	<u>2,955,862</u>	<u>2,798,309</u>	<u>2,410,151</u>	<u>2,857,744</u>	<u>2,864,574</u>	<u>3,070,394</u>	<u>2,042,974</u>
Business-type activities:										
Charges for services:										
Water Fund	2,392,413	2,076,534	2,366,874	2,406,526	2,319,482	2,308,365	2,662,592	2,720,922	2,533,007	2,696,650
Storm Water Fund	112,368	112,612	113,252	113,988	114,572	115,364	116,184	233,540	-	-
Operating grants and contributions:										
Water Fund	-	-	-	14,696	-	-	-	-	-	-
Storm Water Fund	-	-	-	-	-	-	-	-	-	-
Capital grants and contributions:										
Water Fund	151,000	90,000	85,000	79,500	91,500	95,500	162,500	102,500	104,500	145,000
Storm Water Fund	-	63,509	-	-	-	-	-	-	-	-
Total Business-type activities program revenues	<u>2,655,781</u>	<u>2,342,655</u>	<u>2,565,126</u>	<u>2,614,710</u>	<u>2,525,554</u>	<u>2,519,229</u>	<u>2,941,276</u>	<u>3,056,962</u>	<u>2,637,507</u>	<u>2,841,650</u>
Total primary government activities program revenues	<u>\$ 4,426,340</u>	<u>\$ 3,032,288</u>	<u>\$ 21,101,409</u>	<u>\$ 5,570,572</u>	<u>\$ 5,323,863</u>	<u>\$ 4,929,380</u>	<u>\$ 5,799,020</u>	<u>\$ 5,921,536</u>	<u>\$ 5,707,901</u>	<u>\$ 4,884,624</u>

Note: The Town adopted GASB Statement No. 68 for fiscal year 2015; prior years are not restated.

The Town adopted GASB Statement No. 73 for fiscal year 2016; prior years are not restated.

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The Town adopted GASB Statement No. 75 for fiscal year 2018; prior years are not restated.

TOWN OF NAGS HEAD, NORTH CAROLINA
 CHANGES IN NET POSITION,
 LAST TEN FISCAL YEARS
 (accrual basis of accounting)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Net (Expense)/Revenue										
Governmental activities	\$ (8,521,504)	\$ (9,155,880)	\$ 8,440,768	\$ (8,634,344)	\$ (15,453,041)	\$ (16,471,904)	\$ (17,318,839)	\$ (16,716,990)	\$ (19,804,520)	\$ (11,654,450)
Business-type activities	(341,847)	(431,025)	(191,628)	98,642	(275,811)	(156,691)	149,494	338,184	(1,164,674)	(240,994)
Total primary government net expense	<u>\$ (8,863,351)</u>	<u>\$ (9,586,905)</u>	<u>\$ 8,249,140</u>	<u>\$ (8,535,702)</u>	<u>\$ (15,728,852)</u>	<u>\$ (16,628,595)</u>	<u>\$ (17,169,345)</u>	<u>\$ (16,378,806)</u>	<u>\$ (20,969,194)</u>	<u>\$ (11,895,444)</u>
General Revenues and Other Changes in Net Position										
Governmental activities:										
Taxes										
Property taxes levied for general purpose	\$ 4,535,007	\$ 4,550,332	\$ 4,859,827	\$ 5,493,052	\$ 5,532,574	\$ 6,007,054	\$ 6,245,990	\$ 6,302,099	\$ 7,067,172	\$ 7,147,201
Municipal service district taxes	-	-	-	1,784,860	1,800,722	1,793,280	1,826,183	1,823,812	-	1,412,472
Occupancy tax	1,814,235	1,748,369	1,852,917	1,947,935	2,549,080	2,492,045	2,637,450	2,637,733	2,572,622	2,419,390
Land transfer taxes	359,153	382,123	384,657	409,087	525,314	532,837	664,756	658,595	617,313	592,775
Sales taxes	1,465,108	1,384,626	1,412,178	1,530,336	2,197,553	2,233,617	2,343,993	2,486,409	2,533,000	2,339,634
Other taxes and licenses	37,775	37,848	38,163	38,324	59,393	45,939	68,143	60,313	65,435	60,239
Intergovernmental revenues not restricted	620,354	619,175	638,200	642,976	658,137	699,313	841,649	1,080,122	1,018,345	880,000
Net unrestricted investment earnings (loss)	350,256	193,513	152,000	116,372	35,785	80,246	75,122	113,379	86,867	98,515
Miscellaneous	228,986	220,147	225,851	231,266	157,502	137,618	188,115	187,746	187,262	59,916
Capital Contributions	1,043,451	-	-	2,914,080	-	5,200	-	-	-	-
Transfers	-	-	-	-	-	-	-	-	69,670	-
Acquisition of cell tower in exchange for reduced rent revenue	279,577	-	-	-	-	-	-	-	-	-
Total Governmental activities	<u>10,733,902</u>	<u>9,136,133</u>	<u>9,563,793</u>	<u>15,108,288</u>	<u>13,516,060</u>	<u>14,027,149</u>	<u>14,891,401</u>	<u>15,350,208</u>	<u>14,217,686</u>	<u>15,010,142</u>
Business-type activities										
Unrestricted investment earnings	58,187	11,913	5,298	2,805	7,378	24,968	21,810	31,578	21,271	22,186
Miscellaneous	5,896	6,387	2,890	13,233	3,089	1,764	19,211	2,120	4,490	2,951
Capital Contributions	-	-	-	-	-	-	-	-	-	-
Transfers	-	-	-	-	-	-	-	-	(69,670)	-
Extraordinary items:										
Loss on asset impairment for Fresh Pond	(388,327)	-	-	-	-	-	-	-	-	-
Total Business-type activities	<u>(324,244)</u>	<u>18,300</u>	<u>8,188</u>	<u>16,038</u>	<u>10,467</u>	<u>26,732</u>	<u>41,021</u>	<u>33,698</u>	<u>(43,909)</u>	<u>25,137</u>
Total primary government	<u>\$ 10,409,658</u>	<u>\$ 9,154,433</u>	<u>\$ 9,571,981</u>	<u>\$ 15,124,326</u>	<u>\$ 13,526,527</u>	<u>\$ 14,053,881</u>	<u>\$ 14,932,422</u>	<u>\$ 15,383,906</u>	<u>\$ 14,173,777</u>	<u>\$ 15,035,279</u>
Change in Net Position										
Governmental activities	2,212,398	(19,747)	18,004,561	6,473,944	(1,936,981)	(2,444,755)	(2,427,438)	(1,366,782)	(5,586,834)	3,355,692
Restatement - Governmental activities	-	-	-	-	-	-	(845,215)	192,818	(711,687)	(2,244,277)
Business-type activities	(666,091)	(412,725)	(183,440)	114,680	(265,344)	(129,959)	190,515	371,882	(1,208,583)	(215,857)
Restatement - Business-type activities	-	-	-	-	-	-	(74,897)	-	-	(231,674)
Total primary government change in net position	<u>\$ 1,546,307</u>	<u>\$ (432,472)</u>	<u>\$ 17,821,121</u>	<u>\$ 6,588,624</u>	<u>\$ (2,202,325)</u>	<u>\$ (2,574,714)</u>	<u>\$ (3,157,035)</u>	<u>\$ (802,082)</u>	<u>\$ (7,507,104)</u>	<u>\$ 663,884</u>

Note: The Town adopted GASB Statement No. 68 for fiscal year 2015; prior years are not restated.
 The Town adopted GASB Statement No. 73 for fiscal year 2016; prior years are not restated.
 The Town adopted GASB Statement No. 73 for fiscal year 2017; prior years are not restated.
 The Town adopted GASB Statement No. 75 for fiscal year 2018; prior years are not restated.

TOWN OF NAGS HEAD, NORTH CAROLINA
FUND BALANCES - GOVERNMENTAL FUNDS,
LAST TEN FISCAL YEARS
(modified accrual basis of accounting)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
General Fund										
Non-Spendable	\$ -	\$ -	\$ 100,296	\$ 63,066	\$ 80,712	\$ 73,383	\$ 71,433	78,175	\$ 55,000	\$ 66,336
Restricted	-	-	2,527,128	2,106,112	3,860,363	5,040,137	6,496,072	9,228,864	6,984,415	10,060,421
Committed	-	-	-	-	-	-	-	263,271	262,520	223,371
Assigned	-	-	725,000	370,939	477,850	399,000	317,500	74,169	275,503	450,000
Unassigned	-	-	6,059,788	8,043,077	7,906,928	6,653,787	5,738,240	5,398,644	6,579,895	6,378,688
Reserved	1,392,711	1,316,965	-	-	-	-	-	-	-	-
Unreserved	7,606,961	7,687,463	-	-	-	-	-	-	-	-
Total General Fund	\$ <u>8,999,672</u>	\$ <u>9,004,428</u>	\$ <u>9,412,212</u>	\$ <u>10,583,194</u>	\$ <u>12,325,853</u>	\$ <u>12,166,307</u>	\$ <u>12,623,245</u>	<u>15,043,123</u>	\$ <u>14,157,333</u>	\$ <u>17,178,816</u>
All Other Governmental Funds										
Restricted	\$ -	\$ -	\$ 41,393,060	\$ 735,379	\$ 355,341	\$ 188,365	\$ 301,156	38,146	\$ 1,511,112	\$ 1,407,064
Committed	-	-	280,669	1,272,338	1,376,076	343,663	11,914	-	787,241	700,810
Assigned	-	-	-	-	-	-	-	-	-	-
Reserved	1,105,778	805,098	-	-	-	-	-	-	-	-
Unassigned	-	-	(13,190,150)	-	-	-	-	-	-	-
Unreserved, reported in:										
Capital Reserve Fund	572,451	392,668	-	-	-	-	-	-	-	-
Capital Projects Funds	(883,421)	(738,213)	-	-	-	-	-	-	-	-
Total all other governmental funds	\$ <u>794,808</u>	\$ <u>459,553</u>	\$ <u>28,483,579</u>	\$ <u>2,007,717</u>	\$ <u>1,731,417</u>	\$ <u>532,028</u>	\$ <u>313,070</u>	<u>38,146</u>	\$ <u>2,298,353</u>	\$ <u>2,107,874</u>

Note: The Town adopted GASB Statement No. 54 for fiscal year 2011; prior years are not restated.
The Town adopted GASB Statement No. 68 for fiscal year 2015; prior years are not restated.
The Town adopted GASB Statement No. 73 for fiscal year 2016; prior years are not restated.
The Town adopted GASB Statement No. 73 for fiscal year 2017; prior years are not restated.
The Town adopted GASB Statement No. 75 for fiscal year 2018; prior years are not restated.

TABLE 4

TOWN OF NAGS HEAD, NORTH CAROLINA
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS,
LAST TEN FISCAL YEARS

(modified accrual basis of accounting)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenues										
Ad valorem taxes	\$ 4,515,775	\$ 4,549,222	\$ 4,857,519	\$ 7,259,885	\$ 7,327,126	\$ 7,804,535	\$ 8,073,532	\$ 8,138,686	\$ 7,067,296	\$ 8,559,752
Other taxes and licenses	3,711,933	3,582,728	3,722,052	3,964,479	5,365,819	5,360,806	5,723,727	5,866,657	5,799,168	5,411,329
Unrestricted intergovernmental revenues	584,692	589,413	604,063	604,179	623,658	642,945	841,649	1,080,122	1,018,345	880,000
Restricted intergovernmental revenues	1,373,983	408,404	18,291,709	2,682,367	2,406,193	1,971,466	2,366,589	2,428,829	1,742,369	1,283,785
Permits and fees	308,871	220,715	184,354	210,166	226,348	258,038	307,544	281,000	325,505	367,214
Sales and services	5,856	4,494	5,123	3,713	3,099	2,018	3,278	3,913	92,226	69,837
Net investment earnings	350,256	193,513	152,000	116,372	35,760	80,246	75,122	113,380	86,867	98,515
Other revenues	558,835	461,167	471,948	1,104,882	320,196	316,247	368,451	281,436	214,459	186,555
Total revenues	<u>11,410,201</u>	<u>10,009,656</u>	<u>28,288,768</u>	<u>15,946,043</u>	<u>16,308,199</u>	<u>16,436,301</u>	<u>17,759,892</u>	<u>18,194,023</u>	<u>16,346,235</u>	<u>16,856,987</u>
Expenditures										
General government	2,340,661	2,089,958	2,233,993	2,420,367	2,403,961	2,479,757	3,835,487	2,732,414	3,042,364	2,798,124
Public safety	4,167,170	3,910,242	4,019,379	4,252,516	4,462,517	4,749,036	4,951,779	4,978,495	5,076,316	5,355,905
Environmental protection	1,419,724	1,389,622	1,370,704	1,452,230	1,425,084	1,465,995	1,463,177	1,637,808	1,527,864	1,589,536
Public works	1,309,722	1,289,728	1,309,988	1,643,559	1,533,263	1,637,644	1,605,570	1,644,467	1,594,503	1,548,039
Streets and Drainage									141,859	69,318
Debt service										
Principal	1,073,181	936,526	909,871	5,010,660	4,267,602	4,320,700	4,454,715	4,581,963	1,053,956	1,216,638
Interest	135,207	108,592	79,966	520,237	409,005	319,462	226,348	131,632	38,150	37,307
Capital Outlay	2,366,980	721,387	8,829,262	26,220,836	1,396,226	3,761,181	1,737,968	1,601,067	3,577,748	2,523,113
Total expenditures	<u>12,812,645</u>	<u>10,446,055</u>	<u>18,753,163</u>	<u>41,520,405</u>	<u>15,897,658</u>	<u>18,733,775</u>	<u>18,275,044</u>	<u>17,307,846</u>	<u>16,052,760</u>	<u>15,137,980</u>
Excess (deficiency) of revenues over expenditures	(1,402,444)	(436,399)	9,535,605	(25,574,362)	410,541	(2,297,474)	(515,152)	886,177	293,475	1,719,007
Other financing sources										
Capital lease obligations issued	671,481	105,900	896,205	269,482	1,055,818	938,539	753,132	1,015,819	988,525	1,090,403
Transfers from other funds	230,724	402,508	348,607	1,027,251	-	1,000,000	-	139,373	2,743,952	12,000
Transfers to other funds	(230,724)	(402,508)	(348,607)	(1,027,251)	-	(1,000,000)	-	(139,373)	(2,674,282)	(12,000)
Bond Obligations issued	-	-	18,000,000	-	-	-	-	-	-	-
Sale of Capital Assets	-	-	-	-	-	-	-	50,140	22,747	21,594
Total other financing sources	<u>671,481</u>	<u>105,900</u>	<u>18,896,205</u>	<u>269,482</u>	<u>1,055,818</u>	<u>938,539</u>	<u>753,132</u>	<u>1,065,959</u>	<u>1,080,942</u>	<u>1,111,997</u>
Net change in fund balances	<u>\$ (730,963)</u>	<u>\$ (330,499)</u>	<u>\$ 28,431,810</u>	<u>\$ (25,304,880)</u>	<u>\$ 1,466,359</u>	<u>\$ (1,358,935)</u>	<u>\$ 237,980</u>	<u>\$ 1,952,136</u>	<u>\$ 1,374,417</u>	<u>\$ 2,831,004</u>
Debt service as a percentage of non-capital expenditures	11.57%	10.75%	9.97%	36.15%	32.25%	30.99%	28.31%	30.01%	8.75%	9.94%

TOWN OF NAGS HEAD , NORTH CAROLINA
PROPERTY TAX LEVIES AND COLLECTIONS
Last Ten Fiscal Years

Fiscal Year Ended June 30,		Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
			Amount	Percentage of Levy		Amount	Percentage of Levy
2009	Town Tax	4,492,374	4,479,314	99.709%	12,349	4,491,663	99.984%
2010	Town Tax	4,516,532	4,504,468	99.733%	11,142	4,515,610	99.980%
2011	Town Tax	4,824,029	4,813,955	99.791%	8,919	4,822,874	99.976%
2012	Town Tax	5,468,533	5,447,622	99.618%	19,819	5,467,441	99.980%
	MSD	1,784,860	1,783,914	99.947%	927	1,784,841	99.999%
2013	Town Tax	5,486,041	5,478,436	99.861%	5,723	5,484,159	99.966%
	MSD	1,801,064	1,796,955	99.772%	4,107	1,801,062	100.000%
2014 [1]	Town Tax	5,871,417	5,867,233	99.929%	3,001	5,870,234	99.980%
	MSD	1,796,970	1,795,913	99.941%	1,020	1,796,933	99.998%
2015	Town Tax	6,144,915	6,139,249	99.908%	5,562	6,144,811	99.998%
	MSD	1,826,688	1,826,094	99.970%	594	1,826,688	100.000%
2016	Town Tax	6,183,302	6,182,422	99.986%	808	6,183,230	99.999%
	MSD	1,826,763	1,826,761	100.000%	-	1,826,761	100.000%
2017	Town Tax	6,940,569	6,940,373	99.997%	20	6,940,393	99.997%
	MSD	N/A		N/A	-	-	N/A
2018	Town Tax	7,013,398	7,012,961	99.994%	[2]	7,012,961	99.994%
	MSD	1,408,776	1,408,775	100.000%	[2]	1,408,775	100.000%

[1] Revaluation of taxable property occurred on January 1, 2005 and January 1, 2014.
Each year's tax levy is revised every year to reflect pick-ups and releases applicable to that year.
Subsequent year's tax collections include subsequent collections of the original levy and collections of pick-ups and releases applicable to each particular year.

[2] Not applicable.

TOWN OF NAGS HEAD, NORTH CAROLINA
ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
Last Ten Fiscal Years

Fiscal Year Ended June 30,	Real Property Values [1]	Personal Property Values		Public Service Companies [2]	Total Taxable Assessed Value	Total Direct Tax Rate [3]	Sales to Assessment Ratio [4]	Estimated Actual Taxable Value
		Personal Property	Motor Vehicles					
2009	2,968,939,520	58,945,234	35,092,881	16,719,015	3,079,696,650	0.1475	98.42%	3,129,137,015
2010	2,983,214,713	60,908,880	32,168,135	17,517,019	3,093,808,747	0.1475	112.83%	2,742,008,993
2011	2,983,561,150	61,126,796	30,427,302	18,285,774	3,093,401,022	0.1575	118.73%	2,605,408,087
2012	3,002,692,746	61,354,997	30,396,620	18,182,834	3,112,627,197	0.1775	123.12%	2,528,124,754
2013	3,012,871,394	58,506,560	43,091,357	18,740,452	3,133,209,763	0.1775	94.15%	3,327,891,411
2014	2,210,678,642	54,462,235	44,412,419	18,965,401	2,328,518,697	0.2570	93.80%	2,482,429,314
2015	2,228,360,489	52,343,680	33,300,237	18,701,795	2,332,706,201	0.2670	95.17%	2,451,094,043
2016	2,239,840,450	54,088,189	37,067,856	20,901,166	2,351,897,661	0.2670	92.42%	2,544,792,968
2017	2,257,250,050	57,495,138	40,324,874	21,283,233	2,376,353,295	0.2970	90.27%	2,632,495,065
2018	2,278,240,948	60,597,638	43,120,308	21,148,487	2,403,107,381	0.2970	88.93%	2,702,246,015

Notes: The levy of property taxes each year is based on the assessed value of taxable property as of January 1, before the beginning of the fiscal year on July 1. Revaluation of real property in Dare Co was completed on January 1, 2005 as well as January 1, 2014. The assessed values reported are those adjusted amounts reported as of June 30 for each particular year. Subsequent year changes to the levy are not reflected in this table.

- [1] Residential and commercial real property breakdowns are not available.
[2] Public service companies valuations are provided to the Town by the NC Department of Revenue.
[3] Tax rates are expressed in dollars of tax per \$100 of assessed value.
[4] The estimated market value is calculated by dividing the assessed value by a sales-to-assessment ratio determined annually by the NC Department of Revenue. The ratio is based on samples of actual property sales which took place during the fiscal year.

TABLE 7

TOWN OF NAGS HEAD, NORTH CAROLINA
PROPERTY TAX RATES OF DIRECT AND OVERLAPPING
GOVERNMENTAL JURISDICTIONS [1]
Last Ten Fiscal Years

Year Ended June 30,	Town of Nags Head [2]	County of Dare [3]
2009	0.1475 Town Wide Rate	0.26
2010	0.1475 Town Wide Rate	0.26
2011	0.1575 Town Wide Rate	0.28
2012	0.1775 Town Wide Rate 0.1600 MSD Rate	0.28
2013	0.1775 Town Wide Rate 0.1600 MSD Rate	0.28
2014	0.2570 Town Wide Rate 0.2300 MSD Rate	0.43
2015	0.2670 Town Wide Rate 0.2300 MSD Rate	0.43
2016	0.2670 Town Wide Rate 0.2300 MSD Rate	0.43
2017	0.2970 Town Wide Rate 0.0000 MSD Rate	0.43
2018	0.2970 Town Wide Rate 0.1750 MSD Rate	0.47

[1] All tax rates are expressed in dollars of tax per \$100 of assessed valuation.

[2] Town of Nags Head Tax and Finance Department.

[3] Dare County Tax Assessment Office.

TOWN OF NAGS HEAD, NORTH CAROLINA

PRINCIPAL PROPERTY TAXPAYERS
Current Year and Nine Years Ago

Taxpayer	June 30, 2018			June 30, 2009		
	Taxable Assessed Value	Rank	Percent of Total Assessed Valuation	Taxable Assessed Value	Rank	Percent of Total Assessed Valuation
Dominion NC Power	\$ 17,721,692	1	0.75%	\$ 14,370,169	3	0.47%
Ocean Carolina, LLC	11,454,686	2	0.49%			
Nags Head Company, LLC	10,542,236	3	0.45%	14,043,010	4	0.46%
Stanford M. White	10,385,439	4	0.44%	15,103,051	2	0.50%
Tanger Properties LTD	9,555,085	5	0.40%	12,418,305	6	0.41%
Clubcorp Golf of North Carolina	8,541,745	6	0.36%	12,823,051	5	0.42%
Brian K. Newman	8,074,251	7	0.34%	12,286,102	7	0.41%
Mildred Roughton	7,786,715	8	0.33%	17,237,966	1	0.57%
The Lacour Group, LLC	7,652,670	9	0.32%	11,865,763	9	0.39%
Outer Banks Hospital, Inc.	7,055,700	10	0.30%			
Sarah E. Forbes				12,183,051	8	0.40%
Kenneth Simpler				10,167,458	10	0.34%
	<u>\$ 98,770,219</u>		<u>4.18%</u>	<u>\$ 132,497,926</u>		<u>4.37%</u>

Assessed values provided by Dare County Tax Department

TABLE 9

TOWN OF NAGS HEAD, NORTH CAROLINA
RATIOS OF OUTSTANDING DEBT BY TYPE
Last Ten Fiscal Years

Fiscal Year	Outstanding Debt						Percent of Estimated Actual Taxable Property Value [1]		Per Capita [2]	Percent of Personal Income [2]
	Governmental Activities			Business-type Activities			Governmental Activities	Total		
	Finance Contract	Capital Leases	Special Obligation Bond	Finance Contract	Capital Leases	Total Primary Government				
2009	2,934,226	808,578	-	767,125	50,329	4,560,258	0.12%	0.15%	1,475	3.70%
2010	2,388,906	523,273	-	702,363	38,422	3,652,964	0.11%	0.13%	1,167	2.90%
2011	1,940,368	958,145	18,000,000	635,458	39,710	21,573,681	0.80%	0.83%	7,825	18.76%
2012	979,322	778,013	14,400,000	565,967	21,607	16,744,909	0.64%	0.66%	6,023	13.77%
2013	832,276	1,313,275	10,800,000	493,795	4,264	13,443,610	0.39%	0.40%	4,817	11.18%
2014	1,085,230	1,278,160	7,200,000	418,847	112,620	10,094,857	0.39%	0.41%	3,480	7.85%
2015	838,184	1,423,623	3,600,000	341,002	70,698	6,273,507	0.24%	0.26%	2,151	4.43%
2016	590,000	1,705,663	-	260,000	62,838	2,618,501	0.09%	0.10%	886	1.80%
2017	343,333	1,886,898	-	173,333	87,901	2,491,465	0.08%	0.09%	837	*
2018	464,666	1,639,330	-	86,666	60,117	2,250,779	0.08%	0.08%	752	*

Notes: Details regarding the Town's outstanding debt can be found in the notes to the financial statements.

[1] See Table 6 - Assessed value and estimated actual value of taxable property for estimated actual taxable property value.

[2] See Table 12 - Demographic and Economic Statistics for personal income and population data.

* Information Unavailable

TABLE 10

TOWN OF NAGS HEAD, NORTH CAROLINA
LEGAL DEBT MARGIN INFORMATION
Last Ten Fiscal Years

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Assessed Value of Property	\$ 3,079,696,650	\$ 3,093,808,747	\$ 3,093,401,022	\$ 3,112,627,197	\$ 3,133,209,763	\$ 2,328,518,697	\$ 2,332,706,201	\$ 2,351,897,661	\$ 2,376,353,295	\$ 2,403,107,381
Debt Limit, 8% of Assessed Value (Statutory Limitation)	\$ 246,375,732	\$ 247,504,700	\$ 247,472,082	\$ 249,010,176	\$ 250,656,781	\$ 186,281,496	\$ 186,616,496	\$ 188,151,813	\$ 190,108,264	\$ 192,248,590
Amount of debt applicable to limit										
Gross debt	\$ 4,560,258	\$ 3,652,964	\$ 21,573,681	\$ 16,744,909	\$ 13,443,610	\$ 10,094,857	\$ 6,273,507	\$ 2,618,501	\$ 2,491,465	\$ 2,250,779
Total net debt applicable to limit	\$ 4,560,258	\$ 3,652,964	\$ 21,573,681	\$ 16,744,909	\$ 13,443,610	\$ 10,094,857	\$ 6,273,507	\$ 2,618,501	\$ 2,491,465	\$ 2,250,779
Legal Debt Margin	\$ 241,815,474	\$ 243,851,736	\$ 225,898,401	\$ 232,265,267	\$ 237,213,171	\$ 176,186,639	\$ 180,342,989	\$ 185,533,312	\$ 187,616,799	\$ 189,997,811
Total net debt applicable to the limit as a percentage of debt limit	1.85%	1.48%	8.72%	6.72%	5.36%	5.42%	3.36%	1.39%	1.31%	1.17%
Total net debt applicable to the limit as a percentage of assessed value	0.15%	0.12%	0.70%	0.54%	0.43%	0.43%	0.27%	0.11%	0.10%	0.09%

Note: NC General Statute 159-55 limits the Town's outstanding debt to 8% of the appraised value of property subject to taxation. The following deductions are made from gross debt to arrive at net debt applicable to limit: Money held for payment of principal; debt incurred for water, sewer, gas, or electric power purposes; uncollected special assessments, funding and refunding bonds not yet issued; and revenue bonds. The legal debt margin is the difference between the debt limit and the Town's net debt outstanding applicable to the limit, and represents the Town's legal borrowing authority. NC General Statute 159-55 requires the use of par values of debt, therefore related amounts of original issue discounts and premiums and deferred amounts on refunding are excluded from this schedule.

TABLE 11

TOWN OF NAGS HEAD, NORTH CAROLINA
Direct and Overlapping Governmental Activities Debt
As of June 30, 2018

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable [1]</u>	<u>Estimated Share of Overlapping Debt</u>
Dare County	\$ 109,328,312	17.95%	\$ 19,628,515
Town of Nags Head direct debt			2,103,996
Total direct and overlapping debt			<u>21,732,511</u>

Sources: Assessed value data used to estimate applicable percentages and debt outstanding data provided by Dare County.

Note: Overlapping governments are those that coincide, at least in part, with geographic boundaries of the Town. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the property taxpayers of the Town of Nags Head. This process recognizes that, when considering the government's ability to issue and repay long-term debt, the entire debt burden borne by the property taxpayers should be taken in to account. However, this does not imply that every taxpayer is a resident, and therefore responsible for, repaying the debt of each overlapping government.

[1] The percentage of overlapping debt applicable is estimated using taxable assessed property values. Applicable percentages were estimated by determining the portion of the Town's taxable assessed value that is within the government's boundaries and dividing it by the County's total taxable assessed value.

TABLE 12

TOWN OF NAGS HEAD, NORTH CAROLINA
DEMOGRAPHIC AND ECONOMIC STATISTICS
Last Ten Fiscal Years

Fiscal Year	TOWN OF NAGS HEAD		DARE COUNTY		
	Population [1]	Personal Income [5]	Per Capita Personal Income [4]	School Enrollment [3]	Unemployment Percentage Rate [2]
2009	3,092	122,659,640	39,670	4,766	9.4%
2010	3,131	125,878,724	40,204	4,766	11.6%
2011	2,757	115,763,673	41,989	4,823	12.7%
2012	2,780	124,224,300	44,685	4,829	13.2%
2013	2,791	126,066,679	45,169	4,883	12.5%
2014	2,901	136,442,733	47,033	4,960	9.6%
2015	2,916	141,723,432	48,602	4,921	8.1%
2016	2,954	145,478,592	49,248	4,944	6.8%
2017	2,977	*	*	5,117	6.8%
2018	2,994	*	*	5,151	5.9%

[1] North Carolina Demographer's Office.

[2] Employment Security Commission. Unadjusted

[3] Dare County Board of Education, as of the end of the school term. 2017 starts the inclusion of Pre-K

[4] Bureau of Economic Analysis. Updated 11/16/2017

[5] Regional Economic Information System, Bureau of Economic Analysis, U.S. Department of Commerce.

* - Information unavailable

TABLE 13

**TOWN OF NAGS HEAD, NORTH CAROLINA
PRINCIPAL EMPLOYERS,
Current Year and Nine Years Ago**

Employers	June 30, 2018			June 30, 2009		
	Employees [1]	Rank	Percent of Total Town Employment	Employees [1]	Rank [2]	Percent of Total Town Employment
Dare County Schools	500 - 999	1	*	500 - 999	1	*
County of Dare	500 - 999	2	*	500 - 999	2	*
Vidant Medical	250 - 499	3	*	-	-	-
NC Dept of Transportation	250 - 499	4	*	-	-	-
Food Lion	250 - 499	5	*	250-499	3	*
Village Realty & Management Svc	100 - 249	6	*	250-499	4	*
Harris Teeter Inc	100 - 249	7	*	100-249	6	*
Wyndham Vacation Rentals	100 - 249	8	*	-	-	-
Town of Nags Head	100 - 249	9	*	100-249	8	*
National Park Service	100-249	10	*	100-249	7	*

[1] Employment data is only available in ranges from the North Carolina Employment Security Commission.
 [2] Employment data is only available in rank 1-6 from the North Carolina Employment Security Commission.
 * Information unavailable for the Town of Nags Head

This information was obtained by AccessNC@NCCommerce.com. The list reflects county-wide information for businesses in Dare County, that have locations in Nags Head, NC.

TABLE 14

TOWN OF NAGS HEAD, NORTH CAROLINA
FULL-TIME-EQUIVALENT TOWN GOVERNMENT
EMPLOYEES BY FUNCTION/PROGRAM,
Last Ten Fiscal Years

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Function/Program										
General government										
Administration	5	6	6	6	6	6	6	6	6 3/4	7 1/2
Administrative Services	7	6	6	6	6	6	6	6	6	6
Information Technology	2	2	2	2	2	2	2	2	2	2
Planning and Development	10	10	9	9	8	8	8	8 1/2	8 1/2	9
Public Safety										
Police	21	24	24	24	24	24	24	25	25	25
Fire	27	27	27	27	27	27	27	27	27	27
Ocean Rescue	21	21	21	22	23	24	24	24	26	26
Year-round	1	1	1	1	1	1	1	1	1	1
Seasonal Lifeguards	20	20	20	21	22	23	23	23	25	25
Environmental Protection										
Solid Waste	12	12	12	12	10	10	10	10	10	11
Public Works										
Administration	4	4	4	4	4	4	4	4	3	2 3/4
Facilities Maintenance	9 1/2	9 1/2	9 1/2	9 1/2	10	9 1/2	9 1/2	10 1/2	10 1/2	11
Garage	4	4	4	4	4	4	4	4	4	4
Water										
Water Administration	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	2 1/2
Septic Health	1	1	1	1	1	1	1	1/2	1/2	1/2
Water Operations	5	4	4	4	4	4	4	4	4	4
Water Distribution	6	5	5	5	5	5	5	5	5	5

Source: Town of Nags Head Administrative Services Department

Note: This schedule represents number of positions authorized per the budget ordinance as of July 1 of each year. Vacant positions are included in the above numbers.

**TOWN OF NAGS HEAD, NORTH CAROLINA
OPERATING INDICATORS BY FUNCTION/PROGRAM,
Last Ten Fiscal Years**

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Population	3,092	3,131	2,757	2,780	2,791	2,901	2,916	2,954	2977	2994
Police:										
Crime Activity: Reported										
Murder (includes attempts):	-	-	-	-	-	-	-	-	-	-
Rape (includes attempts):	2	9	4	7	7	9	11	3	3	1
Robbery (includes attempts):	2	2	1	2	2	3	-	1	1	2
Assaults (felonious & misdemeanor):	65	93	76	80	65	90	65	85	98	77
Burglary(breaking/entering-structures):	82	166	115	92	76	65	150	98	112	111
Larceny:	276	414	356	466	258	231	191	201	106	116
Auto Larceny:	13	5	4	7	6	2	7	6	8	5
Arson/unlawful burnings:	2	2	5	-	-	-	2	4	0	1
All other crimes (unspecified above):	595	419	397	424	383	404	493	395	532	375
Total Crime:	1,037	1,110	958	1,078	797	804	919	793	860	688
Traffic Activity:										
Traffic Accidents	245	271	230	275	230	248	269	251	266	258
Driving while impaired arrests	128	85	71	118	62	57	56	53	50	68
General traffic violations-citation	1,562	1,241	1,279	1,093	663	1,010	1,150	1,406	1746	1714
General traffic violations-warning	1,093	1,478	1,462	1,711	872	1,307	1,291	1,938	2190	2408
Parking violations-citation issued	4	1	1	1	2	-	1	1	2	7
All other traffic-related, non-violation	251	195	151	162	95	61	43	46	108	45
Total Traffic	3,283	3,271	3,194	3,360	1,924	2,683	2,810	3,695	4362	4500
General Calls for Service:										
Police calls-emergency status, non-emergency, traffic control	10,542	10,568	11,179	10,197	11,775	9,863	10,584	11,760	11244	17156
Animal control calls	624	574	408	848	422	-	304	355	265	667
Total General Calls for Service	11,166	11,142	11,587	11,045	12,197	9,863	10,888	12,115	11509	17823
Total all Police/Animal Control Activity	15,486	15,523	15,739	15,483	14,918	13,350	14,617	16,603	16,731	23,011

Source: Budget documents and individual Town departments.

**TOWN OF NAGS HEAD, NORTH CAROLINA
OPERATING INDICATORS BY FUNCTION/PROGRAM,
Last Ten Fiscal Years**

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Fire:										
Number of volunteer firemen	10	10	13	14	15	13	16	12	9	10
Number of calls answered	852	810	850	943	902	877	918	882	1116	1092
Total dollar loss	\$ 12,900	\$ 200,100	\$ 243,950	\$ 49,240	\$ 1,188,900	\$ 14,300	\$ 716,650	\$ 457,150	\$ 1,273,400	\$ 142,700
Planning:										
Building permits:										
One and Two Family Dwellings	16	18	23	28	32	24	48	33	31	45
Residential multi-family	-	-	-	-	-	-	-	1	0	0
Commercial/Government/Other	3	1	1	1	-	2	1	-	3	4
Miscellaneous:	368	438	312	314	275	333	351	416	348	339
Accessory Structure	40	50	59	38	46	56	59	42	38	40
Addition	25	22	24	22	16	12	22	14	35	17
Demolition	7	16	10	7	6	6	16	6	6	7
Move	7	5	3	-	-	1	6	6	0	0
Remodel	125	132	110	78	62	62	58	47	66	67
Repair	164	213	106	169	145	196	190	301	203	208
Trade Permits:										
Electrical	361	471	452	477	483	497	447	533	538	571
Gas	24	22	11	23	28	17	27	31	41	31
Mechanical	347	396	378	369	385	407	446	454	468	485
Plumbing	100	141	114	121	102	100	123	112	129	135
Sprinkler	10	9	5	5	3	9	7	7	6	13
Number of CAMA permits issued	131	232	68	37	43	42	45	71	54	65
Number of land disturbance permits issued	*	*	*	*	*	13	23	34	19	35
Number of certificates of occupancy issued	17	21	25	22	34	27	42	30	38	34
Site plan reviews:										
Commercial	8	6	4	8	2	4	4	5	3	12
Residential	16	19	*	*	*	*	*	*	*	*
Number of zoning amendments	24	21	22	21	16	12	12	11	10	9
Number of variance applications	2	5	5	3	4	2	2	2	6	2
Number of exempt plats issued	3	1	2	2	-	-	-	1	2	2
Number of code compliance inspections	675	465	425	379	306	231	198	193	1430	1315

* Information Unavailable

Source: Budget documents and individual Town departments.

**TOWN OF NAGS HEAD, NORTH CAROLINA
OPERATING INDICATORS BY FUNCTION/PROGRAM,
Last Ten Fiscal Years**

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Planning continued:										
Total building permit fees	\$ 162,949	\$ 151,172	\$ 130,980	\$ 134,166	\$ 156,813	\$ 177,594	\$ 221,100	\$ 201,576	\$ 199,232	\$ 229,929
Total site plan review fees	\$ 53,935	\$ 10,725	\$ 9,205	\$ 16,212	\$ 19,761	\$ 21,970	\$ 12,538	\$ 10,290	\$ 35,727	\$ 36,193
Total CAMA permit fees	\$ 15,600	\$ 23,200	\$ 6,800	\$ 3,800	\$ 4,500	\$ 5,100	\$ 5,300	\$ 8,600	\$ 5,300	\$ 7,400
Total construction valuation	\$ 18,767,638	\$ 15,774,263	\$ 14,352,769	\$ 15,343,320	\$ 20,838,802	\$ 22,017,479	\$ 36,682,703	\$ 29,925,081	\$ 30,640,450	\$ 36,335,579
Septic Health:										
Tank Inspections	257	175	309	241	212	301	324	298	281	283
Tanks Pumped	59	34	73	30	43	56	43	54	59	101
Water Quality Sites Tested	632	479	267	196	163	273	253	322	299	285
Refuse collection:										
Refuse collection (tons)	8567.79	8743.16	8534.92	8580.07	8325.82	8239.19	8225.68	8253.29	8593.27	8568.64
Bulk (tons)	815.72	792.72	855.22	457.78	529.93	512.64	703.52	423.83	628.82	485.52
Water:										
Number of new services	18	35	33	29	41	34	60	31	36	38
Number of new customers	*	*	*	155	172	171	248	236	250	248
Daily consumption (million gallons)	1.2	1.2	1.2	1.2	1.2	1.3	1.2	1.1	1.2	1.2
Maximum daily capacity of plant(million gallons)	7.9	7.9	7.9	7.9	7.9	7.9	7.9	7.9	7.9	7.9
Maximum contracted per day(million gallons)	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5

* Information Unavailable

Source: Budget documents and individual Town departments.

TABLE 16

TOWN OF NAGS HEAD, NORTH CAROLINA
CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM
Last Ten Fiscal Years

<u>Function/Program</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Police stations	1	1	1	1	1	1	1	1	1	1
Fire stations	2	2	2	2	2	2	2	2	2	2
Ocean rescue facilities	1	1	1	1	1	1	1	1	1	1
Refuse collection										
Collection trucks	13	13	13	13	14	15	15	16	16	18
Other public works										
Paved streets (miles)	33.8	34.06	34.62	34.62	34.7	34.82	34.82	34.82	34.77	34.77
Unpaved streets (miles)	2.81	2.81	2.81	2.25	2.25	2.36	2.36	2.36	2.36	2.36
Street lights	427	427	427	427	427	427	427	427	427	427
Parks and recreation										
Number of parks	1	1	1	2	2	2	2	2	2	2
Number of soccer fields	1	1	1	1	1	1	1	1	1	1
Number of bath houses	4	4	4	4	4	4	4	4	4	4
Number of piers										
Ocean (private)	2	2	2	2	2	2	2	2	2	2
Ocean (State)	1	1	1	1	1	1	1	1	1	1
Number of ocean beach accesses										
Local (public)	44	44	44	44	44	44	44	44	44	44
Number of sound accesses (public)	5	5	5	5	5	5	5	5	5	5
Bike path mileage	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0
Water										
Plants	1	1	1	1	1	1	1	1	1	1
Water mains (miles)	100.88	101.07	101.14	101.14	101.30	101.30	101.64	102.02	102.15	102.2
Fire hydrants	550	550	550	550	550	550	550	550	556	557
Water storage capacity:										
Ground (million gallons)	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Elevated (million gallons)	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0

Source: Budget documents and individual Town departments.

COMPLIANCE SECTION

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*

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, each major fund, and the aggregated remaining fund information of the Town of Nags Head, North Carolina, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Town of Nags Head's basic financial statements, and have issued our report thereon dated December 11, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Dowdy & Osborne, LLP

Dowdy & Osborne, LLP
Certified Public Accountants
Nags Head, North Carolina

December 11, 2018