

*In the opinion of Parker Poe Adams & Bernstein LLP, Bond Counsel, under existing law, (1) assuming compliance by the Town with certain requirements of the Internal Revenue Code of 1986, as amended, the portion of the Installment Payments designated and paid as interest with respect to the 2023 Bonds (a) is excludable from gross income for federal income tax purposes, and (b) is not an item of tax preference for purposes of the federal individual alternative minimum tax, and (2) the portion of the Installment Payments designated and paid as interest with respect to the 2023 Bonds is exempt from State of North Carolina income taxation. See "TAX TREATMENT" herein.*



**\$17,110,000**  
**Limited Obligation Bonds (Town of Nags Head, North Carolina)**  
**Series 2023**  
**Evidencing Proportionate Undivided Interests in Rights to Receive Certain**  
**Revenues Pursuant to an Installment Financing Contract Between**  
**Nags Head Leasing Corporation and the**  
**TOWN OF NAGS HEAD, NORTH CAROLINA**

**Dated: Date of Delivery**

**Due: As shown on inside cover**

This Official Statement has been prepared by the Town of Nags Head, North Carolina (the "Town") to provide information on the Limited Obligation Bonds (Town of Nags Head, North Carolina), Series 2023 (the "2023 Bonds"). Selected information is presented on this cover page for the convenience of the user. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision. Capitalized terms used in this Official Statement, unless otherwise defined herein, have the meanings set out in Appendix B hereto under "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Definitions."

**Security:** The 2023 Bonds evidence proportionate undivided interests in rights to receive certain Revenues (as defined herein) pursuant to an Installment Financing Contract dated as of March 1, 2023 (the "Contract") between Nags Head Leasing Corporation (the "Corporation") and the Town. The performance by the Town of its obligations under the Contract, including the obligation to make Installment Payments thereunder, is secured by the Deed of Trust, Security Agreement and Fixture Filing (the "Deed of Trust"), from the Town to the deed of trust trustee named therein granting a lien of record on the Mortgaged Property (as defined herein), subject to Permitted Encumbrances (as defined herein). The Corporation has assigned to the Trustee (as defined herein) for the benefit of the registered owners of the 2023 Bonds substantially all of its rights under the Contract, including the right to receive Installment Payments, and all of its rights as beneficiary of the Deed of Trust.

THE PRINCIPAL OF, PREPAYMENT PREMIUM, IF ANY, AND INTEREST ON THE 2023 BONDS ARE PAYABLE SOLELY FROM AMOUNTS PAYABLE BY THE TOWN UNDER THE CONTRACT, AMOUNTS HELD IN CERTAIN FUNDS AND ACCOUNTS UNDER THE INDENTURE (AS DEFINED HEREIN) AND, TO THE EXTENT PROVIDED IN THE INDENTURE, THE PROCEEDS DERIVED FROM THE EXERCISE OF CERTAIN RIGHTS AND REMEDIES GRANTED UNDER THE CONTRACT, INCLUDING THE FORECLOSURE AND SALE OF THE MORTGAGED PROPERTY PURSUANT TO THE DEED OF TRUST. NO DEFICIENCY JUDGMENT MAY BE RENDERED AGAINST THE TOWN IN ANY ACTION FOR BREACH OF ANY CONTRACTUAL OBLIGATION UNDER THE CONTRACT, AND THE TAXING POWER OF THE TOWN IS NOT PLEDGED DIRECTLY OR INDIRECTLY TO SECURE ANY MONEYS DUE TO THE OWNERS OF THE 2023 BONDS. See the caption "SECURITY AND SOURCES OF PAYMENT FOR THE 2023 BONDS" herein.

**Prepayment:** The 2023 Bonds are subject to optional prepayment before maturity as described herein.

**Executed and Delivered Pursuant to:** The 2023 Bonds will be executed and delivered pursuant to the Indenture.

**Purpose:** Proceeds of the 2023 Bonds will be used (a) to finance the construction, equipping and furnishing of public services facilities, (b) the conversion of the Town's residential and commercial water meters to an Advanced Metering Infrastructure (AMI) system, and (c) to pay the costs related to the execution and delivery of the 2023 Bonds.

**Interest Payment Dates:** Interest with respect to the 2023 Bonds is payable on June 1 and December 1 of each year, beginning December 1, 2023.

**Denomination:** \$5,000 and any integral multiple thereof.

**Closing/Delivery Date:** On or about March 1, 2023.

**Registration:** Full book-entry only; The Depository Trust Company.

**Trustee:** The Bank of New York Mellon Trust Company, N.A.

**Financial Advisor:** DEC Associates, Inc.

**Bond Counsel:** Parker Poe Adams & Bernstein LLP.

**Corporation Counsel and Town Attorney:** Hornthal, Riley Ellis & Maland, L.L.P.

**Underwriter's Counsel:** McGuireWoods LLP.

**PNC Capital Markets LLC**

## MATURITY SCHEDULE

**\$17,110,000**

**Limited Obligation Bonds (Town of Nags Head, North Carolina)  
Series 2023**

<b>Due June 1</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Yield</b>	<b>Price</b>	<b>CUSIP** (Base: 629752)</b>
2025	\$870,000	5.000%	2.670%	105.051	AA4
2026	875,000	5.000	2.480	107.818	AB2
2027	880,000	5.000	2.360	110.612	AC0
2028	880,000	5.000	2.340	113.065	AD8
2029	880,000	5.000	2.370	115.191	AE6
2030	880,000	5.000	2.400	117.203	AF3
2031	885,000	5.000	2.440	119.021	AG1
2032	890,000	5.000	2.490	120.619	AH9
2033	895,000	5.000	2.570	121.770	AJ5
2034	895,000	5.000	2.690*	120.569	AK2
2035	900,000	5.000	2.860*	118.891	AL0
2036	905,000	5.000	3.050*	117.049	AM8
2037	910,000	5.000	3.190*	115.713	AN6
2038	915,000	5.000	3.290*	114.771	AP1
2039	920,000	5.000	3.330*	114.396	AQ9
2040	925,000	5.000	3.370*	114.023	AR7
2041	930,000	5.000	3.400*	113.744	AS5
2042	935,000	5.000	3.430*	113.466	AT3
2043	940,000	5.000	3.460*	113.189	AU0

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\* Yield to first optional redemption date of June 1, 2033.

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IN CONNECTION WITH THIS OFFERING, PNC CAPITAL MARKETS LLC (THE "UNDERWRITER") MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2023 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

No dealer, broker, salesman or other person has been authorized to give any information or to make any representation other than as contained in this Official Statement, and if given or made, such other information or representation must not be relied upon. This Official Statement does not constitute an offer to sell or the solicitation of any offer to buy, nor will there be any sale of the 2023 Bonds by any person in any jurisdiction in which it is not lawful for such person to make such offer, solicitation or sale. The information set forth herein has been obtained from the Town, the Corporation and other sources that are deemed to be reliable, but is not guaranteed as to accuracy or completeness by the Underwriter and is not to be construed as a representation by the Underwriter.

The electronic distribution of this Official Statement does not constitute an offer to sell or the solicitation of an offer to buy the 2023 Bonds described herein to the residents of any particular state and is not specifically directed to the residents of any particular state. The 2023 Bonds will not be offered or sold in any state unless and until they are either registered pursuant to the laws of such state, or qualified pursuant to an appropriate exemption from registration in such state.

NEITHER THE 2023 BONDS NOR THE INDENTURE HAVE BEEN REGISTERED WITH THE U.S. SECURITIES AND EXCHANGE COMMISSION BY REASON OF THE PROVISIONS OF SECTION 3(A)(2) OF THE SECURITIES ACT OF 1933, AS AMENDED AND SECTION 304(A)(4) OF THE TRUST INDENTURE ACT OF 1939, AS AMENDED. THE REGISTRATION OR QUALIFICATION OF THE 2023 BONDS AND THE INDENTURE IN ACCORDANCE WITH APPLICABLE PROVISIONS OF SECURITIES LAWS OF THE STATES IN WHICH THE 2023 BONDS AND THE INDENTURE HAVE BEEN REGISTERED OR QUALIFIED, AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES, WILL NOT BE REGARDED AS A RECOMMENDATION THEREOF.

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THE 2023 BONDS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

All quotations from and summaries and explanations of laws and documents herein do not purport to be complete, and reference is made to such laws and documents for full and complete statements of their provisions. Any statements made in this Official Statement involving estimates or matters of opinion, whether or not expressly so stated, are intended merely as estimates or opinions and not as representations of fact. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale of the 2023 Bonds will under any circumstances create any implication that there has been no change in the affairs of the Town since the date hereof.

This Official Statement contains disclosures which contain "forward-looking statements." Forward-looking statements include all statements that do not relate solely to historical or current fact, and can be identified by use of words like "may," "believe," "will," "expect," "project," "estimate," "anticipate," "plan," or "continue." These forward-looking statements are based on the current plans and expectations of the Town and are subject to a number of known and unknown uncertainties and risks, many of which are beyond the control of the Town, which could significantly affect current plans and expectations and the future financial position and results of operations of the Town. As a consequence, current plans, anticipated actions and future financial position and results of operations may differ from those expressed in any forward-looking statements. Investors are cautioned not to unduly rely on such forward-looking statements when evaluating the information presented in this Official Statement.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

For purposes of compliance with Rule 15c2-12 of the U.S. Securities and Exchange Commission, as amended and in effect on the date hereof, this document constitutes an Official Statement of the Town with respect to the 2023 Bonds that has been "deemed final" by the Town as of its date except for the omission of no more than the information permitted by Rule 15c2-12.

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## TABLE OF CONTENTS

	Page
INTRODUCTION .....	1
Authorization .....	1
Purpose .....	1
Security for 2023 Bonds .....	1
Details of the 2023 Bonds.....	2
Book-Entry Form .....	2
Continuing Disclosure .....	2
Professionals .....	2
Definitions; Document Summaries.....	2
Additional Information; Copies of Documents.....	3
THE 2023 BONDS .....	3
General .....	3
Book-Entry Only System.....	3
Prepayment Provisions.....	3
SECURITY AND SOURCES OF PAYMENT FOR THE 2023 BONDS .....	5
Installment Payments and Additional Payments.....	5
Budget and Appropriation.....	5
Deed of Trust .....	5
Indenture .....	6
Enforceability.....	7
Additional Bonds .....	7
THE CORPORATION .....	8
THE 2023 PROJECTS.....	9
ESTIMATED SOURCES AND USES OF FUNDS .....	9
ANNUAL INSTALLMENT PAYMENT REQUIREMENTS.....	10
AVAILABLE SOURCES FOR PAYMENT OF INSTALLMENT PAYMENTS .....	10
CERTAIN RISKS OF BOND OWNERS.....	11
Insufficiency of Installment Payments.....	11
Risk of Nonappropriation .....	11
Uninsured Casualty and Condemnation.....	11
Outstanding General Obligation Debt of the Town .....	11
Dilution of Collateral .....	12
Environmental Hazards.....	12

**TABLE OF CONTENTS**  
(continued)

	<b>Page</b>
Bankruptcy .....	12
Recent Developments Related to COVID-19 .....	13
Cybersecurity .....	13
Climate Change.....	14
THE TOWN.....	14
General Description .....	14
Demographic Characteristics .....	15
Commerce, Industry and Employment .....	15
Government and Major Services .....	19
Debt Information.....	24
Tax Information .....	26
FINANCIAL INFORMATION .....	27
Budget .....	29
Pension Plans .....	30
Contingent Liabilities.....	31
CONTINUING DISCLOSURE.....	31
THE LOCAL GOVERNMENT COMMISSION .....	33
LEGAL MATTERS.....	34
TAX TREATMENT .....	34
General .....	34
Original Issue Premium .....	36
LITIGATION.....	36
RATINGS .....	36
UNDERWRITING .....	36
MISCELLANEOUS .....	37
APPENDIX A   ANNUAL COMPREHENSIVE FINANCIAL REPORT OF THE TOWN OF NAGS HEAD, NORTH CAROLINA	
APPENDIX B   SUMMARY OF PRINCIPAL LEGAL DOCUMENTS	
APPENDIX C   FORM OF OPINION OF BOND COUNSEL	
APPENDIX D   BOOK-ENTRY ONLY SYSTEM	

**\$17,110,000**  
**Limited Obligation Bonds (Town of Nags Head, North Carolina)**  
**Series 2023**  
**Evidencing Proportionate Undivided Interests in Rights to Receive Certain**  
**Revenues Pursuant to an Installment Financing Contract Between**  
**Nags Head Leasing Corporation and the**  
**TOWN OF NAGS HEAD, NORTH CAROLINA**

**INTRODUCTION**

The purpose of this Official Statement, which includes the appendices, is to provide certain information in connection with the execution, sale and delivery of the Limited Obligation Bonds (Town of Nags Head, North Carolina), Series 2023 (the "2023 Bonds"). The 2023 Bonds evidence proportionate undivided interests in rights to receive certain Revenues (as hereinafter described) which include the installment payments (the "Installment Payments") to be made by the Town of Nags Head, North Carolina (the "Town") pursuant to an Installment Financing Contract, dated as of March 1, 2023 (the "Contract"), between the Town and Nags Head Leasing Corporation (the "Corporation"), a North Carolina nonprofit corporation.

The 2023 Bonds will be executed and delivered pursuant to an Indenture of Trust, dated as of March 1, 2023 (the "Indenture"), between the Corporation and The Bank of New York Mellon Trust Company, N.A., as Trustee (the "Trustee"). The Town is required under the Contract to make the Installment Payments in an amount sufficient to pay the principal and interest with respect to the Bonds (as defined herein), which includes the 2023 Bonds and any Additional Bonds hereafter executed and delivered pursuant to the Indenture, subject to its right of nonappropriation as described herein.

**Authorization**

The Town will enter into the Contract pursuant to the provisions of Section 160A-20 of the General Statutes of North Carolina, as amended. The Contract is subject to the approval of, and has been approved by, the Local Government Commission of North Carolina (the "LGC"). See **"THE LOCAL GOVERNMENT COMMISSION"** herein.

**Purpose**

Proceeds of the 2023 Bonds will be used (a) to finance the construction, equipping and furnishing of public services facilities (the "Public Services Facilities"), (b) the conversion of the Town's residential and commercial water meters to an Advanced Metering Infrastructure (AMI) system ((a) and (b) collectively, the "2023 Projects"), and (c) to pay the costs related to the execution and delivery of the 2023 Bonds.

**Security for 2023 Bonds**

To further secure the performance by the Town of its obligations under the Contract, including the payment of the Installment Payments thereunder, the Town will execute and deliver to the deed of trust trustee named therein (the "Deed of Trust Trustee"), for the benefit of the Corporation or its assignee, a Deed of Trust, Security Agreement and Fixture Filing, dated as of March 1, 2023 (the "Deed of Trust"), granting a first lien of record on the site of the Public Services Facilities, as more particularly described in Exhibit A to the Deed of Trust, and any additions, modifications, attachments, replacements and parts thereof as more particularly described in the Deed of Trust (the "Mortgaged Property"), subject only to certain permitted encumbrances as described in the Deed of Trust. See **"SECURITY AND SOURCES OF PAYMENT FOR THE 2023 BONDS – Deed of Trust – Release of Security"** herein. The Deed of Trust

authorizes future obligations under the Contract evidenced by Additional Bonds executed and delivered under the Indenture to be secured by the Deed of Trust, provided that the total amount of present and future obligations secured thereby at any one time does not exceed \$100,000,000 and such future obligations are incurred not later than 30 years from the date of the Deed of Trust. The 2023 Bonds will be secured by the Deed of Trust on parity with any Additional Bonds hereafter executed and delivered pursuant to the Indenture.

Under the Indenture, the Corporation has assigned to the Trustee for the benefit of the Owners of the 2023 Bonds and any Additional Bonds executed and delivered pursuant to the Indenture (collectively, the "Bonds") (a) all rights, title and interest of the Corporation in the Contract (except for certain reserved rights), including its right to receive the Installment Payments thereunder, (b) all rights, title and interest of the Corporation in the Deed of Trust and the Mortgaged Property, and (c) all moneys and securities from time to time held by the Trustee under the Indenture in any fund or account (except the Rebate Fund). Pursuant to the Contract, the Installment Payments are payable by the Town directly to the Trustee. See **"SECURITY AND SOURCES OF PAYMENT FOR THE 2023 BONDS"** herein.

### **Details of the 2023 Bonds**

The 2023 Bonds will be dated as of their date of initial execution and delivery, and will mature, subject to the prepayment provisions described herein, on June 1 in the years and amounts set forth on the inside front cover hereof. Interest with respect to the 2023 Bonds will be payable on each June 1 and December 1, beginning December 1, 2023, at the rates set forth on the inside front cover hereof. Individual purchases of the 2023 Bonds will be made in denominations of \$5,000 or whole multiples thereof.

### **Book-Entry Form**

The 2023 Bonds will initially be delivered as fully registered certificates in book-entry only form without physical delivery of certificates to the beneficial owners of the 2023 Bonds. The Trustee will make payments of principal and interest with respect to the 2023 Bonds to The Depository Trust Company, New York, New York ("DTC"), which will in turn remit such payments to its participants for subsequent distribution to the beneficial owners of the 2023 Bonds. See **Appendix D** hereto.

### **Continuing Disclosure**

Pursuant to the Contract, the Town will undertake to provide continuing disclosure of certain annual financial information and operating data and notice of certain events. See **"CONTINUING DISCLOSURE"** herein.

### **Professionals**

PNC Capital Markets LLC (the "Underwriter") is underwriting the 2023 Bonds. DEC Associates, Inc. is serving as financial advisor to the Town (the "Financial Advisor"). Parker Poe Adams & Bernstein LLP, Charlotte, North Carolina, is serving as Bond Counsel. McGuireWoods LLP, Charlotte, North Carolina, is serving as counsel to the Underwriter. Hornthal, Riley Ellis & Maland, L.L.P., is serving as counsel to the Corporation and is the Town Attorney.

### **Definitions; Document Summaries**

See Appendix B for a summary of certain provisions of the Contract, the Indenture and the Deed of Trust and for the definition of certain capitalized terms used herein. Unless otherwise indicated, capitalized terms used herein and not otherwise defined shall have the same meanings given such terms in the Contract or the Indenture, as applicable.



## **Additional Information; Copies of Documents**

Additional information and copies in reasonable quantity of the principal financing documents may be obtained from the Town at 5401 South Croatan Highway, Nags Head, North Carolina 27959. Copies of such documents can also be obtained during the offering period from PNC Capital Markets LLC at 4720 Piedmont Row, Suite 200, Charlotte, North Carolina 28210. After the offering period, copies of such documents may be obtained from the Trustee at The Bank of New York Mellon Trust Company, N.A., 4655 Salisbury Road, Suite 300, Jacksonville, Florida 32256.

## **THE 2023 BONDS**

### **General**

The 2023 Bonds will be dated as of their date of initial execution and delivery, and will mature, subject to prior prepayment as described below, on June 1 in the years and amounts set forth on the inside front cover hereof. Interest with respect to the 2023 Bonds will be payable on each June 1 and December 1, beginning December 1, 2023, at the rates set forth on the inside front cover hereof. Principal and interest will be paid to each owner as its name and address appears on the register kept by the Trustee at the close of business on the fifteenth day (whether or not a business day) of the month next preceding the applicable payment date.

The 2023 Bonds will be delivered as fully registered certificates in book-entry only form and will be subject to the provisions of the book-entry only system described below. Individual purchases of the 2023 Bonds will be made only in denominations of \$5,000 or whole multiples thereof.

### **Book-Entry Only System**

See Appendix D herein for provisions regarding the book-entry only system.

### **Prepayment Provisions**

#### ***Optional Prepayment***

The 2023 Bonds maturing on or before June 1, 2033 are not subject to optional prepayment before their maturities. The 2023 Bonds maturing on or after June 1, 2034 are subject to optional prepayment in whole or in part on any date on or after June 1, 2033, at the option of the Town, at a prepayment price equal to 100% of the principal amount of the 2023 Bonds to be prepaid, together with accrued interest to the date fixed for prepayment.

#### ***General Prepayment Provisions***

If the 2023 Bonds are prepaid in part, the 2023 Bonds to be prepaid will be prepaid in such order as the Town selects and within the same maturity as selected by DTC pursuant to its rules and procedures or, if the book-entry system with respect to the 2023 Bonds is discontinued, by lot within a maturity in such manner as the Trustee in its discretion may determine; provided, however, that the 2023 Bonds or portions thereof will be prepaid only in whole multiples of \$5,000.

Notice of prepayment identifying the 2023 Bonds or portions thereof to be prepaid will be given by the Trustee in writing not less than 30 days nor more than 60 days before the date fixed for prepayment by Electronic Means or by first class mail, postage prepaid (or, in the case of notice to DTC, by registered or certified mail or otherwise in accordance with DTC's then-existing rules and procedures) (1) to DTC or its nominee or to the then-existing securities depositories, or (2) if DTC or its nominee or another securities

depository is no longer the Owner of the 2023 Bonds, to the then-registered Owners of the 2023 Bonds to be prepaid at their addresses appearing on the registration books maintained by the Trustee, (3) to the LGC, and (4) to the Municipal Securities Rulemaking Board (the "MSRB") via its Electronic Municipal Marketplace Access ("EMMA") system (or any successor thereto); provided however, that the Trustee shall have no liability to any party in connection with any failure to timely file any notice with the MSRB via its EMMA system (or any successor thereto) and the sole remedy for any such failure shall be an action by the Owners in mandamus for specific performance or similar remedy to compel performance. Notwithstanding the foregoing, (a) if notice is properly given, failure to receive an appropriate notice will not affect the validity of the proceedings for such prepayment, (b) failure to give any such notice or any defect therein will not affect the validity of the proceedings for prepayment of the 2023 Bonds or portions thereof with respect to which notice was correctly given, and (c) the failure to give any such notice to the parties described in clauses (3) or (4) above, or any defect therein, shall not affect the validity of any proceedings for prepayment of the 2023 Bonds.

In the case of an optional prepayment of the 2023 Bonds, the prepayment notice may state (1) that it is conditioned upon the deposit of money with the Trustee on the prepayment date at the time and in an amount equal to the amount necessary to effect the prepayment and such notice will be of no effect unless such money is so deposited and (2) that the Town retains the right to rescind the prepayment notice on or prior to the scheduled prepayment date, and such notice and optional prepayment shall be of no effect if such money is not so deposited or if the notice is rescinded as described below.

On or before the date fixed for prepayment, funds will be deposited with the Trustee to pay the 2023 Bonds or portions thereof called for prepayment, together with accrued interest to the prepayment date and any required prepayment premium. Upon the giving of notice and the deposit of such funds for prepayment pursuant to the Indenture, interest with respect to the 2023 Bonds or portions thereof so called for prepayment will no longer accrue after the date fixed for prepayment.

The 2023 Bonds or portions thereof called for prepayment will be due and payable on the prepayment date at the prepayment price, together with accrued interest thereon to the prepayment date and any applicable prepayment premium. If the required notice of prepayment has been given and moneys sufficient to pay the prepayment price, together with accrued interest thereon to the prepayment date and any required prepayment premium, has been deposited with the Trustee, the 2023 Bonds or portions thereof so called for prepayment will cease to be entitled to any benefit or security under the Indenture, and the Owners of such 2023 Bonds will have no rights in respect of such 2023 Bonds or portions thereof so called for prepayment except to receive payment of the prepayment price and accrued interest and any applicable prepayment penalty to the prepayment date from such funds held by the Trustee. Any scheduled prepayment of 2023 Bonds or portions thereof may be rescinded in whole or in part at any time prior to the prepayment date if the Town delivers written notice to the Trustee instructing the Trustee to rescind the prepayment notice. The Trustee shall give prompt notice of such rescission to the affected Owners of the 2023 Bonds. Any 2023 Bonds where prepayment has been rescinded shall remain Outstanding, and the rescission shall not constitute an Event of Default. Further, the failure of the Corporation or Town to make funds available in part or in whole on or before the prepayment date shall not constitute an Event of Default, and the Trustee shall give immediate notice to the affected Owners of the 2023 Bonds that the prepayment did not occur and that the 2023 Bonds called for prepayment and not so paid remain Outstanding.

Upon surrender and cancellation of any 2023 Bonds called for optional prepayment in part only, a new 2023 Bond or 2023 Bonds of the same maturity and interest rate and of Authorized Denominations, in an aggregate principal amount equal to the unprepaid portion thereof, will be executed on behalf of the Corporation and authenticated and delivered by the Trustee.

If an Event of Default has occurred and is continuing under the Indenture, there will be no prepayment of less than all of the Bonds then Outstanding.

The Trustee, upon the written request of the Town, shall purchase 2023 Bonds as specified by the Town in the open market at a price not exceeding a price set by Town. Such purchase of 2023 Bonds shall be made with funds provided to the Trustee by the Town. Upon purchase by the Trustee, such 2023 Bonds shall be treated as delivered for cancellation. Nothing in the Indenture prevents the Town from purchasing 2023 Bonds on the open market without the involvement of the Trustee and delivering such 2023 Bonds to the Trustee for cancellation.

## **SECURITY AND SOURCES OF PAYMENT FOR THE 2023 BONDS**

All of the Bonds, including the 2023 Bonds, evidence proportionate undivided interests in rights to receive certain Revenues pursuant to the Contract. Revenues are defined in the Contract to mean (i) all Net Proceeds not applied to the replacement of the Mortgaged Property, (ii) all Installment Payments, and (iii) all investment income on all funds and accounts created under the Indenture (other than the Rebate Fund). Notwithstanding the foregoing, the Owner of each Bond is not entitled to receive more than the amount of principal, premium, if any, and interest represented by such Bond.

### **Installment Payments and Additional Payments**

Under the Contract, the Town is required to make the Installment Payments directly to the Trustee in amounts sufficient to provide for the payment of the principal (whether at maturity, by prepayment or otherwise) and interest with respect to the 2023 Bonds and any Additional Bonds hereafter executed and delivered under the Indenture as the same become due and payable.

The Town is also obligated under the Contract to pay as Additional Payments, to such persons as are entitled thereto, the reasonable and customary expenses and fees (including, but not limited to, attorneys' fees, costs and expenses) of the Trustee and the Corporation, any expenses of the Corporation in defending an action or proceeding in connection with the Contract or the Indenture and any taxes or any other expenses, including, but not limited to, licenses, permits, state and local income, sales and use or ownership taxes or property taxes which the Town or the Corporation is expressly required to pay as a result of the Contract (together with interest that may accrue thereon in the event that the Town fails to pay the same).

### **Budget and Appropriation**

Pursuant to the Contract, the Town will (i) cause its budget officer (as statutorily defined) to include the Installment Payments and the reasonably estimated Additional Payments coming due in each Fiscal Year in the corresponding annual budget request, (ii) require that the deletion of such funds from the Town's final budget or any amended budget be made only pursuant to an express resolution of the Town Board of Commissioners which explains the reason for such action, and (iii) deliver notice to the Trustee and the LGC within five days after the adoption by the Town Board of Commissioners of a resolution described in clause (ii) above. Nothing contained in the Contract, however, obligates the Town to appropriate moneys contained in the proposed budget for the payment of the Installment Payments or the reasonably estimated Additional Payments coming due under the Contract.

**In connection with the Installment Payments and the Additional Payments, the appropriation of funds therefor is within the sole discretion of the Town Board of Commissioners.**

### **Deed of Trust**

#### ***General***

The Town will execute the Deed of Trust conveying the Mortgaged Property to the Deed of Trust Trustee as security for its obligations under the Contract. The Mortgaged Property will consist of the site

of the Public Services Facilities. See "THE 2023 PROJECTS" herein for more information regarding the Mortgaged Property. The Deed of Trust will be recorded in the office of the Register of Deeds of Dare County, North Carolina, and the lien created thereby will be insured by a title insurance policy in an initial amount equal to the par amount of the 2023 Bonds. Generally, a claim against a title insurance policy may only be made in the amount which is the lesser of the actual value of the real property and the amount of the title insurance policy.

### ***Release of Security***

So long as there is no event of default under the Deed of Trust, the Deed of Trust Trustee must release the Mortgaged Property or any part thereof secured thereby from the lien and security interest created by the Deed of Trust when and if the following requirements have been fulfilled:

(1) in connection with any release of the Mortgaged Property, or any part thereof, there is filed with the Corporation or its assignee a certified copy of the resolution of the Town Board of Commissioners stating the purpose for which the Town desires such release of the Mortgaged Property, giving an adequate legal description of the part of Mortgaged Property to be released, requesting such release and providing for payment by the Town of all expenses in connection with such release;

(2) in connection with the release of any part of the Mortgaged Property constituting less than the entire Mortgaged Property, either (a) the tax, insured or appraised value of the Mortgaged Property remaining after the proposed release is not less than 50% of the aggregate principal component of the Installment Payments related to the Bonds then Outstanding under the Indenture, or (b) the Town (i) provides for the substitution of other real property therefor and the tax, insured or appraised value of the Mortgaged Property remaining after the proposed substitution is not less than the replacement value of the Mortgaged Property (as determined above) immediately before the proposed substitution, (ii) delivers to the Deed of Trust Trustee and the Corporation, or its assignee, an opinion of Bond Counsel to the effect that the substitution (A) is permitted by law and under the Deed of Trust and (B) will not adversely affect the tax treatment of the interest on any Outstanding Bonds, and (iii) records a modification to the Deed of Trust reflecting such substitution of the Mortgaged Property;

(3) in connection with the release of any part of the Mortgaged Property constituting less than the entire Mortgaged Property, such release will not prohibit the Town's ingress, egress and regress to and from the remainder of the Mortgaged Property not being released, or materially interfere with the use of the remainder of the Mortgaged Property not being released; and

(4) in connection with the release of all property constituting the entire Mortgaged Property, there is paid to the Corporation, or its assignee, an amount sufficient to pay in full all of the Bonds then Outstanding under the Indenture.

### **Indenture**

Pursuant to the Indenture, the Corporation assigned to the Trustee for the benefit of the Owners of the Bonds, including the 2023 Bonds, (i) all rights, title and interest of the Corporation in the Contract (except for certain indemnification rights, notice rights and the right to Additional Payments payable to the Corporation), including its rights to receive the Installment Payments thereunder, (ii) all rights, title and interest of the Corporation in the Deed of Trust and the Mortgaged Property, and (iii) all moneys and securities from time to time held by the Trustee under the Indenture in any fund or account (except the Rebate Fund) and any and all other personal property of every name and nature from time to time by delivery or by writing of any kind specially, pledged or hypothecated, as and for additional security under the Indenture, by the Corporation, or by anyone on its behalf, in favor of the Trustee, which is thereby

authorized to receive any and all such property at any and all times and to hold and apply the same subject to the terms of the Indenture.

### **Enforceability**

The Indenture, the Deed of Trust and the Contract are subject to bankruptcy, insolvency, reorganization and other laws relating to or affecting the enforcement of creditors' rights and, to the extent that certain remedies under such instruments require or may require enforcement by a court, to such principles of equity as the court having jurisdiction may impose.

NO PROVISION OF THE INDENTURE, THE CONTRACT OR THE DEED OF TRUST SHALL BE CONSTRUED OR INTERPRETED AS CREATING A PLEDGE OF THE FAITH AND CREDIT OF THE TOWN WITHIN THE MEANING OF THE CONSTITUTION OF THE STATE OF NORTH CAROLINA (THE "STATE"). NO PROVISION OF THE INDENTURE, THE CONTRACT OR THE DEED OF TRUST SHALL BE CONSTRUED OR INTERPRETED AS CREATING A DELEGATION OF GOVERNMENTAL POWERS NOR AS A DONATION BY OR A LENDING OF THE CREDIT OF THE TOWN WITHIN THE MEANING OF THE CONSTITUTION OF THE STATE. THE INDENTURE, THE CONTRACT AND THE DEED OF TRUST SHALL NOT DIRECTLY OR INDIRECTLY OR CONTINGENTLY OBLIGATE THE TOWN TO MAKE ANY PAYMENTS BEYOND THOSE APPROPRIATED IN THE SOLE DISCRETION OF THE TOWN FOR ANY FISCAL YEAR IN WHICH THE CONTRACT IS IN EFFECT; PROVIDED, HOWEVER, ANY FAILURE OR REFUSAL BY THE TOWN TO APPROPRIATE FUNDS, WHICH RESULTS IN THE FAILURE BY THE TOWN TO MAKE ANY PAYMENT COMING DUE UNDER THE CONTRACT WILL IN NO WAY OBLIATE THE OCCURRENCE OF THE EVENT OF DEFAULT RESULTING FROM SUCH NONPAYMENT. NO DEFICIENCY JUDGMENT MAY BE RENDERED AGAINST THE TOWN IN ANY ACTION FOR ANY BREACH OF THE CONTRACT, THE INDENTURE OR THE DEED OF TRUST, AND THE TAXING POWER OF THE TOWN IS NOT AND MAY NOT BE PLEDGED DIRECTLY OR INDIRECTLY OR CONTINGENTLY TO SECURE ANY MONEYS DUE UNDER THE INDENTURE, THE CONTRACT OR THE DEED OF TRUST.

THE REMEDIES AFFORDED TO THE TRUSTEE AND THE OWNERS OF THE BONDS, INCLUDING THE 2023 BONDS, UPON A DEFAULT BY THE TOWN UNDER THE CONTRACT ARE LIMITED TO THOSE SPECIFIED IN THE CONTRACT AND THE INDENTURE, INCLUDING EXERCISING THE RIGHTS OF THE BENEFICIARY UNDER THE DEED OF TRUST AND THE RIGHTS OF THE TRUSTEE IN THE FUNDS HELD UNDER THE INDENTURE.

The Bonds, including the 2023 Bonds, will not constitute a debt or general obligation of the Town or the Corporation and will not give the Owners of the Bonds, including the 2023 Bonds, any recourse to the assets of the Town or the Corporation, but will be payable solely from amounts payable by the Town under the Contract, from amounts realized on foreclosure on the Mortgaged Property pursuant to the Deed of Trust and from funds held in certain funds and accounts under the Indenture for such purpose.

SECTION 160A-20(F) OF THE GENERAL STATUTES OF NORTH CAROLINA, AS AMENDED, PROVIDES THAT NO DEFICIENCY JUDGMENT MAY BE RENDERED AGAINST THE TOWN FOR BREACH OF ANY CONTRACTUAL OBLIGATION AUTHORIZED UNDER SECTION 160A-20 AND THAT THE TAXING POWER OF THE TOWN IS NOT AND MAY NOT BE PLEDGED DIRECTLY OR INDIRECTLY TO SECURE ANY MONEYS DUE BY THE TOWN UNDER THE CONTRACT. See "The Contract – Remedies on Default" in Appendix B for a more complete description of the rights and powers of the Trustee upon the occurrence of an event of default under the Contract.

## Additional Bonds

Under the conditions described in the Indenture and so long as no Event of Default has occurred and is continuing under the Indenture, the Corporation may execute and deliver Additional Bonds under the Indenture without the consent of the Owners of the Bonds, including the 2023 Bonds, then Outstanding under the Indenture to provide funds to pay (a) the cost of expanding the Projects (as defined in the Contract), acquiring, constructing, renovating, and equipping other facilities or acquiring equipment and other capital assets for utilization by or on behalf of the Town for public purposes; (b) the cost of refunding of all or any portion of the Bonds, including the 2023 Bonds, then Outstanding under the Indenture or any other financing obligations of the Town; and (c) the costs of issuance relating to the execution, delivery and sale of the Additional Bonds. Neither the Indenture nor the Deed of Trust require that additional collateral be added to the Deed of Trust in connection with the issuance of Additional Bonds.

The 2023 Bonds are payable on a parity with any Additional Bonds hereafter executed and delivered pursuant to the Indenture. The Installment Payments and any Installment Payments with respect to Additional Bonds executed and delivered under the Indenture will be deposited as received by the Trustee in the Bond Fund held by the Trustee. Moneys in the Bond Fund will be withdrawn and used to pay the principal and interest with respect to the Bonds, including the 2023 Bonds, as the same become due and payable. If on any date the moneys on deposit in the Bond Fund are insufficient to pay all of the principal and interest with respect to the Bonds, including the 2023 Bonds, which are due and payable on such date, such moneys will be used to pay such principal and interest with respect to the Bonds, including the 2023 Bonds, entitled to receive principal or interest on such date in the manner provided in the Indenture. See "The Indenture – Application of Money" in Appendix B.

The Town has no plans to issue Additional Bonds at this time.

## THE CORPORATION

The Corporation was incorporated as a nonprofit corporation under the laws of the State on December 19, 1988. The Corporation's general purpose is to promote the general welfare of the citizens of the Town and to assist the government of the Town in carrying out its municipal and governmental functions through the financing, acquisition, construction and operation, sale or lease of real estate and improvements, facilities and equipment for the use and benefit of the general public.

The Board of Directors of the Town consists of four directors who each serve a one-year term or until their successors are duly elected and qualified. The following individuals serve as members of the Board of Directors and as officers of the Corporation:

<b>Name</b>	<b>Title</b>
Andy Garman <sup>1</sup>	President and CEO, Director
Hugh Rawlins	Vice President, Director
Emily Lewis	Secretary/Treasurer, Director
Roberta Thuman	Director

<sup>1</sup> Andy Garman is also the Town Manager of the Town.

The Corporation's role in the financing described in this Official Statement will be limited. The Corporation's officers and counsel will have the opportunity to review this Official Statement and the principal financing documents and to assist in their preparation. The Corporation will execute and deliver the Contract and the Indenture and will be the beneficiary under the Deed of Trust. Counsel to the Corporation will deliver certain legal opinions in connection with the financing. The Corporation and the Town expect, however, that the Corporation will have no continuing responsibilities or involvement with

respect to the 2023 Projects or with respect to monitoring compliance with the terms of the Contract or the Indenture.

### **THE 2023 PROJECTS**

A portion of the proceeds of the 2023 Bonds will be used to finance the construction, equipping and furnishing of public services facilities and the conversion of the Town's residential and commercial water meters to an Advanced Metering Infrastructure (AMI) system (the "2023 Projects").

The Mortgaged Property is comprised of certain real property of which the Public Services Facilities are located only, and no other components of the 2023 Projects are included in the Mortgaged Property.

### **ESTIMATED SOURCES AND USES OF FUNDS**

The Town estimates the sources and uses of funds for the plan of financing to be as follows:

Sources of Funds:	
Principal Amount	\$17,110,000
Plus Original Issue Premium	2,578,869
Total Sources	<u>\$19,688,869</u>
Uses of Funds:	
Deposit to Acquisition and Construction Fund	\$19,327,694
Costs of Issuance <sup>1</sup>	361,175
Total Uses	<u>\$19,688,869</u>

<sup>1</sup> Includes Underwriter's discount, legal fees, printing costs, rating agency fees, fees and expenses of the Financial Advisor and the Trustee, and miscellaneous fees and expenses.

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## ANNUAL INSTALLMENT PAYMENT REQUIREMENTS

The following table sets forth, for each Fiscal Year ending June 30, the amount of principal and interest required to be paid under the Contract with respect to the 2023 Bonds.

<b>Fiscal Year Ending June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2024	\$-	\$1,069,375	\$1,069,375
2025	870,000	855,500	1,725,500
2026	875,000	812,000	1,687,000
2027	880,000	768,250	1,648,250
2028	880,000	724,250	1,604,250
2029	880,000	680,250	1,560,250
2030	880,000	636,250	1,516,250
2031	885,000	592,250	1,477,250
2032	890,000	548,000	1,438,000
2033	895,000	503,500	1,398,500
2034	895,000	458,750	1,353,750
2035	900,000	414,000	1,314,000
2036	905,000	369,000	1,274,000
2037	910,000	323,750	1,233,750
2038	915,000	278,250	1,193,250
2039	920,000	232,500	1,152,500
2040	925,000	186,500	1,111,500
2041	930,000	140,250	1,070,250
2042	935,000	93,750	1,028,750
2043	940,000	47,000	987,000
Total	\$17,110,000	\$9,733,375	\$26,843,375

Note: Totals may not foot due to rounding.

## AVAILABLE SOURCES FOR PAYMENT OF INSTALLMENT PAYMENTS

The Town may make Installment Payments under the Contract from any source of funds legally available to it in each year and appropriated therefor. The Town's General Fund revenues for the Fiscal Year ended June 30, 2022 were \$25,435,684. The Town's budget for the Fiscal Year ending June 30, 2023 projects General Fund revenues of \$35,020,453. General fund revenues are derived from various sources including property taxes, which generate approximately 41% of the general fund revenue, sales taxes, intergovernmental revenues, and fines and forfeitures. For the Fiscal Years ended June 30, 2020, 2021 and 2022, the Town imposed ad valorem taxes of \$0.317, \$0.265 and \$0.2875, respectively, per \$100 of assessed value. A rate of \$.01 per \$100 of assessed value in the Fiscal Year ended June 30, 2022 generated approximately \$310,000 and is expected to generate approximately the same amount in the Fiscal Year ending June 30, 2023. The General Statutes of North Carolina permit towns to impose ad valorem taxes of up to \$1.50 per \$100 of assessed value for certain purposes without the requirement of voter approval. See Appendix A hereto for a detailed description of the sources and uses of the Town's general fund revenues for the Fiscal Year ended June 30, 2022.



## **CERTAIN RISKS OF BOND OWNERS**

### **Insufficiency of Installment Payments**

If Installment Payments by the Town are insufficient to pay the principal of or interest on the 2023 Bonds (or any other Bonds) as the same become due or if another event of default occurs under the Contract, the Trustee may accelerate the 2023 Bonds (or any other Bonds) and all unpaid principal amounts due by the Town under the Contract, direct the Deed of Trust Trustee to foreclose on the Mortgaged Property under the Deed of Trust, take possession of the Mortgaged Property and attempt to dispose of the Mortgaged Property. See "The Contract" in Appendix B hereto. Zoning restrictions and other land use factors relating to the Mortgaged Property may limit the use of the Mortgaged Property and may affect the proceeds obtained on any disposition by the Deed of Trust Trustee. THERE CAN BE NO ASSURANCE THAT THE MONEYS AVAILABLE IN THE FUNDS AND ACCOUNTS HELD BY THE TRUSTEE AND THE PROCEEDS OF ANY SUCH DISPOSITION OF THE MORTGAGED PROPERTY WILL BE SUFFICIENT TO PROVIDE FOR THE PAYMENT OF THE PRINCIPAL AND INTEREST WITH RESPECT TO THE 2023 BONDS (OR ANY OTHER BONDS). SECTION 160A-20(F) OF THE GENERAL STATUTES OF NORTH CAROLINA, AS AMENDED, PROVIDES THAT NO DEFICIENCY JUDGMENT MAY BE RENDERED AGAINST THE TOWN FOR BREACH OF ANY CONTRACTUAL OBLIGATION AUTHORIZED UNDER SECTION 160A-20, AND THE TAXING POWER OF THE TOWN IS NOT AND MAY NOT BE PLEDGED DIRECTLY OR INDIRECTLY TO SECURE ANY MONEYS OWING BY THE TOWN UNDER THE CONTRACT. THE REMEDIES AFFORDED TO THE TRUSTEE AND THE OWNERS OF THE 2023 BONDS (OR ANY OTHER BONDS) ON A DEFAULT BY THE TOWN UNDER THE CONTRACT ARE LIMITED TO THOSE OF A SECURED PARTY UNDER THE LAWS OF THE STATE OF NORTH CAROLINA, INCLUDING FORECLOSING ON THE MORTGAGED PROPERTY UNDER THE DEED OF TRUST.

### **Risk of Nonappropriation**

The appropriation of moneys to make the Installment Payments is within the sole discretion of the Town Board of Commissioners. If the Town Board of Commissioners fails to appropriate such moneys, the only sources of payment for the Bonds (including the 2023 Bonds) will be the moneys, if any, available in the respective funds and accounts held by the Trustee under the Indenture and the proceeds of any attempted foreclosure on the Town's interest in the Mortgaged Property under the Deed of Trust.

### **Uninsured Casualty and Condemnation**

If all or any part of the Mortgaged Property is partially or totally damaged or destroyed by any casualty or taken by any governmental authority, the Town has the option under the Contract to apply any Net Proceeds from insurance or condemnation to repair, restore or rebuild the Mortgaged Property or to apply the related Net Proceeds to the prepayment of the Bonds, including the 2023 Bonds. If the Net Proceeds are not sufficient to repair, restore or rebuild the Mortgaged Property to its condition prior to such damage, destruction or taking or to pay the Bonds in full or if the Town elects only to make partial effort to repair, restore or rebuild the Mortgaged Property or to make a partial prepayment of the Bonds, the value of the Mortgaged Property may be impaired. The Contract requires that certain insurance be maintained with respect to the Mortgaged Property. Such insurance may not, however, cover all perils to which the Mortgaged Property is subject.

### **Outstanding General Obligation Debt of the Town**

The Town currently has no general obligation bonds outstanding, but the Town may issue general obligation bonds or notes in the future. In connection with the issuance of any general obligation bonds or notes, the Town would pledge its faith and credit and taxing power to the payment of such general obligation bonds or notes. See the caption "THE TOWN – Debt Information" herein. FUNDS WHICH MAY OTHERWISE BE AVAILABLE TO PAY INSTALLMENT PAYMENTS OR ADDITIONAL PAYMENTS OR TO MAKE OTHER

PAYMENTS TO BE MADE BY THE TOWN UNDER THE CONTRACT MAY BE SUBJECT TO SUCH FAITH AND CREDIT PLEDGE BY THE TOWN AND THEREFORE MAY BE REQUIRED TO BE APPLIED TO THE PAYMENT OF ITS GENERAL OBLIGATION INDEBTEDNESS.

### **Dilution of Collateral**

The execution and delivery of Additional Bonds is not premised on the concurrent addition of property to the Mortgaged Property under the Deed of Trust. In the event that Additional Bonds are executed and delivered, it is possible that Owners of the 2023 Bonds would be on a parity with Owners of the Additional Bonds, but that there would not be sufficient collateral in the event that the Town were to fail to make Installment Payments required under the Contract and the Trustee were then to institute foreclosure proceedings. See "SECURITY AND SOURCES OF PAYMENTS FOR THE 2023 BONDS – Additional Bonds" herein.

### **Environmental Hazards**

Environmental contamination of the Mortgaged Property, including undiscovered or future environmental contamination, could have a material adverse affect on the value of the Mortgaged Property; however, the Town is required under the Deed of Trust to undertake whatever environmental remediation may be required by law.

The Town has obtained a Phase I environmental assessment dated December 30, 2022 (the "Phase I") with respect to the Mortgaged Property. The Phase I revealed a historically recognized environmental condition associated with a 2014 incident involving paint thinner being inadvertently introduced into the truck washdown bay and into at least the pump tank of the on-site wastewater treatment system. Neither this incident nor any other conditions found what would be considered a current recognized environmental condition. The engineering consultant did not recommend any further investigations at the time of the Phase I. The Town is not aware of any enforcement actions currently in process with respect to any releases of pollutants or contaminants at the Mortgaged Property.

### **Bankruptcy**

Chapter 9 of the Title 11 of the United States Code (as amended, the "Bankruptcy Code") provides a process for a political subdivision of a state to voluntarily adjust its debts. An involuntary bankruptcy case may not be commenced against a political subdivision under Chapter 9. Section 109(c) of the Bankruptcy Code sets forth certain conditions that must be met for an entity to be a debtor under Chapter 9, including that the entity is specifically authorized to be a debtor under Chapter 9 by state law (or by a governmental officer or organization empowered by state law to authorize the entity to be a debtor under Chapter 9). Section 23-48 of the North Carolina General Statutes (the "NC Authorizing Statute") authorizes any county or city in the State to file a Chapter 9 bankruptcy case, but only with the approval of the LGC. While the 2023 Bonds are outstanding, the provisions of the Bankruptcy Code and applicable North Carolina law, including the NC Authorizing Statute, may be amended, supplemented or repealed; therefore, it is not possible to predict whether and under what conditions the Town may be authorized to become a debtor in a bankruptcy case and how any such bankruptcy case might affect holders of the 2023 Bonds in the future.

If the Town were to initiate bankruptcy proceedings under Chapter 9 with the consent of the LGC, the bankruptcy proceedings could have material and adverse effects on holders of the 2023 Bonds, including (1) the application of the automatic stay provisions of the Bankruptcy Code, which, until relief is granted, would prevent collection of payments from the Town or the commencement of any judicial or other action for the purpose of recovering or collecting a claim against the Town; (2) the incurrence of additional debt, including the claims of those supplying good and services to the Town after the initiation of bankruptcy proceedings and the expenses of administering the bankruptcy case, which may have a priority of payment

superior to that of the bondholders; and (3) the possibility of the adoption of a plan for the adjustment of the Town's debt without the consent of all of the Owners of the 2023 Bonds, which plan may restructure, delay, compromise or reduce the amount of the claim of the Owners of the 2023 Bonds. In addition, the Bankruptcy Code might invalidate any provision of the documents that makes the bankruptcy or insolvency of the Town an event of default.

The effect of the Bankruptcy Code on the rights and remedies of the Owners of the 2023 Bonds cannot be predicted with certainty and may be affected significantly by judicial interpretation, general principles of equity and considerations of public policy.

Regardless of any specific adverse determinations in a bankruptcy case of the Town, the fact of such a bankruptcy case could have an adverse effect on the liquidity and value of the 2023 Bonds.

### **Recent Developments Related to COVID-19**

On March 11, 2020, the World Health Organization declared a global pandemic following the outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus, which is currently negatively impacting most, if not all, areas of the world, including the United States, the State and the Town. Within the United States, the federal government and various state and local governments, as well as private entities and institutions, have implemented a variety of different efforts aimed at preventing the spread of COVID-19 including, but not limited to, travel restrictions, voluntary and mandatory quarantines, event postponement and cancellations, voluntary and mandatory work from home arrangements, and facility closures. The impact of these various measures, as well as general concerns related to the global and national public health emergency and other contributing factors, have also resulted in significant volatility in the stock markets and a general consensus that the global and national economies are distressed.

Given the unpredictability of trends in the spread of COVID-19, the Town is unable to predict whether the State will reinstate restrictions moving forward. Due to the dynamic nature of the COVID-19 outbreak, however, the Town cannot predict either the duration or extent of (1) the COVID-19 outbreak, (2) future actions governmental authorities or other institutions may take to contain or mitigate COVID-19's impact, or (3) whether either of the foregoing will have a material adverse effect on the Town's finances or operations or have an effect on the rating assigned to the 2023 Bonds (see "RATINGS" herein).

### **Cybersecurity**

The Town, like many other public and private entities, relies on a robust and complex technology environment to conduct its operations and faces multiple cybersecurity threats involving, but not limited to, hacking, phishing viruses, malware and other attacks on its computing and other digital networks and systems (collectively, "Systems Technology"). As a recipient and provider of personal, private, or sensitive information, the Town may be the target of cybersecurity incidents that could result in adverse consequences to the Town and its Systems Technology, requiring a response action to mitigate the consequences.

Cybersecurity incidents could result from unintentional events, or from deliberate attacks by unauthorized entities or individuals attempting to gain access to the Town's Systems Technology for the purposes of misappropriating assets or information or causing operational disruption and damage. To mitigate the risk of business operations impact and/or damage from cybersecurity incidents or cyberattacks, the Town invests in various forms of cybersecurity and operational safeguards. The Town maintains cyber liability insurance coverage through the North Carolina League of Municipalities.

While the Town's cybersecurity and operational safeguards are periodically tested, the Town cannot give any assurances that such measures will ensure against other cybersecurity threats and attacks.

Cybersecurity breaches could cause material disruption to the Town's finances or operations. The costs of remedying any such damage or obtaining insurance related thereto or protecting against future attacks could be substantial and insurance may not be adequate to cover such losses or other consequential Town costs and expenses. Further, cybersecurity breaches could expose the Town to material litigation and other legal risks, which could cause the Town to incur material costs related to such legal claims or proceedings.

## **Climate Change**

The Town is located on the North Carolina coast on what is known as the Outer Banks and is therefore particularly susceptible to the effects of extreme weather events and natural disasters, including floods, droughts and hurricanes and has experienced multiple severe weather events within the past several years. These effects may be amplified by a prolonged global temperature increase over the next several decades (commonly referred to as "climate change"). The Town conducts long-range planning efforts to develop resilience strategies that will enhance Nags Head's response to coastal hazards. Additionally, the Town employs various policy, programmatic, and infrastructure related initiatives to mitigate the effects of coastal storm damage and recovery. However, no assurances can be given that a future extreme weather event driven by climate change will not adversely affect the Town.

## **THE TOWN**

### **General Description**

The Town is located in Dare County on Bodie Island on the coast of eastern North Carolina. The Town received its municipal charter from the North Carolina General Assembly on June 14, 1961. The Town is approximately 200 miles east of Raleigh, North Carolina, the State capital, and 90 miles south of Virginia Beach and Norfolk, Virginia, a metropolitan area. The Town is located in what is known as North Carolina's "Outer Banks" resort and vacation areas. The Town is home to 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 Landmark owned and operated by The Nature Conservancy.

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. Tourists and vacationers not only come to the Town and surrounding areas 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 the majority of those activities come from non-residents and residential construction for rental purposes.

There are no rail facilities in the Town; however, it is served by three U.S. highways and three N.C. highways. The closest airport is located in Dare County, North Carolina. The Dare County Regional Airport, located near Manteo, provides for general aviation and direct charter flights by Dillon's Aviation to and from the Outer Banks. In addition, there are two airstrips nearby: the First Flight Airstrip (located in Kill Devil Hills next to the Wright Brothers Memorial) and the Billy Mitchell Airstrip (located in Frisco on Hatteras Island). General commercial service is provided by the Norfolk International Airport, approximately 100 miles away in Norfolk, Virginia. See "— Government and Major Services — Transportation" below.

The Town's permanent population has increased through the years, increasing by 29.3% from 1990 to 2000, 2.1% from 2000 to 2010, and 14.9 % from 2010 to 2020. The Town's estimates that the population for the Town grows to approximately 40,000 during the peak of summer.

There are twelve radio stations (two AM and ten FM) broadcasting to the Outer Banks. Television stations broadcast from Hampton Roads, Virginia, Washington, North Carolina, and Greenville, North Carolina.

## Demographic Characteristics

The United States Department of Commerce, Bureau of the Census, has recorded the population of the Town to be as follows:

<b>1990</b>	<b>2000</b>	<b>2010</b>	<b>2020</b>
2,088	2,700	2,757	3,168

Note: Permanent population. The Town estimates that the average summer (Memorial Day through Labor Day) population is approximately 40,000 people.

The North Carolina Office of State Budget and Management estimated the population of the Town to be 3,213 as of July 1, 2021.

Per capita income for the County and the State, and County per capita income as a percentage of State per capita income, for the last five calendar years such information is available is presented in the following table:

<b>Year</b>	<b>County<sup>1</sup></b>	<b>State</b>	<b>County as % of State</b>
2016	\$48,602	\$42,936	113%
2017	49,248	44,591	110
2018	53,415	46,352	115
2019	56,314	48,741	115
2020	57,688	51,900	111
2021	59,240	56,173	105

<sup>1</sup> Separate data for the Town is not available.

Source: County information: Town Fiscal Year 2022 Annual Comprehensive Financial Report; State information: Bureau of Economic Analysis, U.S. Department of Commerce, Regional Data, Local Area Personal Income.

## Commerce, Industry and Employment

Traditionally, the economy of the Town has been based in travel and tourism.

### *Travel and Tourism*

The Town's economy is based on travel, tourism and related service industries. The Town attracts tourists during the busy summer season but also attracts tourists during the non-peak summer months. The longer tourist season has extended and increased rental income and other economic benefits to local benefits. 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 the majority of those activities come from non-residents and residential construction for rental purposes.

With the onset of the COVID pandemic, the Town was concerned that widespread health restrictions would adversely impact revenue streams, including occupancy and sales tax revenue. Although restrictions initially limited travel, the Outer Banks experienced an increase in visitation during the summer and fall of 2020, since the local economy relies primarily on single-family vacation rentals and outdoor experiences. These activities remained unrestricted and visitors felt safe to travel to the Outer Banks. Additionally, the Town saw increased visitation to the area later into the season as a large portion of the population shifted to remote work and/or school. As a result, the Town experienced increases in revenue streams instead of the initially expected declines. This is evidenced by the numbers included below related to gross occupancy and retail sales which increased every year since the beginning of the pandemic.

According to "The Economic Impact of Travel on North Carolina's Counties prepared for Visit North Carolina by Tourism Economics" domestic tourism in the County generated an economic impact of \$1,410,000,000 in 2020 and \$1,827,000,000 in 2021. The County ranked 4<sup>th</sup> in travel impact among the State's 100 counties in 2021, with 12,295 jobs in the County directly attributable to travel and tourism. Travel to the County generated \$453,900,000 in payroll in 2021, and state and local tax revenues from travel to the County amounted to \$146,800,000. Gross occupancy sales increased 60% from calendar year 2017 to calendar year 2021. The following table shows hotel/motel room sales for the Fiscal Year ending June 30 in the years specified:

	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
Gross Occupancy Sales <sup>1</sup>	\$479,320,053	\$496,416,513	\$518,010,116	\$576,380,674	\$771,066,418

<sup>1</sup> Includes all sales subject to occupancy taxes, including rental homes.  
Source: Outer Banks Visitors Bureau.

### ***Retail Trade***

The County accounted for \$2.05 billion in taxable retail sales in the Fiscal Year ended June 30, 2021 and \$2.31 billion in taxable retail sales in the Fiscal Year ended June 30, 2022, which was a 12.47% increase. Statewide taxable retail sales totaled \$184.87 billion in Fiscal Year ended June 30, 2021 and \$211.17 billion in the Fiscal Year ended June 30, 2022, which was a 14.22% increase.

Total retail sales and total State sales tax collections in the County for the past five Fiscal Years for which information is available are shown in the following table:

<b>Fiscal Year Ended June 30</b>	<b>Taxable Retail Sales</b>	<b>Total Sales Tax Collections</b>
2018	\$1,551,369,779	\$73,855,485
2019	1,599,187,555	76,117,049
2020	1,560,596,499	74,291,149
2021	2,055,154,840	97,843,107
2022	2,311,533,280	109,982,74

Source: North Carolina Department of Revenue.

### ***Services Industry***

The service industry accounted for 90% of average employment in the County in 2021. Growth in this industry is related to property management and health care. The majority of rental homes utilize property management services, usually through a real estate agency for rental, maintenance and management of vacation rental properties. Those agencies in turn contract with other service firms for cleaning, linen, pool and hot tub and grounds maintenance services. Traditional real estate and mortgage brokerage services are also in demand. The health care industry has grown in response to the growing

seasonal and permanent populations, the growing number of retirees making the County their permanent residence and the establishment of the Outer Banks Hospital (a joint venture between ECU Health (formerly Vidant Medical Center) and Chesapeake Healthcare).

### ***Largest Employers***

The Town's citizens benefit from employers in the County and the region. The following table lists the principal employers in Dare County that have locations in the Town:

<b>Company or Institution</b>	<b>Approximate Number of Employees</b>
Dare County Schools	500 – 999
ECU Health	250 – 499
Village Realty & Management Serv.	250 – 499
Food Lion	250 – 499
Town of Nags Head	100 – 249
Kitty Hawk Kites	100 – 249
State of NC Dept of Cultural Resource	100 – 249

Source: North Carolina Department of Commerce; Town Fiscal Year 2022 Annual Comprehensive Financial Report.

### ***Building and Construction***

Construction activity in the Town is indicated by the following table which summarizes the number and value of new construction building permits issued in the Town for the following fiscal years:

<b>Fiscal Year</b>	<b>Building Permits Issued</b>	<b>Building Permit Values</b>
2018	49	\$36,335,579
2019	29	25,775,548
2020	15	20,393,237
2021	24	26,197,676
2022 <sup>1</sup>	24	34,023,378

Source: Town Fiscal Year 2022 Annual Comprehensive Financial Report.

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## *Unemployment*

The Town's unemployment rate is not separately available; however, the County's unemployment rate is usually very low during the summer season (from April through October) and is much higher during the off-season. The Bureau of Labor Statistics has estimated the percentage of unemployment in the County to be as follows:

	<b>2018</b>	<b>2019</b>	<b>2020<sup>1</sup></b>	<b>2021<sup>1</sup></b>	<b>2022</b>
January	9.9%	8.0%	7.9%	10.6%	7.0%
February	9.8	8.1	7.5	10.8	7.0
March	7.0	6.4	7.8	8.8	6.0
April	4.9	4.4	29.7	6.4	4.4
May	4.4	4.0	19.5	5.6	3.9
June	4.0	3.7	9.8	5.3	3.7
July	3.6	3.6	8.1	4.6	3.1
August	3.5	3.6	5.7	4.4	3.4
September	3.4	3.2	5.3	3.6	3.0
October	3.6	3.5	4.6	4.1	3.7
November	4.2	4.0	5.3	4.2	4.0
December	5.6	4.6	6.7	4.6	- <sup>2</sup>
Annual Average	5.2%	4.6%	9.7%	6.0%	- <sup>2</sup>

<sup>1</sup> Impacted by COVID-19.

<sup>2</sup> Not available.

Note: Not seasonally adjusted.

Source: N.C. Department of Commerce: Labor and Economic Analysis Divisions.

The average annual unemployment rates for the County, the State and the U.S. in the below calendar years were as follows:

	<b>County</b>	<b>State</b>	<b>United States</b>
2017	5.9%	4.5%	4.4%
2018	5.2	4.0	3.9
2019	4.6	3.8	3.7
2020	9.7	7.1	8.1
2021	6.0	4.8	5.3

Source: N.C. Department of Commerce: Labor and Economic Analysis Divisions.

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## Government and Major Services

### *Government Structure*

The Town operates under the commissioner-manager form of government. The Board of Commissioners (the "Board") consists of a mayor and four commissioners, including a mayor pro tem who is appointed by the Board. The mayor and four commissioners are elected on a Town-wide basis in non-partisan elections held in odd years. Each Board member serves for a term of four years and the terms of the members are staggered. The Board's present members are as follows:

<b>Name</b>	<b>Occupation</b>	<b>Term Expires (Dec.)</b>	<b>Service Began</b>
Benjamin Cahoon, Mayor	Registered Architect	12/3/2025	12/6/2017
Mike Siers, Mayor Pro Tem	Real Estate Sales Associate	12/3/2025	12/6/2017
M. Renee Cahoon	Property Management and Retail Owner	12/6/2023	1/6/2010
Kevin Brinkley	Retired Town of Nags Head Police Chief	12/6/2023	12/4/2019
Bob Sanders	Restaurateur	12/3/2025	12/1/2021

The Board appoints a Town Manager to serve as the Town's chief executive officer. The Town Manager serves at the pleasure of the Board, and is responsible for carrying out the policies and ordinances of the Board and for overseeing the day-to-day operations of the Town.

The Board appointed Andy Garman to serve as the Town Manager on September 1, 2021 Prior to Mr. Garman's appointment, he served as the Town of Nags Head Deputy Town Manager for seven years, four of which he served a dual role as the Town's Planning and Development Director. Prior to working at the Town, he was the Director of Community Development for the Town of Duck, NC, also located in Dare County. Mr. Garman received a bachelor of science degree in geography from Radford University and a master of urban and regional planning degree from Virginia Polytechnic Institute and State University. Mr. Garman's professional affiliations and certifications include International City/County Management Association – Credentialed Manager (ICMA-CM), American Planning Association, American Institute of Certified Planners (AICP), and the Association of Zoning Officials – North Carolina Certified Zoning Official (CZO).

The Town Finance Officer is Amy Miller, who was appointed to this position in January 2016. Prior to this position, Ms. Miller was the Assistant Finance Director for the Town of Kill Devil Hills for seven years. Ms. Miller received a bachelor of science degree in business administration in accounting from West Virginia University. In North Carolina, she is a Certified Local Government Finance Officer and a Certified Budget & Evaluation Officer.

### *Elementary and Secondary Education*

A single public school system serves all residents of Dare County, North Carolina. The Town has no financial responsibility for any part of the public school system. Dare County Schools is governed by the seven-member Board of Education, the members of which are publicly elected, and administered by a Superintendent of Schools.

There are two high schools, one secondary school (6-12), two middle schools, five elementary schools, one alternative accountability school and two private schools in the County. All children 7-16 years of age are required to be enrolled in school. Children who are 5 years old by August 31 are eligible to attend kindergarten.

The following table illustrates the number of public schools and the total enrollment for the last five years:

<b>School Year</b>	<b>No.</b>	<b>Enrolled Students</b>
2017-18	11	5,070
2018-19	11	5,159
2019-20	11	5,235
2020-21	11	5,003
2021-22	11	5,069

Source: North Carolina School Report Cards.

### ***Higher Education***

The College of the Albemarle (the "COA") serves the Outer Banks through its main campus in Elizabeth City and its branch location in Manteo (the "Roanoke Island Campus"). COA is one of 59 member institutions of the North Carolina System of Community Colleges. The Roanoke Island Campus is located waterside in Manteo and is easily accessible from the North Beaches, Hatteras Island, the Mainland and nearby Currituck County. Diploma and certificate programs provide full access to COA's college transfer associate degree programs and general education courses. Programs and classes offered at the Roanoke Island Campus include basic skills, English as a second language, high school equivalency, hospitality and tourism, HVAC technology, Nurse Aid I and II, professional crafts – jewelry, welding technology, and workforce development and career readiness.

Two universities also directly serve the County. Elizabeth City State University (located in Elizabeth City, North Carolina) and East Carolina University (located in Greenville, North Carolina) are both located within commuting distance from the County.

On February 10, 2001, the Board of Governors of the University of North Carolina approved the creation of the UNC Coastal Studies Institute ("CSI"), which is located on Roanoke Island. Construction of CSI was completed in late 2012. Led by East Carolina University ("ECU"), CSI is a multi-institutional research and educational partnership of the UNC System including North Carolina State University, UNC Chapel Hill, UNC Wilmington and Elizabeth City State University. CSI focuses on integrated coastal research and education programming centered around the needs, issues and concerns of coastal North Carolinians by bringing together the various disciplines of both the natural and social sciences. CSI's mission is to undertake research, offer educational opportunities and provide community outreach that embraces the unique history, culture and environment of the maritime counties of northeastern North Carolina.

The campus, completed in 2012 and awarded the LEED Certification, demonstrates how architecture can seamlessly develop a relationship with the surrounding ecosystem. CSI was also awarded the 2014 Chicago Athenaeum International Architecture Award for Best New Global Design, the 2014 AIA Triangle Honor Award, the 2013 AIA North Carolina Honor Award, and the 2013 USGBC North Carolina Sustainability Award.

### ***Parks And Recreation***

Some of the area's most well-known sites include the following: Wright Brothers National Memorial, Jockey's Ridge State Park, Cape Hatteras National Seashore, Nags Head Woods Ecological Preserve, Cape Hatteras Lighthouse, Elizabeth II State Historic Site, North Carolina Aquarium, Fort Raleigh National Historic Site, Roanoke Island Festival Park, Alligator River National Wildlife Refuge and

Pea Island National Wildlife Refuge. The County and municipalities also operate extensive local parks and recreation facilities. The North Carolina Department of Transportation and the municipalities within the County have funded and constructed a significant system of bicycle paths and trails.

In order to promote sustainable tourism, the Town continues to provide enhanced amenities and integrate connectivity throughout the Town. The Pedestrian Project Advisory committee identifies and ranks future pedestrian projects with a focus towards improved bicycle and pedestrian neighborhood connections.

### ***Health Care***

The Outer Banks Hospital ("OBH"), located in the Town, is a full service, community hospital offering a wide range of inpatient and outpatient services. A joint venture between ECU Health (formerly Vidant Health) and Chesapeake Regional Healthcare, the 83,796 square foot facility includes 18 acute care medical-surgical beds, two labor and delivery/recovery/post-partum beds, one level II nursery bed and three operating rooms, a designated caesarean section room, outpatient and diagnostic services, and a 24-hour emergency department.

Designed especially to meet the health needs of a coastal community with a year-round population of 35,000 that swells to approximately 250,000 to 300,000 in the summer season, OBH has approval as a provider of Medicare and Medicaid programs, licensure by the Division of Facility Services, and accreditation by the Joint Commission on the Accreditation of Healthcare Organizations, College of American Pathologists and the American College of Radiology. The Outer Banks Hospital serves Dare County as well as parts of Currituck and Hyde Counties. Within Dare County, the OBH serves the Towns of Manteo, Nags Head, Kill Devil Hills, Kitty Hawk, Southern Shores, and Duck.

### ***Transportation***

The County is served by three U.S. highways. U.S. 64/264 connects the Outer Banks with the mainland and connects eastern North Carolina with the State capital of Raleigh and points farther west. U.S. Highway 64/264 intersects with U.S. 158, the coastal highway which extends the northern half of the Outer Banks and connects the County with the extreme northeastern mainland of North Carolina and, ultimately, the tidewater area of eastern Virginia and the Norfolk metropolitan area via the Chesapeake Expressway. U.S. 158 connects Kitty Hawk with Elizabeth City, where it intersects with U.S. Highway 17, which extends the entire East Coast of the United States. Several state highways also traverse the County: N.C. 12, which connects the County with Currituck County and the lower Outer Banks to Hatteras Inlet; and N.C. 345, which extends from Manteo to Wanchese on lower Roanoke Island.

The Virginia Dare Memorial Bridge opened in August 2002. The bridge provided a new route for U.S. 64/264 from Roanoke Island to the mainland of the State. The four-lane bridge, at 5.2 miles, provided significant improvements in travel times to the rest of the State. The bridge also serves to significantly aid hurricane evacuation.

The Marc Basnight Bridge replaced the Bonner Bridge, spanning Oregon Inlet between Hatteras and Bodie Islands (the Town is located on Bodie Island), and opened in February 2019. The 2.8-mile, \$254 million replacement provides a modern link between Bodie and Hatteras Islands with a 100-year service life. It will improve access to jobs, healthcare, education and recreation for the community, benefit local tourism and help feed a robust economy. The centerpiece of the bridge is a 3,550-foot-long, 11-span, segmental concrete box girder unit. This structure provides nine 350-foot spans, any of which can accommodate the shifting position of the navigation channel through the ever-changing Oregon Inlet, and is the third-longest continuous segmental concrete box girder unit in North America.

There are no rail facilities in the County; however, the Dare County Regional Airport, located near Manteo, provides for general aviation, as well as car rentals. Commercial service is provided by the Norfolk International Airport, approximately 100 miles away in Norfolk. Service is provided by Allegiant, American, Boutique, Delta, Southwest and United.

### ***Electricity and Gas***

Electric service is provided by Dominion North Carolina Power. Natural gas is distributed by several private companies.

### ***Fire and Ocean Rescue Services***

Fire and ocean rescue protection services are provided by a combination department known as Nags Head Fire and Rescue, which is a combination of approximately 27 career Town staff members and seasonal lifeguards providing water rescue services from April through October. Nags Head Fire and Rescue also conducts routine fire code inspections of all businesses within the Town, fire cause investigations, fire prevention education and other services. The department operates within an "Enhanced 911 System" through the Dare County Central Communications, located in Manteo, North Carolina. Ocean Rescue provides seasonal beach patrol, lifesaving and rescue services, emergency medical services, and public education.

### ***Solid Waste Services***

The County participates in a joint venture to operate the Albemarle Regional Solid Waste Authority (the "Authority") with seven other counties, each of which appoints one voting and one nonvoting member of the Authority's governing board. The Authority was created to serve the solid waste disposal needs of the member counties and subsequently contracted with a private regional landfill for waste disposal. For solid waste disposal, the Town has entered into a Municipal Waste Management Agreement with the County for the disposal of solid waste for a term of 26 years (the "Solid Waste Agreement"). The Town's costs under the Solid Waste Agreement are based on the Town's actual tonnage of solid waste. As of Fiscal Year 2022, the rate in effect was \$84.06 per ton, plus an additional fuel surcharge per ton which varies from month to month. To dispose of mattresses, furniture, white goods, or yard brush, the Town offers property owners bulk trash drop off and seasonal curbside collection. The Town's costs for bulk/brush collection under an agreement with the County are \$66.95 per ton. The Town supplements a subscription-based curbside residential recycling program and offers free recycling drop off in addition to free commercial cardboard recycling.

### ***Wastewater***

Approximately 80% of the properties in the Town use individual septic tank systems for sanitary sewer service. In 2000 the Town initiated a septic health initiative which is a voluntary program available to property owners, in which the Town offers free services and certain financial assistance for having septic tank systems pumped out, repaired and/or replaced.

### ***Water***

The Town serves approximately 5,000 customers. The Town has set fixed base and volumetric water rate charges as recommended by the North Carolina Rural Water Association's rate study in order to fund and plan for future capital improvement needs identified in the water master plan, sustain reliable operations and provide positive cash flow from operations. In Fiscal Year 2022, the Town increased the fixed base and the volumetric water rate charges by 5%. In addition, a system development fee of \$2.79 gallons per day has been set in accordance with North Carolina General Statutes. All water system

development fee capital contributions are accounted for in the water capital reserve fund and are used for funding capital improvements and debt payments related to the Town's water system.

The Town has a ten-year capital improvement plan for Water Fund projects. The capital improvement plan addresses all major capital improvements including new capital asset acquisition requests, replacement items, and studies for future requests. The Town's long-term strategy for protecting water quality through its decentralized wastewater management plan is currently being evaluated for its overall effectiveness, and a study is currently being conducted which will recommend additional necessary measures and expand and integrate the plan considering the relationship between onsite wastewater, stormwater and groundwater.

In addition, the Town has entered into an interlocal agreement with the County pursuant to which the Town purchases water from the County. In Fiscal Year ended June 30, 2022, the Town purchased 429.92 million gallons compared to 436.67 million gallons in Fiscal Year ended June 30, 2021.

The Town received grant funds under the American Rescue Plan in the amount of \$948,125 to cover a portion of the costs related to an asbestos water line replacement project taking place in the southern portion of Old Nags Head Cove, in coordination with scheduled drainage and paving work.

### ***Beach Nourishment***

Since travel and tourism is the primary industry for the Town, the Town has taken various actions to protect the Town's natural resources to ensure the long-term viability and health of the coastal eco-system and economic vitality of the Town. In addition, plans are being developed to manage shorelines that protect the natural environment. In the summer of 2022, a beach restoration project replaced sand which was lost during the 2019 hurricane known as "Dorian". This project covered approximately 4.45 miles and was located in the southern part of the Town and was engineered to provide enough healthy, protective beach to allow the Town to align its regularly scheduled beach nourishment maintenance with those of the other County beaches, tentatively planned for 2027. The project cost approximately \$14 million and was funded primarily with grants through the Federal Emergency Management Agency, the North Carolina Division of Emergency Management and the North Carolina Division of Water Resources.

The Town's beach nourishment maintenance projects are generally funded through property taxes, including revenues from municipal service districts ("MSDs"). A MSD is a defined area where an additional property tax is levied to provide project costs or services that benefit the properties within that MSD. There are currently six MSDs within the Town. The MSD taxes generated \$1,641,766 and \$1,496,670 in the fiscal years ended June 30, 2022 and 2021, respectively, and is expected to generate \$1,634,745 in the Fiscal Year ending June 30, 2023. The Town and its Financial Advisor have developed a comprehensive financial model for beach nourishment funding that incorporates funding from Dare County.

The Town has partnered with the Virginia Institute of Marine Science, Virginia Commonwealth University, and the U.S. Army Research & Development Center on a study focusing on dune resilience. The study will explore trade-offs between constructed and natural dunes across the Outer Banks to make better informed decisions in effectively planning and developing coastal management strategies by leveraging resources in working towards the advancement of becoming a more resilient community.

In 2011, the Town completed a nourishment project covering the majority of the oceanfront within the Town at a cost of \$34 million, \$18 million of which came from County funding. The County also supplied debt service support to the Town of \$2 million a year for the Fiscal Years ending June 30, 2012 through 2016. The Town completed a maintenance project in 2018 at a cost of \$42.8 million, with \$9.6 million provided by beach nourishment funding and \$16.2 million provided by the Federal Emergency Management Agency ("FEMA") and the State. Dare County also provides \$600,000 per year for five years

for debt service support, with a total level principal debt payment of \$2,276,000 due annually through Fiscal Year ending June 30, 2024.

The Town has completed a 2022 beach nourishment maintenance project utilizing a State grant of \$1.4 million and FEMA/State participation.

The Board has restricted 2.5 cents of the tax rate for beach nourishment.

## **Debt Information**

### ***Legal Debt Limit***

In accordance with the provisions of the State Constitution and The Local Government Bond Act, as amended, the Town had the statutory capacity to incur additional net debt in the amount of \$238,877,118 as of June 30, 2022.

### ***General Obligation Debt of the Town***

The Town has no outstanding general obligation bonds and has no authorized but unissued general obligation bond debt.

### ***Special Obligation Debt of the Town of Nags***

As of January 1, 2023, the Town had outstanding special obligation bond debt with a total principal amount of \$2,276,000. For additional information see Note 7 in the Town's Audited Financial Statements attached hereto as Appendix A.

<b><u>Fiscal Year</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total Principal and Interest Payments</u></b>
2024	\$2,276,000	\$30,050	\$2,311,050

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### ***Other Long-Term Commitments***

As of January 1, 2023, the Town had outstanding installment lease agreements with a total principal amount of \$79,494 and outstanding installment financing contracts with a total principal amount of \$5,137,985. For additional information see Note 7 in the Town's Audited Financial Statements attached hereto as Appendix A.

The debt service on these obligations due after January 1, 2023, is listed in the table below and does not include installment payments for the 2023 Bonds under the Contract. A table summarizing the installment payments for the 2023 Bonds under the Contract is shown under "ANNUAL INSTALLMENT PAYMENT REQUIREMENTS" herein.

<b><u>Fiscal Year</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total Principal and Interest Payments</u></b>
2023	\$1,275,306	\$118,610	\$1,393,916
2024	958,686	91,354	1,050,040
2025	814,996	70,458	885,454
2026	361,858	52,459	414,317
2027	326,905	43,685	370,590
2028	331,975	35,772	367,747
2029	261,072	27,730	288,802
2030	264,994	20,964	285,958
2031	269,025	14,089	283,114
2032	273,168	7,103	280,271
Total	\$5,137,985	\$482,224	\$5,620,209

### ***Debt Outlook***

The Town annually adopts a five-year capital improvement program for general fund projects and a ten-year capital improvement program for water fund projects (collectively, "CIP"). The CIP address all major capital improvements including new capital asset acquisition requests, replacement items, and studies for future requests. The first year of the adopted CIP is the basis of formal fiscal year appropriations during the annual budget process.

The Capital Investment Fund (the "CIF") will allow the Town to strategically plan for long-term capital expenditures and leverage existing resources. This fund is dedicated to capital expenditures and will carry a minimum fund balance of 25% of CIF expenditures. The CIF is designed to allow the Town to pay cash for most capital items, with potentially financing larger-scale future projects.

### ***Reserves***

The Town has three legally adopted capital reserve funds for specific priorities, which sets aside revenue sources restricted for future capital projects. The capital reserve and capital investment funds have been consolidated with the general fund. Capital reserve funding includes appropriations for parks and paths and streets and 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 CIF accounts separately for capital assets, CIP projects, non-capital outlay major repairs and maintenance, and debt service. The water capital reserve fund has been consolidated with the water fund. All system development fee capital contributions are accounted for in the water capital reserve fund and are used for funding capital improvements and debt payments related to the Town's water system.

The Town adopted four legally budgeted capital project funds – (i) the beach renourishment capital project fund accounting for the Town's maintenance on a 2019 beach nourishment project, (ii) the beach nourishment maintenance capital project fund accounting for the Town's maintenance on a 2022 beach nourishment restoration project, (iii) the beach nourishment master plan capital project fund accounting for long-term beach nourishment planning, and (iv) the capital projects fund accounting for the acquisition, construction and improvements of various capital equipment and facilities.

## Tax Information

### General Information

	Fiscal Year Ended June 30 (in Thousands)				
	2018	2019	2020	2021	2022
Assessment Ratio <sup>1</sup>	88.93%	83.49%	102.57%	99.91%	79.11% <sup>3</sup>
Real Property <sup>2</sup>	\$2,278,240,948	\$2,295,555,798	\$2,315,518,798	\$2,950,695,331	\$2,958,509,981
Personal Property	60,597,638	63,861,050	69,294,281	69,509,322	70,980,064
Motor Vehicles	43,120,308	44,180,248	44,828,004	54,412,251	55,099,553
Public Service Companies <sup>2</sup>	21,148,487	21,148,487	22,078,064	22,545,724	22,499,186
Total Assessed Valuation	\$2,403,107,381	\$2,424,745,583	\$2,451,719,147	\$3,097,162,628	\$3,107,088,784
Rate per \$100	0.297	0.307	0.317	0.265	0.2875
Net Levy	7,140,316	7,450,627	7,776,306	8,214,502	8,936,261
Total Assessed Valuation per Capita	\$802,641	\$806,099	\$798,866	\$975,484	\$967,037

<sup>1</sup> The estimated market value is calculated by dividing the assessed value by a sales-to-assessment ratio determined annually by the North Carolina Department of Revenue.

<sup>2</sup> Valuation of telephone companies and other utilities as determined by the North Carolina Department of Revenue.

<sup>3</sup> The County's last revaluation was in January 2020, which was prior to the COVID-19 pandemic. The Town expects that the Assessment Ratio has decreased as a result of the increase in home sales and the increase in home sale prices during Fiscal Year ended June 30, 2022.

Source: Town Fiscal Year 2022 Annual Comprehensive Financial Report.

### Tax Collections (Including Motor Vehicles)

Year Ended June 30	Total Tax Levy	Collections in Year Levied	Percentage of Levy Collected in Year Levied	Cumulative Collections	Total Percentage Collected
2018	\$7,140,316	\$7,139,879	99.994%	0	99.994%
2019	7,450,627	7,448,877	99.977	150	99.978
2020	7,776,306	7,766,525	99.874	1,237	99.890
2021	8,214,502	8,210,728	99.954	2,701	99.986
2022	8,936,261	8,935,380	99.990	N/A	99.990

Source: Town Fiscal Year 2022 Annual Comprehensive Financial Report.



***Ten Largest Taxpayers for Fiscal Year 2022***

<b>Name</b>	<b>Type of Enterprise</b>	<b>2022 Assessed Valuation</b>	<b>% of Total Assessed Valuation</b>
Dominion NC Power	Utilities	\$18,303,199	0.60%
SRE Mustang (previously Tanger)	Retail	15,025,591	0.49
The Outer Banks Hospital, Inc.	Healthcare	14,052,200	0.46
Nags Head Company, LLC	Retail	14,027,042	0.46
Ocean Carolina, LLC	Hotel	11,851,794	0.39
Stanford M. White	Real Estate Services	11,832,468	0.39
Brian K. Newman	Real Estate Services	10,773,676	0.35
Mildred Roughton	Real Estate Services	10,127,028	0.33
Clubcorp Golf of North Carolina	Recreation	9,712,513	0.32
Surf Side Realty, LLC	Real Estate Services	8,697,138	0.28
		<b>\$124,402,649</b>	<b>4.07%</b>

Source: Town Fiscal Year 2022 Annual Comprehensive Financial Report.

**FINANCIAL INFORMATION**

The financial statements of the Town have been audited by certified public accountants through the Fiscal Year ended June 30, 2022. Copies of these financial statements containing the unqualified opinion of the independent certified public accountants are available in the office of Ms. Amy Miller, Finance Director, P.O. Box 99, Nags Head, North Carolina 27959, (252) 441-5508. The audited financial statements of the Town for the Fiscal Year ended June 30, 2022 are included in Appendix A attached hereto.

The Government Finance Officers Association ("GFOA") has awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town for its Annual Comprehensive Financial Report for the Fiscal Years ended June 30, 2016 through 2021. To receive this award, the highest form of recognition in governmental financial reporting, a governmental unit must publish a financial report that complies with both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year. The Town anticipates that it will continue to meet the requirements under the Certificate of Achievement Program and has submitted its Annual Comprehensive Financial Report for the Fiscal Year ended June 30, 2022 to the GFOA for review.

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**Town of Nags Head, North Carolina**  
**Combined Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Total Governmental Funds For Fiscal Years Ended June 30, 2018 – 2022**

	2018	2019	2020	2021	2022
<b>REVENUES</b>					
Ad valorem taxes	\$8,559,752	\$8,869,938	\$9,199,976	\$9,724,927	\$10,582,398
Other taxes and licenses	5,411,329	6,366,165	6,288,313	9,398,513	10,260,892
Unrestricted intergovernmental	880,000	960,846	932,135	918,654	952,365
Restricted intergovernmental	638,006	18,564,123	9,036,209	1,349,356	1,729,336
Permits and fees	367,214	300,228	268,293	358,100	388,634
Sales and services	69,837	66,091	106,977	99,103	313,943
Net investment earnings	69,707	894,881	571,689	(124,386)	(1,648,548)
Miscellaneous	186,555	185,920	191,700	207,365	82,619
Total revenues	<u>\$16,182,400</u>	<u>\$36,208,192</u>	<u>\$26,595,292</u>	<u>\$21,931,632</u>	<u>\$22,661,639</u>
<b>EXPENDITURES</b>					
Current:					
General Government	\$2,798,124	\$2,996,329	\$3,170,729	\$3,115,138	\$3,342,466
Public Safety	5,355,905	5,418,519	5,526,696	6,091,021	6,633,356
Environmental Protection	1,589,536	1,653,298	1,749,846	1,820,910	1,851,026
Public Works	1,548,039	1,626,009	1,756,630	1,932,203	2,256,872
Streets and Drainage	69,318	50,875	110,240	38,979	55,498
Debt service:					
Principal	1,216,638	1,293,230	20,022,960	3,816,919	3,818,546
Interest and other charges	37,307	41,431	826,491	340,777	247,532
Capital outlay:					
General Government	232,595	23,105,935	16,797,266	1,565,256	2,441,464
Public Safety	255,664	267,680	1,134,317	934,868	1,333,580
Environmental Protection	148,597	175,718	326,139	301,727	1,245,804
Public Works	721,702	1,549,631	860,515	1,152,965	2,791,863
Streets and Drainage	300,200	861,849	520,559	293,035	409,617
Total expenditures	<u>\$14,273,625</u>	<u>\$39,040,504</u>	<u>\$52,802,388</u>	<u>\$21,403,798</u>	<u>\$26,427,624</u>
Revenues over (under) expenditures	<u>\$1,908,775</u>	<u>\$(2,832,312)</u>	<u>\$(26,207,096)</u>	<u>\$527,834</u>	<u>\$(3,765,985)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Installment financing	\$1,090,403	\$29,831,220	\$2,223,843	\$1,373,008	\$3,028,313
Transfers from:					
Capital Reserve Fund	627,992	-	-	-	-
General Fund	-	1,750,000	-	-	-
Transfers to:					
Beach Renourishment Fund	-	(1,750,000)	-	-	-
Capital Project Funds	-	-	-	-	-
Capital Reserve Fund	(2,993,287)	-	-	-	-
Sale of Capital Assets	21,594	20,345	32,546	36,658	24,633
Total other financing sources	<u>\$(1,253,298)</u>	<u>\$29,851,565</u>	<u>\$2,256,389</u>	<u>\$1,409,666</u>	<u>\$3,052,946</u>
Net change in fund balance	655,477	27,019,254	(23,950,707)	1,937,500	(713,039)
Fund balances – beginning	9,783,600	19,286,690	46,305,944	22,355,237	24,292,737
Fund balances – ending	<u>\$10,439,077</u>	<u>\$46,305,944</u>	<u>\$22,355,237</u>	<u>\$24,292,737</u>	<u>\$23,579,698</u>

## **Budget**

### ***General***

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 for the following fiscal year. An annual budget is adopted for the General Fund, the Capital Reserve Fund, the Water Fund and the Water Capital Reserve Fund. The Board adopts multi-year project budgets for the Capital Reserve Fund and the Water Capital Reserve Fund. Appropriations in the General Fund and the Water Fund are made at the department level and at the project level for the Capital Reserve Fund and the Water Capital Reserve Fund. The Town Manager may transfer resources within a department at his discretion; however, transfers between departments requires Board approval.

### ***Commentary for Fiscal Year ended June 30, 2022***

The Town provides its own tax billing and collection services. The property tax collection rate for Fiscal Year ended June 30, 2022, was 99.99%. Out of a levy of \$8,936,261, \$881 was uncollected. Tourism-driven revenues, including sales, occupancy, and land transfer taxes, made up over 45% of the Town's revenues. These revenues came in 121%, or \$1,723,422, over budget. Sales, occupancy, and land transfer taxes are collectively referred to as shared revenues, since they are distributed based on the Town's levy percentage, in respect to the other incorporated towns located in the County. These shared revenues were 9% higher in Fiscal Year ended June 30, 2022, than the prior fiscal year. For the Fiscal Year ended June 30, 2022 expenditures totaled \$26 million, an 11% increase over the prior fiscal year. Expenditures included a new pay plan implementation, core service delivery while maintaining service level expectations, and capital investments. In addition, property was strategically purchased, located adjacent to the Town's Fire Station 16, in planning for possible future expansion. Over \$3 million of fund balance was assigned in order to fund the CIF, while remaining within a minimum fund balance policy of 25%.

### ***Budget Commentary for Fiscal Year ending June 30, 2023***

On June 1, 2022, the Board adopted a General Fund budget for the Fiscal Year ending June 30, 2023 (the "2023 Budget") in the amount of \$35,020,453, which was an increase of \$8,614,987 over the General Fund adopted budget for Fiscal Year ended June 30, 2022. The primary reason for the increase in the General Fund adopted budget was a \$7.5 million transfer to the CIF for capital improvements. Currently, the Town's allowance for uncollectible ad valorem taxes receivable is \$5,000 for ten years, with a tax collection rate budgeted at 99.75%. The Town's current property valuation is \$3,091,846,803 with a full-time population of 3,213. The Town's shared revenues are budgeted 5% higher than Fiscal Year ended June 30, 2022. Based on prior history and industry trends and projects, the Town expects that occupancy and sales tax revenues to continue at or above budget.

Management initiatives for the 2023 Budget include a strategic planning cycle that integrates the development of the Town budget and the CIP in creating a framework for setting expectations. Currently the Town's focus is maintenance of existing property and infrastructure and maintaining high service levels for Town residents. The Town did not increase tax or water rates for the 2023 Budget.

The Town also has the following initiatives for Fiscal Year ending June 30, 2023:

- A cart rollout service in which homes on two, two-lane, heavily used streets, will have their sanitation carts managed by a contractor;
- Public beach access replacements, including dune walkovers at two locations and a replacement bath house;

- Planning for multi-use path maintenance and reconstruction;
- Park improvements at Whalebone Park and the dog and skate parks; and
- A concerted effort to follow a replacement schedule more strictly for rolling stock and equipment.

## **Pension Plans**

The Town participates in the North Carolina Local Governmental Employees' Retirement System.

### ***North Carolina Local Governmental Employees' Retirement System***

The North Carolina Local Governmental Employees' Retirement System ("LGERS") is a service agency administered through a board of trustees by the State for public employees of counties, cities, boards, commissions and other similar governmental entities. While the State Treasurer is the custodian of LGERS funds, administrative costs are borne by the participating employer governmental entities. The State makes no contributions to LGERS.

LGERS provides, on a uniform LGERS-wide basis, retirement and, at each employer's option, death benefits from contributions made by employers and employees. Employee members contribute 6% of their individual compensation. Each new employer makes a normal contribution plus, where applicable, a contribution to fund any accrued liability over a 24-year period. The contribution rate for the Town is currently 10.150% of eligible payroll for general employees and 10.900% of eligible payroll for law enforcement officers. The accrued liability contribution rate is determined separately for each employer and covers the liability of the employer for benefits based on employees' service rendered prior to the date the employer joins LGERS.

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 any age with 30 years of creditable service. 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). Benefit payments are computed by taking an average of the annual compensation for the four consecutive years of membership service yielding the highest average. This average is then adjusted by a percentage formula, by a total years of service factor, and by an age service factor if the individual is not eligible for unreduced benefits.

Contributions to LGERS are determined on an actuarial basis.

Financial statements and required supplementary information for LGERS are included in the Annual Comprehensive Financial Report ("ACFR") for the State. Please refer to the State's ACFR for additional information.

For additional information concerning the Town's participation in LGERS, and other pension plans which the Town administers or in which the Town participates (the Law Enforcement Officers' Special Separation Allowance) see the Notes to the Town's Audited Financial Statements in Appendix A.

### ***Other Post-Employment Benefits***

The Town provides certain other post-employment benefits ("OPEB") as part of the total compensation offered to attract and retain the services of qualified employees. The Town provides post-retirement healthcare benefits through the Post-employment Healthcare Benefits Plan ("HCB Plan") as a single-employer defined benefit plan to cover employees retired under LGERS.

The Town has elected to fully pay the future costs of coverage for benefits for qualified employees who participated in LGERS who began working for the Town on or before November 3, 1997. For employees hired on or after November 4, 1997, the Town pays the full cost of coverage for retirees with 25 years of creditable service; 75% of the cost of coverage for retirees with 20 years of creditable service; 50% of the cost of coverage for retirees with 15 years of creditable service; and 25% of the cost of coverage for retirees with 10 years of creditable service. The Town's coverage under the HCB Plan ends upon the retiree becoming eligible for Medicare. Retirees may also purchase coverage for their dependents at the Town's group rates. The Board may amend plan provisions at any time.

The Town contracted with an actuarial firm to conduct an actuarial study on the Town's OPEB liability through June 30, 2020 and the study determined that the Town's net OPEB liability at June 30, 2020 was \$5,024,282. The Town has historically funded health benefits for retirees on a pay as you go basis. For the Fiscal Year ended June 30, 2022, the Town paid \$179,144 for retiree health benefits.

See "Detail Notes on All Funds – Liabilities – Pension Plan and Post-Employment Obligations – Other Post-employment Benefits" in the Notes to the Financial Statements of Appendix A hereto for a more complete description of such benefits and the Town's obligations thereunder.

### **Contingent Liabilities**

The Town has no contingent liabilities which, in the opinion of the Town Attorney, would adversely and materially affect the Town's ability to meet its financial obligations.

### **CONTINUING DISCLOSURE**

In the Contract, the Town will undertake, for the benefit of the registered and beneficial Owners of the 2023 Bonds, to provide to the MSRB:

(a) by not later than seven months after the end of each Fiscal Year, beginning with the Fiscal Year ending June 30, 2023, the audited financial statements of the Town for such Fiscal Year, if available, prepared in accordance with Section 159-34 of the General Statutes of North Carolina, as it may be amended from time to time, or any successor statute, or if such audited financial statements are not then available, unaudited financial statements of the Town for such Fiscal Year to be replaced subsequently by audited financial statements of the Town to be delivered within 15 days after such audited financial statements become available for distribution;

(b) by not later than seven months after the end of each Fiscal Year, beginning with the Fiscal Year ending June 30, 2023, the financial and statistical data as of a date not earlier than the end of such Fiscal Year for the type of information included under headings "THE TOWN – Debt Information" and "– Tax Information" (excluding any information on overlapping or underlying units) in this Official Statement, to the extent such items are not included in the financial statements referred to in (a) above;

(c) in a timely manner, not in excess of ten business days after the occurrence of the event, notice of any of the following events with respect to the 2023 Bonds:

- (1) principal and interest payment delinquencies;
- (2) non-payment related defaults, if material;
- (3) unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) unscheduled draws on credit enhancements reflecting financial difficulties;

- (5) substitution of credit or liquidity providers, or their failure to perform;
- (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notice of Proposed Issue (IRS Form 5701-TEB) or other material or determinations with respect to the tax status of the 2023 Bonds, or other material events affecting the tax status of the 2023 Bonds;
- (7) modification to the rights of the beneficial owners of the 2023 Bonds, if material;
- (8) call of any of the 2023 Bonds, excluding any mandatory sinking fund prepayment, if material, and tender offers;
- (9) defeasances of any of the 2023 Bonds;
- (10) release, substitution or sale of any property securing repayment of the 2023 Bonds, if material;
- (11) rating changes;
- (12) bankruptcy, insolvency, receivership or similar event of the Town;
- (13) the consummation of a merger, consolidation, or acquisition involving the Town or the sale of all or substantially all of the assets of the Town, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
- (14) appointment of a successor or additional trustee or the change of name of a trustee, if material;
- (15) incurrence of a financial obligation (as defined below) of the Town, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the Town, any of which affect Owners of the 2023 Bonds, if material; and
- (16) default, event of acceleration, termination event, modification of terms or other similar events under the terms of a financial obligation of the Town, any of which reflect financial difficulties; and

(d) in a timely manner, notice of the failure of the Town to provide required annual financial information described in (a) or (b) above on or before the date specified.

*"Financial obligation"* means (a) a debt obligation, (b) a derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation, or (c) a guarantee of an obligation described in either clause (a) or (b) above. The term "financial obligation" shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with Rule 15c2-12 issued under the Securities Exchange Act of 1934, as it may be amended from time to time ("Rule 15c2-12").

At present, Section 159-34 of the General Statutes of North Carolina requires the Town's financial statements to be prepared in accordance with generally accepted accounting principles and to be audited in accordance with generally accepted auditing standards.

All documents provided to the MSRB as described above will be provided in an electronic format as prescribed by the MSRB and accompanied by identifying information as prescribed by the MSRB. The Town may discharge its undertaking described above by providing such information in a manner the SEC subsequently authorized in lieu of the manner described above.

The Contract will also provide that the undertaking described above is enforceable by the Trustee or any beneficial owner of the 2023 Bonds including an action for specific performance, but the Town's failure to comply with the undertaking will not constitute an Event of Default under the Contract and will not result in acceleration of the payment of the 2023 Bonds. An action must be instituted, had and maintained in the manner provided in this paragraph for the benefit of all registered and beneficial owners of the 2023 Bonds.

Pursuant to the Contract, the Town will reserve the right to modify from time to time the information to be provided or the format of the presentation of such information to the extent necessary or appropriate in the judgment of the Town, provided that any such modification will be done in a manner consistent with Rule 15c2-12, and provided further that:

(a) any such modification may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of the Town;

(b) the information to be provided, as modified, would have complied with the requirements of Rule 15c2-12 as of the date of this Official Statement, after taking into account any amendments or interpretations of Rule 15c2-12, as well as any changes in circumstances; and

(c) any such modification does not materially impair the interests of the Owners or beneficial owners of the 2023 Bonds, as determined either by nationally recognized bond counsel, or by the approving vote of the Owners of a majority in principal amount of the 2023 Bonds pursuant to the terms of the Indenture.

Any annual financial information containing modified operating data or financial information is required to explain, in narrative form, the reasons for the modification and the impact of the change in the type of operating data or financial information being provided.

The undertaking described above will terminate upon payment, or provision having been made for payment in a manner consistent with Rule 15c2-12, in full of the principal of and interest on all of the 2023 Bonds.

The Town has no prior undertakings relating to continuing disclosure of information under Rule 15c2-12 during the five years preceding the date of this Official Statement.

### **THE LOCAL GOVERNMENT COMMISSION**

The Contract has been approved by the LGC. The LGC is composed of nine members: the State Treasurer, the Secretary of State, the State Auditor, the Secretary of Revenue and five others by appointment (three by the Governor, one by the General Assembly upon the recommendation of the President Pro Tempore of the Senate and one by the General Assembly upon recommendation of the Speaker of the House of Representatives). The State Treasurer serves as Chairman and selects the LGC's Secretary, who heads the LGC's administrative staff.

A major function of the LGC is the approval, sale and delivery of substantially all North Carolina local government general obligation and revenue bonds and notes and the approval of contracts entered into

under Section 160A-20 of the North Carolina General Statutes. A second key function is monitoring certain fiscal and accounting standards prescribed for units of local government by The Local Government Budget and Fiscal Control Act. In addition, the LGC furnishes, upon request, on-site assistance to units of local government concerning existing financial and accounting systems as well as aid in establishing new systems. Further, educational programs and materials are provided for local officials concerning finance and cash management.

## **LEGAL MATTERS**

Certain legal matters related to the authorization, execution, sale and delivery of the 2023 Bonds are subject to the approval of Parker Poe Adams & Bernstein LLP, Charlotte, North Carolina, Bond Counsel. Certain legal matters will be passed upon for the Corporation and the Town, by Hornthal, Riley Ellis & Maland, L.L.P., Elizabeth City, North Carolina, and for the Underwriter by McGuireWoods LLP, Charlotte, North Carolina.

## **TAX TREATMENT**

### **General**

On the date of execution and delivery of the 2023 Bonds, Parker Poe Adams & Bernstein LLP, Charlotte, North Carolina ("Bond Counsel"), will render an opinion that, under existing law, (1) assuming compliance by the Town with certain provisions of the Internal Revenue Code of 1986, as amended (the "Code"), the portion of the Installment Payments designated and paid as interest with respect to the 2023 Bonds (a) is excludable from gross income for federal income tax purposes, and (b) is not an item of tax preference for purposes of the federal individual alternative minimum tax, and (2) interest on the 2023 Bonds is exempt from State of North Carolina income taxation. Bond Counsel observes that, for tax years beginning after December 31, 2022, the portion of the Installment Payments designated and paid as interest with respect to the 2023 Bonds included in adjusted financial statement income of certain corporations is not excluded from the federal corporate alternative minimum tax.

The Code imposes various restrictions, conditions and requirements relating to the exclusion of interest on obligations, such as the 2023 Bonds, from gross income for federal income tax purposes, including, but not limited to, the requirement that the Town rebate certain excess earnings on proceeds and amounts treated as proceeds of the 2023 Bonds to the United States Treasury, restrictions on the investment of such proceeds and other amounts, and restrictions on the ownership and use of the facilities financed or refinanced with proceeds of the 2023 Bonds. The foregoing is not intended to be an exhaustive listing of the post-issuance tax compliance requirements of the Code, but is illustrative of the requirements that must be satisfied by the Town subsequent to the execution and delivery of the 2023 Bonds to maintain the excludability of the portion of the Installment Payments designated and paid as interest with respect to the 2023 Bonds from gross income for federal income tax purposes. Bond Counsel's opinion is given in reliance on certifications by representatives of the Town as to certain facts material to the opinion and the requirements of the Code.

The Town has covenanted to comply with all requirements of the Code that must be satisfied subsequent to the execution and delivery of the 2023 Bonds in order that the portion of the Installment Payments designated and paid as interest with respect to the 2023 Bonds be, or continue to be, excludable from gross income for federal income tax purposes. The opinion of Bond Counsel assumes compliance by the Town with such covenants, and Bond Counsel has not been retained to monitor compliance by the Town with such covenants subsequent to the date of execution and delivery of the 2023 Bonds. Failure to comply with certain of such requirements may cause the portion of the Installment Payments designated and paid as interest with respect to the 2023 Bonds to be included in gross income for federal income tax purposes retroactive to the date of execution and delivery of the 2023 Bonds. No other opinion is expressed by Bond



Counsel regarding the federal tax consequences of the ownership of or the receipt, accrual or amount of interest with respect to the 2023 Bonds.

If the portion of the Installment Payments designated and paid as interest with respect to the 2023 Bonds subsequently becomes included in gross income for federal income tax purposes due to a failure by the Town to comply with any requirements described above, the Town is not required to redeem the 2023 Bonds or to pay any additional interest or penalty.

The Internal Revenue Service has established an ongoing program to audit tax-exempt obligations to determine whether interest on such obligations is includible in gross income for federal income tax purposes. Bond Counsel cannot predict whether the Internal Revenue Service will commence an audit of the 2023 Bonds. Prospective purchasers and owners of the 2023 Bonds are advised that, if the Internal Revenue Service does audit the 2023 Bonds, under current Internal Revenue Service procedures, at least during the early stages of an audit, the Internal Revenue Service will treat the Town as the taxpayer, and the owners of the 2023 Bonds may have limited rights, if any, to participate in such audit. The commencement of an audit could adversely affect the market value and liquidity of the 2023 Bonds until the audit is concluded, regardless of the ultimate outcome.

Prospective purchasers of the 2023 Bonds should be aware that ownership of the 2023 Bonds and the accrual or receipt of portion of the Installment Payments designated and paid as interest with respect to the 2023 Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property or casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain Subchapter S Corporations with "excess net passive income," foreign corporations subject to the branch profits tax, life insurance companies and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry the 2023 Bonds. Bond Counsel does not express any opinion as to any such collateral tax consequences. Prospective purchasers of the 2023 Bonds should consult their own tax advisors as to the collateral tax consequences.

Proposed legislation is considered from time to time by the United States Congress that, if enacted, would affect the tax consequences of owning the 2023 Bonds. No assurance can be given that any future legislation, or clarifications or amendments to the Code, if enacted into law, will not contain provisions which could cause the portion of the Installment Payments designated and paid as interest with respect to the 2023 Bonds to be subject directly or indirectly to federal, state or local income taxation, adversely affect the market price or marketability of the 2023 Bonds or otherwise prevent the owners of the 2023 Bonds from realizing the full current benefit of the status of the portion of the Installment Payments designated and paid as interest with respect to the 2023 Bonds.

Bond Counsel is further of the opinion that, under existing law, the portion of the Installment Payments designated and paid as interest with respect to the 2023 Bonds is exempt from State of North Carolina income taxation.

Bond Counsel's opinion is based on existing law, which is subject to change. Such opinion is further based on factual representations made to Bond Counsel as of the date thereof. Bond Counsel assumes no duty to update or supplement its opinion to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention, or to reflect any changes in law that may thereafter occur or become effective. Moreover, Bond Counsel's opinion is not a guarantee of a particular result, and is not binding on the Internal Revenue Service or the courts; rather, such opinion represents Bond Counsel's professional judgment based on its review of existing law, and in reliance on the representations and covenants that Bond Counsel deems relevant to such opinion. Bond Counsel's opinion expresses the professional judgment of the attorneys rendering the opinion regarding the legal issues expressly addressed therein. By rendering its opinion, Bond Counsel does not become an insurer or guarantor of the result indicated by that expression of professional judgment, of the transaction on which the opinion is rendered, or of the future performance of the Town,

nor does the rendering of such opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

### **Original Issue Premium**

As indicated on the inside cover page, the 2023 Bonds (the "Premium Bonds"), are being sold at initial offering prices which are in excess of the principal amount payable at maturity. The difference between (a) the initial offering prices to the public (excluding bond houses and brokers) at which a substantial amount of the Premium Bonds is sold and (b) the principal amount payable at maturity of such Premium Bonds constitutes original issue premium, which original issue premium is not deductible for federal income tax purposes. In the case of an owner of a Premium Bond, however, the amount of the original issue premium which is treated as having accrued over the term of such Premium Bond is reduced from the owner's cost basis of such Premium Bond in determining, for federal income tax purposes, the taxable gain or loss upon the sale, redemption or other disposition of such Premium Bond (whether upon its sale, redemption or payment at maturity). Owners of Premium Bonds should consult their tax advisors with respect to the determination, for federal income tax purposes, of the "adjusted basis" of such Premium Bonds upon any sale or disposition and with respect to any state or local tax consequences of owning a Premium Bond.

### **LITIGATION**

No litigation is now pending in any court seeking to restrain or enjoin the authorization, execution or delivery of the 2023 Bonds or contesting the authority of proceedings for the authorization, execution or delivery of the 2023 Bonds or the validity thereof, or the creation, organization, corporate existence or powers of the Corporation or the Town, or the title of any of the present officers thereof to their respective titles or the authority or proceedings for the execution and delivery of the Contract or the Indenture by the Corporation or the Town.

### **RATINGS**

Moody's Investors Service has assigned a rating of "Aa2" to the 2023 Bonds. The rating reflects only the views of such rating agency, and an explanation of the significance of such rating may be obtained from such rating agency. Certain information and materials not included in this Official Statement were furnished to such rating agency. There is no assurance that such rating will continue for any given period of time or that such rating will not be revised downward or withdrawn entirely if, in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the 2023 Bonds.

### **UNDERWRITING**

The Underwriter has agreed under the terms of a Contract of Purchase to purchase all of the 2023 Bonds, if any of the 2023 Bonds are to be purchased. The 2023 Bonds will be purchased at a price equal to 100% of the principal amount thereof, plus original issue premium of \$2,578,869.25, less an Underwriter's discount of \$118,675.16. The Underwriter's obligation to purchase the 2023 Bonds is subject to certain terms and conditions set forth in such Contract of Purchase.

The Underwriter intends to offer the 2023 Bonds to the public initially at the offering prices set forth on the inside cover page of this Official Statement, which offering prices may subsequently be changed from time to time by the Underwriter without any requirement of prior notice. The Underwriter has reserved the right to permit other securities dealers who are members of the Financial Industry Regulatory Authority ("FINRA") to assist in selling the 2023 Bonds. The Underwriter may offer and sell the 2023 Bonds to certain dealers (including dealers depositing 2023 Bonds into investment trusts) at prices

lower than the public offering prices set forth on the inside cover page of this Official Statement or otherwise allow concessions to such dealers who may re-allow concessions to other dealers. Any discounts or commissions that may be received by such dealers in connection with the sale of the 2023 Bonds will be deducted from the Underwriter's underwriting profits.

PNC Capital Markets LLC and PNC Bank, National Association are both wholly-owned subsidiaries of the PNC Financial Services Group, Inc. PNC Capital Markets LLC is not a bank, and is a distinct legal entity from PNC Bank, National Association. PNC Bank, National Association has other banking and financial relationships with the Town.

PNC Capital Markets LLC may offer to sell to its affiliate, PNC Investments, LLC ("PNCI"), securities in PNC Capital Markets LLC's inventory for resale to PNCI's customers.

#### **MISCELLANEOUS**

Any statements in this Official Statement involving matters of opinion or estimates, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement, and its distribution and use by the Underwriter, has been duly authorized and approved by the Corporation and the Town.

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**APPENDIX A**

**FINANCIAL STATEMENTS OF  
THE TOWN OF NAGS HEAD, NORTH CAROLINA**

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**Management Discussion and Analysis**  
**Town of Nags Head**  
**June 30, 2022**

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**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, 2022. 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 \$58,823,518 (*net position*).
- The Town's total net position decreased by \$2,464,075. This includes a decrease in the governmental activities of \$3,100,124 and an increase in the business-type activities of \$636,049. The decrease in net position for governmental activities can be attributed to the implementation of GASB Statement No. 87, Leases. The Town is a lessor under seven qualifying contracts and recorded \$1,582,273 in deferred inflows of resources from those leases. Another item to note is the increase of \$1,402,362 in unearned revenue over the prior fiscal year. Prior to making expenditures, an NC Water Resources grant for \$1,408,247 was received towards a beach nourishment restoration project in conjunction with a FEMA project due to 2019's Hurricane Dorian. The increase in business-type activities can be explained by construction in progress capital asset infrastructure improvements totaling \$1,355,148 in the water fund. These improvements are partially offset by \$474,062 of Coronavirus State and Local Fiscal Recovery Funds.
- As of the close of the current fiscal year, the Town of Nags Head's governmental funds reported combined ending fund balances of \$ 23,579,698, of which 40%, or \$9,518,476, is non-spendable or restricted. Although other taxes and licenses, including sales, occupancy, and land transfer taxes, came in \$1,758,667 over budget, and outstanding general fund encumbrances totaling \$1,154,135 will be re-appropriated in the subsequent year's budget, the governmental funds combined ending fund balance saw a decrease of \$713,039 from the prior year. The fund balance decrease can be attributed to a fair market value loss on investments of \$1,847,406. In the beach renourishment and beach nourishment maintenance capital project funds, expenditures, net of grant revenue reimbursements, totaled \$328,371. This is due to monitoring and professional services in preparation for a fiscal year 2023 Federal Emergency Management Agency (FEMA) grant beach nourishment restoration project, from to 2019's Hurricane Dorian. In the general fund, \$489,950 was transferred to establish the capital project fund for the public services complex design work. Of these funds, \$410,413 were expended. In the capital reserve fund, \$1,577,476 was transferred to the beach nourishment master plan capital project fund, of which \$908,993 was expended for the purposes of long-term beach nourishment planning. This contributed to a net fund balance increase of \$532,737 in that fund. This also primarily accounts for the \$755,987 decrease in the restricted portion of fund balance for the capital reserve fund.
- North Carolina state statute restricts an amount of general fund balance not available for appropriation in what is known as restricted for stabilization by state statute (RSS). This restriction of annually budgeted funds is designed to improve and maintain the fiscal health of local governments by prohibiting them from budgeting or spending a portion of their fund balance. This calculation includes open encumbrances of \$1,154,135 on June 30, 2022, compared to \$2,319,838 for the prior fiscal year, or a \$1,165,703 decrease. This is the primary factor for the decrease of \$1,180,528 in the restricted portion of general fund balance in accordance with state statute.

**Management Discussion and Analysis**  
**Town of Nags Head**  
**June 30, 2022**

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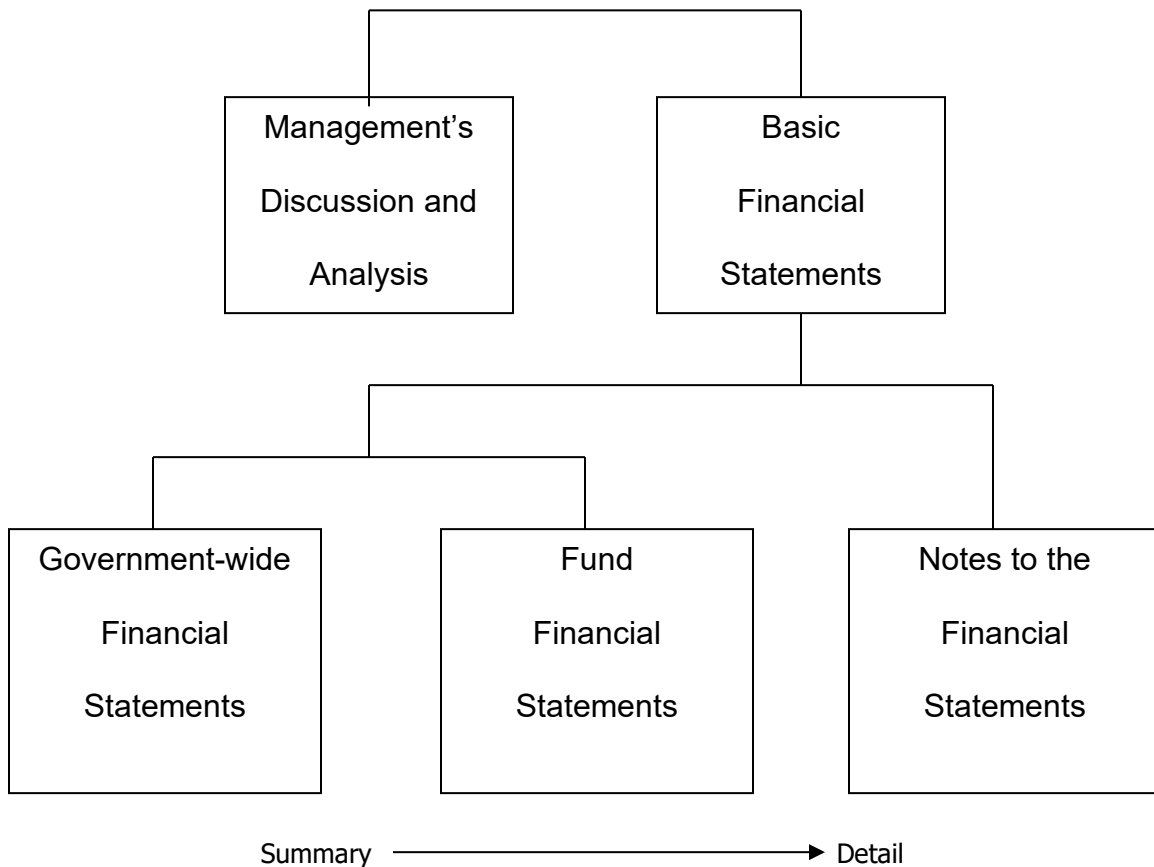
- In the general fund, assigned fund balance of \$3,275,000 is the portion of fund balance appropriated in the next fiscal year's budget, which was a \$2,958,288 increase over the prior fiscal year. To plan more strategically for long-term capital expenditures and debt service, a capital investment fund was created in fiscal year 2023. In order to seed this fund, a general fund balance appropriation of \$3,000,000 was made in the next fiscal year's budget. This resulted in an assigned fund balance of \$3,275,000 compared to \$316,712 in the prior fiscal year for a \$2,958,288 increase.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$6,294,383, or a \$1,891,601 decrease over the prior fiscal year balance of \$8,185,984. This can be attributed to factors discussed above, including the fund balance appropriation of \$3,275,000 for the fiscal year 2023 adopted budget which accounts for the assigned portion of fund balance in fiscal year 2022.
- The unassigned fund balance for the general fund represents 24.06% of total general fund expenditures for the fiscal year, or 26.55% of general fund expenditures excluding bond debt, which is more than our fund balance policy minimum of 25% of general fund expenditures excluding bond debt.
- The Town's total governmental debt for installment financing purchase contracts decreased by \$749,772, attributable to the debt payment of \$2,276,000 made towards direct placement financing for a beach nourishment special obligation bond. This bond has fixed principal annual payments and will be paid off in fiscal year 2024.
- The adopted budget for the June 30, 2022, fiscal year includes a \$.0225 tax increase for a \$.2875 per \$100 valuation ad valorem tax rate. Of the ad valorem rate, \$.025 (a \$.0025 increase) is restricted by the Board for beach nourishment. The tax increase resulted in an ad valorem net levy increase of 8.79%, or \$721,758, over the prior fiscal year, with ad valorem property valuation increasing by .32%
- Flat rate contributions of \$200,000 and \$625,000, respectively, are budgeted for the parks and paths and streets and stormwater management capital reserves.
- The Municipal Service Districts (MSD's) 1 and 2 tax for the purpose of beach nourishment remained unchanged at tax rate of \$.143 per \$100 of assessed valuation for the fiscal year 2022. In order to support future beach nourishment maintenance and planning projects and provide more stability for future tax rates, four additional MSDs were adopted. One half cent (\$.005) was added to MSD's 3 and 6 and one cent (\$.01) was added to MSD 4 for beach nourishment (no tax rate was adopted for MSD 5). MSD's 1, 2, and 5 are in two districts. To include a property in an MSD, the project must be within the MSD boundaries.
- A 5% water rate increase to both the minimum base rate and volumetric charges were adopted to meet current and future capital and operating needs. The Town did receive a 2.62% increase, or \$96,098, in water charges for services due to the rate change.
- A System Development Fee (SDF) professional supporting analysis was conducted in accordance with NC General Statutes, which resulted in a 57.63% increase to the Town's Gallons Per Day Service Unit Fees. The unit cost of capacity increased to \$2.79, calculated in accordance with NC administrative code.
- Although the water fund had a fair market value loss of (\$335,311) on its investments, business-type net position still increased by \$636,049. This is largely due to the \$474,062 in Coronavirus State and Local Fiscal Recovery Funds received.



**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

## Management Discussion and Analysis

### Town of Nags Head

### June 30, 2022

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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.

### 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 two categories: 1) governmental activities; and 2) business-type activities. 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.

**Management Discussion and Analysis**  
**Town of Nags Head**  
**June 30, 2022**

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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. 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 funds to account for its water operations. Nags Head Leasing, blended component unit enterprise fund, is used for financing purposes and has no account balance at the end of the fiscal year.

**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 30-73 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 74-80 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.

**Management Discussion and Analysis**  
**Town of Nags Head**  
**June 30, 2022**

**Government-Wide Financial Analysis**  
**Town of Nags Head Net Position**  
**June 30, 2022**

	<b><u>Governmental</u></b>		<b><u>Business-Type</u></b>		<b><u>Totals</u></b>	
	<b><u>Activities</u></b>		<b><u>Activities</u></b>			
	<b><u>2022</u></b>	<b><u>2021</u></b>	<b><u>2022</u></b>	<b><u>2021</u></b>	<b><u>2022</u></b>	<b><u>2021</u></b>
Current and other assets	\$ 26,323,200	\$ 25,037,810	\$ 5,107,960	\$ 5,416,309	\$ 31,431,160	\$ 30,454,119
Non-current assets	1,464,471	-	-	-	1,464,471	-
Capital assets	42,882,585	45,896,084	6,240,750	5,088,202	49,123,335	50,984,286
Total assets	70,670,256	70,933,894	11,348,710	10,504,511	82,018,966	81,438,405
Deferred outflows of resources	3,446,249	2,904,536	274,331	221,648	3,720,580	3,126,184
Long-term liabilities	13,879,728	16,145,357	549,239	744,374	14,428,967	16,889,731
Other liabilities	6,489,831	4,804,372	964,397	720,831	7,454,228	5,525,203
Total liabilities	20,369,559	20,949,729	1,513,636	1,465,205	21,883,195	22,414,934
Deferred inflows of resources	4,653,522	695,153	379,311	166,909	5,032,833	862,062
Net position:						
Net investment in capital assets	33,233,399	36,284,111	6,199,951	5,008,907	39,433,350	41,293,018
Restricted	9,405,616	11,184,939	7,153	45,506	9,412,769	11,230,445
Unrestricted	6,454,409	4,724,498	3,522,990	4,039,632	9,977,399	8,764,130
Total net position	\$ 49,093,424	\$ 52,193,548	\$ 9,730,094	\$ 9,094,045	\$ 58,823,518	\$ 61,287,593

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of resources of the Town of Nags Head exceeded liabilities and deferred inflows of resources by \$58,823,518 as of June 30, 2022. The largest portion of net position, \$39,433,350 (67%) reflects the town's investment in capital assets (e.g., land, buildings, machinery, and equipment) less liabilities restricted from debt proceeds and any related debt still outstanding that was issued to acquire those items, net of unexpended debt proceeds. 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.

The net investment in capital assets portion of net position decreased for governmental activities and increased for business-type activities. For business-type activities, the increase relates to the additional construction in progress of water infrastructure improvements totaling \$1,355,148. The decrease in governmental activities relates to the depreciation of \$9,095,542 that was taken on the Town's 2019 beach nourishment project.

An additional portion of the Town's net position, \$9,412,769 represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$9,977,399 is unrestricted and may be used to meet the Town's ongoing obligations to citizens and creditors.

As of June 30, 2022, 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.

**Management Discussion and Analysis**  
**Town of Nags Head**  
**June 30, 2022**

**Town of Nags Head Changes in Net Position**  
**June 30, 2022**

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Totals</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
Revenues:						
Program revenues:						
Charges for services	\$ 702,577	\$ 457,203	\$ 3,810,398	\$ 3,713,838	\$ 4,512,975	\$ 4,171,041
Operating grants and contributions	959,030	852,638	-	2,100	959,030	854,738
Capital grants and contributions	786,266	511,050	518,324	64,930	1,304,590	575,980
General revenues:						
Property taxes	10,580,588	9,718,872	-	-	10,580,588	9,718,872
Other taxes and licenses	10,260,692	9,398,028	-	-	10,260,692	9,398,028
Other unrestricted intergovernmental	952,365	918,654	-	-	952,365	918,654
Investment income	(1,648,548)	(124,386)	(293,271)	(19,280)	(1,941,819)	(143,666)
Other	91,292	229,691	1,900	2,120	93,192	231,811
Total Revenues	22,684,262	21,961,750	4,037,351	3,763,708	26,721,613	25,725,458
Expenses:						
General government	12,715,848	12,504,708	-	-	12,715,848	12,504,708
Public safety	7,342,949	7,036,704	-	-	7,342,949	7,036,704
Public Services	2,991,500	2,158,949	-	-	2,991,500	2,158,949
Environment Protection	2,214,312	2,183,166	-	-	2,214,312	2,183,166
Streets and Drainage	286,284	267,697	-	-	286,284	267,697
Interest on long-term debt	233,493	294,342	-	-	233,493	294,342
Water Utility	-	-	3,401,302	3,950,579	3,401,302	3,950,579
Total Expenses	25,784,386	24,445,566	3,401,302	3,950,579	29,185,688	28,396,145
Increase (decrease) in Net Position	(3,100,124)	(2,483,816)	636,049	(186,871)	(2,464,075)	(2,670,687)
Net position – July 1	52,193,548	54,677,364	9,094,045	9,280,916	61,287,593	63,958,280
Net position – June 30	\$ 49,093,424	\$ 52,193,548	\$ 9,730,094	\$ 9,094,045	\$ 58,823,518	\$ 61,287,593

**Governmental activities.** Governmental activities decreased the Town's net position by \$3,100,124. Primary reasons for this include the fair market value loss of \$1,648,548 on investments and depreciation of \$9,095,542 taken on the Town's 2019 beach nourishment project, which is a \$1,586,251 increase over the prior fiscal year. Public Services expenses were \$832,551 or 38.56% higher than last fiscal year because of a donated capital asset (land) with a book value of \$626,096 in the prior fiscal year. Originally donated to the Town and recorded in the water fund, the water fund donated this piece of land to the general fund as it is more appropriately owned in the general fund. This was not reported in the statement of activities. Noteworthy revenue variances include property taxes which is correlated to both the \$.0225 property tax increase and the establishment of four new municipal service districts (MSD's) and associated tax rates within each one, as previously described. The total town wide levy collection percentage for fiscal year 2022 was 99.99%, due to continued diligence in the collection of property taxes. As a point of reference, the statewide average in fiscal year 2022 was 99.12%. Tourism driven revenues including sales, occupancy, and land transfer taxes are included in other taxes and licenses and came in at 13%, 7%, and 5%, respectively, over the prior fiscal year. Combined, these revenues came in over 9% higher, or \$842,126, compared to the prior fiscal year. Investment income decreased by \$1,524,162 due to an unrealized fair market value loss of \$1,648,548 on investments compared to the prior year's loss of \$319,863.

**Business-type activities.** Business-type activities in the water fund increased the town's net position by \$636,049, or 7%. The net investment in capital asset portion of net position increased by \$1,191,044 due to non-depreciable construction in progress capital asset infrastructure improvements totaling \$1,355,148 as previously discussed. These improvements are partially offset by \$474,062 of Coronavirus State and Local Fiscal Recovery Funds, reflected in capital grants and contributions. The increase in net investments in capital asset resulted in a decrease of \$516,642, or 13%, in unrestricted net position. As previously discussed, the 5% water rate increase accounted

## **Management Discussion and Analysis**

### **Town of Nags Head**

### **June 30, 2022**

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for utility sales to increase by 3%, or \$96,098. The unrealized fair market value loss on investments of \$335,312 accounts for the decrease in interest income, compared to the prior year's fair market value loss of \$63,453. The decrease of \$549,277 or approximately 16% in water utility expenses can be explained by the loss on disposal of non-depreciable land totaling \$626,096 in the prior fiscal year, as explained under governmental activities. The wholesale water rate decreased from \$2.152 to \$1.970 per million gallons purchased, or 8.46%. The rate is set per an interlocal agreement with Dare County and was driven by a total increase in gallons in fiscal year 2020-2021. Gallons purchased from Dare County decreased by 6.75 million gallons, or 2%. Due to both a wholesale water rate decrease and a decrease in usage (gallons purchased), the cost of wholesale water purchased decreased by \$89,618 or approximately 9%.

### **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 \$6,294,383 while total fund balance reached \$19,087,859. As previously discussed, the decrease in fund balance can be attributed to the fair market value loss on investments of \$1,362,342 in the general fund. Additionally, funds totaling \$1,612,476 and \$489,950 were transferred to the beach nourishment and capital project funds, respectively, for the purposes of beach nourishment maintenance and planning and design of the newly proposed Public Services Complex. General fund expenditures, most notably capital outlay, saw a significant increase over the prior fiscal year. Because of significant delays and lead times in receiving items, fiscal year 2021 general fund encumbrances carried over totaled \$2,319,838. For example, environmental protection capital outlay was \$944,077 higher over the prior fiscal year. Open purchase orders for sanitation trucks totaling \$1,472,013 were carried over to fiscal year 2022. In public safety, this amount totaled \$234,506 for vehicles. The Town also acquired a new piece of property totaling \$1,700,000, reflected in public services capital outlay. We also contracted for a new fire truck in public safety, making a down payment of \$1,062,005 in order to receive a discount. Current expenditures reflect implementing a new pay plan as part of a comprehensive pay and benefits policy. A pay and classification study encompassed a new classification plan and a salary and benefits study. Despite these aforementioned items, total general fund balance decreased by \$727,297, or a modest 3%. As previously mentioned, the increase in the ad valorem tax rate combined with healthy tourism-driven sales, occupancy, and land transfer tax revenues bolstered revenues to defray some of these items. While the total fund balance change is less than approximately 3%, the Board of Commissioners accomplished funding a strategic initiative of adopting a capital investment fund in fiscal year 2023 in order to plan for long-term capital expenditures and debt. Upon diligent budget monitoring, fund balance was able to be assigned in order to balance the fiscal year 2023 budget to seed this fund with an initial \$3,000,000. This resulted in the decrease in unassigned fund balance previously discussed. In order to align with best practices while maintaining this fund, a new fund balance policy was adopted for the general fund. Although fund balance was leveraged for this new fund, resulting in the unassigned fund balance decrease, we were able to stay within our new fund balance policy. In the general fund, the Town must maintain unassigned fund balance equal to no less than 25% of general fund expenditures, less bond debt. Any unassigned fund balance over 35% will be transferred to the capital investment fund. The unassigned fund balance of \$6,294,383, 26.55%

**Management Discussion and Analysis**  
**Town of Nags Head**  
**June 30, 2022**

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of general fund expenditures excluding bond debt, compared to 39% for the prior fiscal year. While this is about the 25% minimum, no excess transfers will be made to the capital investment fund in fiscal year 2023. 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 24% of total general fund expenditures for the fiscal year compared to 35% for the prior year. This calculation includes bond debt of which \$2,521,353 was paid in the prior fiscal, compared to \$2,451,252 paid in the current fiscal year.

On June 30, 2022, the governmental funds of the Town of Nags Head reported a combined fund balance of \$23,579,698 a 3% decrease from last year. In addition to the general fund items discussed above, capital project expenditures accounting for this decreased were discussed in the financial highlights. This includes monitoring and professional services for a FEMA grant beach nourishment restoration project (\$328,371, net of grant funding), design services for the public services complex design (\$410,413), and long-term beach nourishment planning (\$908,993).

**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 \$3,522,990, a \$516,535 or 13% decrease compared to last fiscal year, while total net position amounted to \$9,730,094, a \$636,049 or 7% increase compared to last fiscal year. 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 in other taxes and licenses, restricted intergovernmental revenue, capital outlay expenditures, and other financing sources (uses). Relative to our robust tourism-driven economy, initial conservative budget assumptions were made for sales, and occupancy taxes. Uncertainty over the real estate market and interest rates led to conserve budgeting for land transfer taxes as well. These are all included in other taxes and licenses. The Board of Commissioners was able to review the tourism driven revenues after the seasonal summer peak period in order to fund projects and unexpected price increases that were not included in the adopted budget. The budget for these taxes were increased in order to fund items that sustain and support our tourism-driven economy including increases for items such as fuel and tipping fees, in addition to providing expanded and enhanced services and amenities including sidewalks and design work towards the public services complex. Fund balance was appropriated for the general fund purchase of a piece of property located next to Fire Station 16 and continued design services for the public services complex. A budget amendment for \$489,950 was done to establish the capital project fund in order the account for the public services complex design and construction. Additional budget amendments were made to use manager's contingency and increase occupancy taxes in order to make this transfer from the general fund. A budget increase in installment financing proportionately increased the various capital outlay functions to appropriate \$3,028,313 of direct borrowing and associated capital outlay expenditures for budgeted capital purchases, including a fire apparatus truck in public safety and various vehicles and equipment among other functions of the Town. The Town also financed \$1,200,000 for a piece of property located next to Fire Station 16 as previously discussed. Amendments made to recognize funding amounts in restricted intergovernmental revenues include reducing grants funding by approximately \$500,000 toward bath house reconstruction. Extensions will likely be requested for this project due to the escalated prices and lead time in construction projects. The fiscal year 2022 overlay paving project budgeted at \$803,520 in the streets and drainage function was delayed due to bids coming in over budget. State street aid combined with streets and stormwater capital

**Management Discussion and Analysis**  
**Town of Nags Head**  
**June 30, 2022**

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reserve funds were budgeted for this project. An economy of scale and more streamlined approach will be realized in combining this project with the fiscal year 2023 paving project. A budget amendment was done to reduce capital outlay and transfers from the capital reserve fund to the general fund to reflect deferring this project to fiscal year 2023. By statute, state street aid is restricted for street construction and maintenance, therefore unspent funds are accumulated in the restricted for streets portion of fund balance and will be appropriated towards the project in the next fiscal year. The streets and stormwater funds are also legally restricted in the capital reserve fund for that specific use, therefore the unspent funds will be accumulated in the capital reserve fund towards the same project in the next fiscal year.

General fund balance appropriations totaling \$2,319,838 were made for fiscal year 2021 open encumbrances. These purchase orders that are carried over increase the adopted budget's appropriated fund balance and corresponding expenditure categories. Many of these encumbrances were carried over due to lead times in the supply chain. Most notably, the adopted budget for capital expenditures in the environmental protection function increased by \$1,452,866 for sanitation vehicles and \$234,506 for public services vehicles.

General Fund expenditures not in alignment with the final revised budget are notably from encumbrances totaling \$1,154,135 being carried forward to fiscal year 2023's appropriated fund balance. Of these encumbrances, current expenditures include \$56,256 carried over towards the coastal resiliency estuarine shoreline management plan and capital outlay encumbrances include \$148,597 towards security retrofits in general government. Other capital outlay encumbrances include \$298,370 for the remaining payment owed upon delivery of the new fire truck in public safety and \$222,317 for a new sanitation vehicle and Curotto can in environmental protection. Savings occurred naturally throughout all expenditure functions including lapse salaries and benefits.

Expenditures made in the general fund exceeded the authorized appropriations made by the governing board for general government activities for debt service. This over-expenditure occurred because of reclassifications for leases as required by initial implementation of GASB 87. Management and the Board will more closely review the budget reports to ensure compliance in future years.

**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, 2022, totals \$49,123,335 (net of accumulated depreciation). These assets include land, art, construction in process, buildings, other improvements, equipment, vehicles, infrastructure, and intangible assets in the water fund.

Major capital asset transactions occurred during the year including:

- 105 W Seachase \$1,700,000, governmental activities
- KME 103' Fire Truck 1,062,005 (Construction in progress), governmental activities
- Public Services Master Plan \$415,412 (Construction in progress), governmental activities
- Beach Nourishment Master Plan \$908,993, governmental activities
- Beach Nourishment Dorian \$907,667, governmental activities
- Storm Drainpipe on S Memorial/E Soundside \$365,396, governmental activities
- Old Nags Head Cove Water \$1,355,148, business-type activities
- Governmental activities decrease due to \$9,095,542 depreciation on the Town's 2019 beach nourishment project (improvements)



**Management Discussion and Analysis**  
**Town of Nags Head**  
**June 30, 2022**

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

	<u>Governmental</u> <u>Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Land	\$ 13,182,598	\$ 12,309,818	\$ 204,205	\$ 204,205	\$ 13,386,803	\$ 12,514,023
Art	107,553	107,553	-	-	107,553	107,553
Construction in progress	1,871,333	44,991	1,399,038	73,721	3,270,371	118,712
Buildings	4,166,028	3,568,739	832,894	874,876	4,998,922	4,443,615
Other improvements	320,559	354,573	155,767	9,007	476,326	363,580
Improvements	12,013,427	19,228,741	273,517	292,135	12,286,944	19,520,876
Equipment	1,549,231	1,648,495	138,457	134,474	1,687,688	1,782,969
Vehicles	4,205,472	3,368,390	68,942	94,585	4,274,414	3,462,975
Intangibles	-	-	799,461	907,865	799,461	907,865
Infrastructure	5,466,384	5,264,784	2,368,469	2,497,334	7,834,853	7,762,118
Total	\$ 42,882,585	\$ 45,896,084	\$ 6,240,750	\$ 5,088,202	\$ 49,123,335	\$ 50,984,286

Additional information on the town's capital assets can be found on pages 47-48 in the notes to the financial statements.

**Long-term Debt.** The Town of Nags Head's total debt decreased by \$2,551,221. The Town's total governmental debt for installment financing purchase contracts decreased by \$749,772, attributable to a combination of the debt payment of \$2,276,000 made towards direct placement financing for a beach nourishment special obligation bond and issuance of installment finance purchases of a fire apparatus for \$1,358,079 and property located at 105 W Seachase for \$1,200,000. The Town's proportionate share of the Local Government Employees' Retirement System (LERS) net pension liability and its total Other Post-Employment Benefits (OPEB) liability decreased by approximately 58% and .4%, respectively, from the prior fiscal year. As of June 30, 2022, the Town had long-term debt totaling \$18,350,369. Of this amount, \$17,752,912 is reported in the governmental activities and \$597,457 is reported in the business-type activities.

**Town of Nags Head Outstanding Debt**

	<u>Governmental</u> <u>Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Direct borrowing installment finance purchases	\$ 5,097,186	\$ 3,570,958	\$ 40,799	\$ 79,295	\$ 5,137,985	\$ 3,650,253
Direct placement installment finance purchases	4,552,000	6,828,000	-	-	4,552,000	6,828,000
Lease liabilities	99,542	-	-	-	99,542	-
Total OPEB liability	4,612,008	4,631,344	401,861	392,938	5,013,869	5,024,282
Total pension liability (LEOSA)	1,363,416	1,303,038	-	-	1,363,416	1,303,038
Net pension liability (LERS)	1,307,131	3,141,267	120,647	289,937	1,427,778	3,431,204
Compensated absences	721,629	624,113	34,150	40,700	755,779	664,813
Total	\$ 17,752,912	\$ 20,098,720	\$ 597,457	\$ 802,870	\$ 18,350,369	\$ 20,901,590

Additional information in the Town's debt can be found on pages 64-67 in the notes to the financial statements.

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 \$238,877,118.

**Management Discussion and Analysis**  
**Town of Nags Head**  
**June 30, 2022**

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**Economic Factors and Next Year's Budgets and Rates**

- The Town's economy is reliant on travel, tourism, and related service industries. The 2021 seasonally unadjusted average annual unemployment rate in Dare County of 6.0% is higher than the State of North Carolina's 2021 average of 4.8%, which is the latest average annual information available. Dare County experiences significant seasonality in rates as visitor spending has a direct impact on employment. For example, the seasonally unadjusted unemployment rate was 7.00% in January and February 2022 compared to 3.80% and 3.70%, respectively, for the State of North Carolina. Dare County's seasonally unadjusted unemployment rate hit a low of 3.0% in September 2022 compared to 3.3% for the State of North Carolina.
- Visitor spending fuels our economy by sustaining local businesses, supporting thousands of jobs, and bringing in tax revenue. Calculating and understanding the holistic economic impact of travel and tourism shapes strategic decisions about the long-term health and sustainability of tourism in assessing capital investment funding and prioritization in order to support future needs. Visitor spending supports businesses across the economic spectrum and generates substantial tax receipts. By aligning tourism expenditures with related sectors, the inter-relationships of visitor spending and economic impact measurements were quantified through "The Economic Impact of Travel on North Carolina's Counties prepared for Visit North Carolina by Tourism Economics" in terms of visitor spending, employment, personal income, employment, and taxes:

Dare County Visitor Spending (millions)	Lodging	Food & Beverage	Recreation	Retail	Transportation	Total Spending (Millions)	Share of State	Spending Growth Rate	Employment	Share of State	Labor Income (Millions)	State taxes (Millions)	Local Taxes (Millions)	State/Local Tax Savings per resident
2021	\$464	\$574	\$268	\$174	\$346	\$1,827	6.3%	29.6%	12,295	6.2%	\$454	\$68	\$79	\$3,930
2020	\$358	\$467	\$183	\$144	\$258	\$1,410	7.0%	-2%	11,803	7%	\$409	\$56	\$68	\$3,244

The economic impact analysis provides valuable insight into the powerful benefit of visitor spending as it flows to households in Dare County being #1 in the state for state and local tax savings per resident, \$3,930 compared to the State at \$224.

- Compared to fiscal year 2022 for the same time period (July through September), occupancy tax revenue has come in 8.64% higher, sales tax revenue has come in 13% higher, and land transfer tax has come in -19% lower for the Town of Nags Head. As a point of reference, compared to fiscal year 2021, fiscal year 2022 occupancy tax revenues came in 10% higher, sales tax revenues came in 17% higher, and land transfer tax came in 6% higher. With Dare County's rich variety of unique and distinctive experiences, visitor demand continues to drive our growing economy.

**Management Discussion and Analysis**  
**Town of Nags Head**  
**June 30, 2022**

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**Budget Highlights for the Fiscal Year Ending June 30, 2023**

- The adopted budget for June 30, 2023, maintains our current rate structure for a continued ad valorem tax rate of \$.2875 per \$100 valuation. With a tax base of \$3,081,005,061, this results in a net levy of \$8,863,337. One cent of tax is equal to \$308,290. Of the ad valorem rate, \$.025 is restricted by the Board for beach nourishment.
- The Municipal Service Districts (MSD's) taxes for the purpose of beach nourishment remained unchanged. With a total tax base of \$3,136,924,953, this results in a total levy of \$1,638,184 for all six districts. The tax rates in the MSD's remained unchanged at \$.143 per \$100 valuation in Districts 1 and 2, \$.005 in Districts 3 and 6, \$.01 in District 4, and no tax in District 5.
- To strategically plan for long-term capital expenditures and leverage existing financial resources, a capital investment fund (CIF) has been created. It is a separate fund as part of the general fund dedicated to capital expenditures such as infrastructure projects, capital expenditures, and debt service payments. In this first year, a \$3,000,000 fund balance appropriation was made to seed the capital investment fund in addition to monthly installments of \$250,000 totaling a \$6,000,000 transfer from the general fund to the CIF, while staying within fund balance policy. A new fund balance policy would transfer any unassigned fund balance above 35% from the general fund to the CIF.
- The impetus for the creation of the capital investment fund is a new Public Services complex, which the Board has been discussing for several years. The Town has developed a master plan to construct new facilities for our facilities maintenance, sanitation, fleet maintenance, water operations, water distribution, and administrative staff. Construction is expected to begin in later winter/early spring 2023. For the first time, we will seek public financing and undergo the bond rating process in order to pay for the project.
- The General Fund adopted budget totals \$33,255,283, an increase of \$6,849,817, or over 25% from the fiscal year 2022 adopted budget. Shared revenues consist of sales, occupancy, and land transfer taxes, and contribute to over 25% of our revenues. Dare County distributes these revenues using a formula based on our percentage of the total county-wide levy. These revenues are indicators of our tourism-driven economy and are budgeted to reflect a robust and growing economy. Prior history, industry trends and projections, forecast continuation of strong occupancy and sales taxes revenues. As the housing peak is anticipated to level off and mortgage interest rates have been rising, land transfer taxes are budgeted at approximately half of the anticipated revenues last fiscal year.
- Our Board has prioritized the Town's employees, making sure Nags Head is great place to work through pay, benefits, training, and an engaging work environment. This year's budget remains competitive by offering cost of living adjustments, within-grade increases, career progression programs, and 4% Town 401(k) contribution (for non-sworn law enforcement officers) with no required match.
- We use a connected Capital Improvement Program (CIP) to combine infrastructure improvement projects, when feasible, under a single project work scope. We have developed a five-year plan for these combined projects. In FY 2023, we will be resurfacing portions of Old Nags Head Cove, Nags Head Acres, Admiral Street, Barnes Street, Soundside Road, and Memorial Avenue in conjunction with waterline and drainage replacements at East Barnes Street.

## **Management Discussion and Analysis**

### **Town of Nags Head**

**June 30, 2022**

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- The fiscal year 2023 budget includes planning for maintenance and reconstruction of the multi-use path along South Virginia Dare Trail. We plan to use funds this year for survey and design work as we identify portions of the path that may need to be reconstructed due to accessibility or drainage concerns. We will pursue grant opportunities combined with local funding in the CIP to conduct the work.
  - The fiscal year 2023 budget includes improvements and enhanced activities at the dog park, skate park, Dowdy Park, and Whalebone Park, including a restroom, splash pad, and shaded seating areas. We will pursue grant opportunities in order to leverage LOCAL funds for these projects.
  - The Town conducted a large-scale beach nourishment project in 2019 that combined a local project with Federal Emergency Management Agency (FEMA) and State of North Carolina disaster assistance funding for damages related to 2016's Hurricane Matthew. We also received funding from Dare County and paid for a significant portion of the project using town-wide and Municipal Service District (MSD) taxes. We continue to pay off the debt service from this project.
  - The Town will be conducting a beach nourishment project in the summer of 2022 to replace sand lost from 2019's Hurricane Dorian, primarily funded by FEMA and the North Carolina Division of Emergency Management. The project area spans from 8031 South Old Oregon Inlet Road south to Nags Head's corporate limits with Cape Hatteras National Seashore. Also included will be sand fencing and vegetative sprigging to provide post-project stabilization.
  - Our beach nourishment capital project fund is also being used to support on-going planning for future projects. In FY 2023, we will be conducting Phase 3 of a master plan, which is a long-term, 30-year plan, to identify sand sources and develop programmatic permits that address identified needs.
  - Town staff has developed a prioritized list of public beach access replacements that we are funding using the additional sales tax generated by the municipal service districts. In FY 23, we are replacing the Conch Street and Hollowell Street dune walkovers. In FY 22, we received grant funds to replace the Epstein Street bathhouse; construction on this project is expected to begin in FY 23.
  - As maintaining a safe work environment is a continued priority, best practices and physical improvements were evaluated to implement phasing in building security and energy conservation retrofits. Projects include structural improvements at the second floor of Town Hall and lighting and fixture upgrades.
  - The water fund adopted budget totals \$6,807,631 which is a 30%, or \$1,588,974, increase from the prior year. This increase can be attributed to asbestos cement pipe (ACP) and Advanced Metering Infrastructure (AMI) replacements. Both of these projects are contingent on grant funding. Both the water base rate and volumetric rates and structures remain unchanged.
  - In order to improve septic system performance and water quality, we will begin implementing measures recommended in the newly adopted Decentralized Wastewater Management Plan. Incentives include increasing the wastewater system pumping credit and increasing septic loan amounts. Our plan increases our water quality monitoring and adds groundwater monitoring to our normal activities by purchasing data loggers, with assistance from an NC Water resources Development grant.

**Management Discussion and Analysis**  
**Town of Nags Head**  
**June 30, 2022**

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**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](http://www.nagsheadnc.gov) or send an email to [Amy.Miller@nagsheadnc.gov](mailto:Amy.Miller@nagsheadnc.gov) for more information.

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## **BASIC FINANCIAL STATEMENTS**

**Town of Nags Head, North Carolina**  
**Statement of Net Position**  
**June 30, 2022**

**Exhibit 1**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 17,729,502	\$ 3,933,212	\$ 21,662,714
Taxes receivable (net)	1,471	-	1,471
Accounts receivable (net)	14,014	618,839	632,853
Leases receivable	245,500	-	245,500
Accrued interest receivable	48,076	8,887	56,963
Due from other governments	2,720,073	-	2,720,073
Inventories	67,118	81,701	148,819
Prepaid items	16,637	-	16,637
Restricted cash and cash equivalents	5,480,809	465,321	5,946,130
Total current assets	26,323,200	5,107,960	31,431,160
Non-current assets:			
Leases receivable, non-current	1,365,878	-	1,365,878
Right to use leased assets, net of amortization	98,593	-	98,593
Capital Assets:			
Land, non-depreciable			
improvements and construction in progress	15,161,485	1,603,243	16,764,728
Other capital assets, net of depreciation	27,721,100	4,637,507	32,358,607
Total capital assets	42,882,585	6,240,750	49,123,335
Total non-current assets	44,347,056	6,240,750	50,587,806
Total assets	70,670,256	11,348,710	82,018,966
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension deferrals OPEB	170,531	14,358	184,889
Changes of assumptions or other inputs OPEB	813,448	70,879	884,327
Pension deferrals LEOSA	413,565	-	413,565
Pension deferrals LGERS	2,048,705	189,094	2,237,799
Total deferred outflows of resources	3,446,249	274,331	3,720,580
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	605,080	429,775	1,034,855
Salaries and benefits	484,869	28,005	512,874
Accrued interest payable	101,090	103	101,193
Unearned revenue	1,415,764	-	1,415,764
Due to other governments	2,134	-	2,134
Current portion of long-term liabilities	3,873,184	48,218	3,921,402
Liabilities to be paid from restricted assets	7,710	458,296	466,006
Total current liabilities	6,489,831	964,397	7,454,228
Long-term liabilities:			
Due in more than one year	13,879,728	549,239	14,428,967
Total liabilities	20,369,559	1,513,636	21,883,195
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Prepaid taxes	8,464	-	8,464
Prepaid privilege licenses	125	-	125
Leases	1,582,273	-	1,582,273
Pension deferrals LGERS	1,927,256	177,884	2,105,140
Pension deferrals LEOSA	63,173	-	63,173
Pension deferrals OPEB	1,072,231	93,427	1,165,658
Prepaid water impact fees	-	108,000	108,000
Total deferred inflows of resources	4,653,522	379,311	5,032,833
<b>NET POSITION</b>			
Net investment in capital assets	33,233,399	6,199,951	39,433,350
Restricted for:			
Stabilization by state statute	3,922,259	-	3,922,259
Streets	251,599	-	251,599
Public safety	105,708	-	105,708
Capital reserve fund	5,126,050	7,153	5,133,203
Unrestricted	6,454,409	3,522,990	9,977,399
Total net position	\$ 49,093,424	\$ 9,730,094	\$ 58,823,518

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



**Town of Nags Head, North Carolina**  
**Statement of Activities**  
**For the Year Ended June 30, 2022**

		Program Revenues			
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Primary Government:</b>					
Governmental Activities					
General Government	\$ 12,715,848	\$ 553,362	\$ 681,383	\$ 762,190	
Public Safety	7,342,949	41,131	127,808	17,946	
Public Services	2,991,500	103,732	23,273	-	
Environmental Protection	2,214,312	4,352	-	-	
Streets and Drainage	286,284	-	126,566	6,130	
Interest on long-term debt	233,493	-	-	-	
Total governmental activities	25,784,386	702,577	959,030	786,266	
Business-type activities:					
Water	3,401,302	3,810,398	-	518,324	
Total business-type activities	3,401,302	3,810,398	-	518,324	
Total primary government	\$ 29,185,688	\$ 4,512,975	\$ 959,030	\$ 1,304,590	

General revenues:

Taxes:

Property taxes levied for general purpose

Municipal service district taxes

Occupancy tax

Land transfer taxes

Sales taxes

Other taxes and licenses

Other unrestricted intergovernmental revenues

Unrestricted investment earnings

Miscellaneous

Total general revenues

Total general revenues

Total change in net position

Net position - beginning

Net position - ending

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

**Exhibit 2**

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (10,718,913)	\$ -	\$ (10,718,913)
(7,156,064)	-	(7,156,064)
(2,864,495)	-	(2,864,495)
(2,209,960)	-	(2,209,960)
(153,588)	-	(153,588)
(233,493)	-	(233,493)
(23,336,513)	-	(23,336,513)
-	927,420	927,420
-	927,420	927,420
(23,336,513)	927,420	(22,409,093)
8,938,833	-	8,938,833
1,641,755	-	1,641,755
4,457,313	-	4,457,313
1,727,795	-	1,727,795
3,995,689	-	3,995,689
79,895	-	79,895
952,365	-	952,365
(1,648,548)	(293,271)	(1,941,819)
91,292	1,900	93,192
20,236,389	(291,371)	19,945,018
20,236,389	(291,371)	19,945,018
(3,100,124)	636,049	(2,464,075)
52,193,548	9,094,045	61,287,593
\$ 49,093,424	\$ 9,730,094	\$ 58,823,518

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

**Town of Nags Head, North Carolina**  
**Governmental Funds**  
**Balance Sheet**  
**June 30, 2022**

**Exhibit 3**

	General	Total Nonmajor Funds	Total Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$ 11,657,725	\$ 6,071,777	\$ 17,729,502
Restricted cash and cash equivalents	5,480,809	-	5,480,809
Taxes receivable (net)	1,471	-	1,471
Accounts receivable (net)	13,697	317	14,014
Accrued interest receivable	35,844	12,232	48,076
Due from other governments	2,720,073	-	2,720,073
Inventories	67,118	-	67,118
Leases Receivable	1,611,378	-	1,611,378
Prepaid items	16,637	-	16,637
Total assets	21,604,752	6,084,326	27,689,078
<b>LIABILITIES</b>			
Accounts payable	420,840	184,240	605,080
Salaries and benefits	484,869	-	484,869
Due to other governments	2,134	-	2,134
Unearned revenue	7,517	1,408,247	1,415,764
Liabilities payable from restricted assets:			
Bonds and deposits	7,710	-	7,710
Accounts payable	-	-	-
Total liabilities	923,070	1,592,487	2,515,557
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Prepaid taxes	8,464	-	8,464
Prepaid privilege licenses	125	-	125
Leases	1,582,273	-	1,582,273
Property taxes receivable	1,471	-	1,471
Privilege licenses receivable	1,490	-	1,490
Total deferred inflows of resources	1,593,823	-	1,593,823
<b>FUND BALANCES:</b>			
Nonspendable:			
Inventories	67,118	-	67,118
Leases	29,105	-	29,105
Prepays	16,637	-	16,637
Restricted:			
Restricted for Stabilization by State Statute	3,922,259	-	3,922,259
Restricted for Streets	251,599	-	251,599
Restricted for Public Safety	105,708	-	105,708
Restricted for Capital Reserve Fund	5,126,050	-	5,126,050
Committed:			
Public Services Complex	-	61,956	61,956
Beach Nourishment capital projects	-	4,429,883	4,429,883
Assigned:			
Subsequent year's expenditures	3,275,000	-	3,275,000
Unassigned	6,294,383	-	6,294,383
Total fund balances	19,087,859	4,491,839	23,579,698
Total liabilities, deferred inflows of resources and fund balances	\$ 21,604,752	\$ 6,084,326	

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, 2022**

**Exhibit 3**  
**(Continued)**

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

<b>Total fund balances-governmental fund (previous page)</b>	<b>\$ 23,579,698</b>
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	42,882,585
Right to use leased assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Right to use assets at historical cost	140,004
Accumulated amortization	(41,411)
	<u>98,593</u>
Deferred outflows of resources related to pensions are not reported in the funds.	
Pension deferrals - LEOSSA	413,565
Pension deferrals - OPEB	170,531
Changes of assumptions or other inputs - OPEB	813,448
Pension deferrals - LGERS	<u>2,048,705</u>
	<u>3,446,249</u>
Deferred inflows of resources related to pensions are not reported in the funds.	
Pension related deferrals-LGERS	(1,927,256)
Pension related deferrals-LEOSSA	(63,173)
Pension related deferrals-OPEB	<u>(1,072,231)</u>
	<u>(3,062,660)</u>
Liabilities for earned revenues considered deferred inflows of resources in fund statements:	
Deferred taxes receivable	1,471
Deferred miscellaneous receivable	<u>1,490</u>
	<u>2,961</u>
Long-term liabilities used in governmental activities are not financial uses and therefore are not reported in the funds.	(10,470,357)
Net pension liability	(1,307,131)
Total pension liability	(1,363,416)
Total OPEB liability	(4,612,008)
Other long-term liabilities (accrued interest) are not due and payable in the current period and therefore are not reported in the funds.	(101,090)
Net position of governmental activities (Exhibit 1)	<u><u>\$ 49,093,424</u></u>

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

**Town of Nags Head, North Carolina**  
**Governmental Funds**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**For the Year Ended June 30, 2022**

**Exhibit 4**

	General Fund	Total Nonmajor Funds	Total Governmental Funds
<b>REVENUES</b>			
Ad valorem taxes	\$ 10,582,398	\$ -	\$ 10,582,398
Other taxes and licenses	10,260,892	-	10,260,892
Unrestricted intergovernmental	952,365	-	952,365
Restricted intergovernmental	1,010,044	719,292	1,729,336
Permits and fees	388,634	-	388,634
Sales and services	313,943	-	313,943
Net investment earnings	(1,208,157)	(440,391)	(1,648,548)
Miscellaneous	82,619	-	82,619
Total revenues	22,382,738	278,901	22,661,639
<b>EXPENDITURES</b>			
Current:			
General Government	3,342,466	-	3,342,466
Public Safety	6,633,356	-	6,633,356
Environmental Protection	1,851,026	-	1,851,026
Public Services	2,256,872	-	2,256,872
Streets and Drainage	55,498	-	55,498
Debt service:			
Principal	3,818,546	-	3,818,546
Interest and other charges	247,532	-	247,532
Capital outlay:			
General Government	484,808	1,956,656	2,441,464
Public Safety	1,333,580	-	1,333,580
Environmental Protection	1,245,804	-	1,245,804
Public Services	2,381,450	410,413	2,791,863
Streets and Drainage	409,617	-	409,617
Total expenditures	24,060,555	2,367,069	26,427,624
Revenues (under) expenditures	(1,677,817)	(2,088,168)	(3,765,985)
<b>OTHER FINANCING SOURCES (USES)</b>			
Installment financing	3,028,313	-	3,028,313
Transfers to:			
Capital Project Funds	(2,102,426)	2,102,426	-
Sale of Capital Assets	24,633	-	24,633
Total other financing sources (uses)	950,520	2,102,426	3,052,946
Net change in fund balance	(727,297)	14,258	(713,039)
Fund balances - beginning	19,815,156	4,477,581	24,292,737
Fund balances - ending	\$ 19,087,859	\$ 4,491,839	\$ 23,579,698

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

<b>Town of Nags Head, North Carolina</b> <b>Reconciliation of the Statement of Revenues, Expenditures and</b> <b>Changes in Fund Balances of Governmental Funds to the Statement of Activities</b> <b>For the Year Ended June 30, 2022</b>	<b>Exhibit 4</b> <b>(Continued)</b>
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Amounts reported for governmental activities in the statement of activities are different because:

Net changes in fund balances - total governmental funds	\$	(713,039)
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Governmental funds report capital outlay as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlay	8,222,328	
Loss on disposal of capital asset	(2,151)	
Depreciation	<u>(11,233,676)</u>	(3,013,499)

Right to use leased asset capital outlay expenditures which were capitalized

	140,004	
Amortization expense for intangible assets	<u>(41,411)</u>	98,593

LGERS pension plan deferrals in the current fiscal year are not included on the Statement of Activities

771,015

OPEB plan deferrals in the current fiscal year are not included on the Statement of Activities

164,786

LEOSSA plan deferrals are not included on the Statement of Activities

64,531

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

Changes in tax revenues		(2,010)
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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.

Debt Issued	(3,168,317)	
Decrease in accrued interest payable	14,039	
Principal repayments	<u>3,818,546</u>	<u>664,268</u>

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.

LGERS pension expense	(558,797)	
LEOSSA pension expense	(170,322)	
Increase in compensated absences	(97,516)	
OPEB plan expense	<u>(308,134)</u>	<u>(1,134,769)</u>

Total change in net position of governmental activities	\$	<u><u>(3,100,124)</u></u>
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The accompanying notes are an integral part of the financial statements.

**Town of Nags Head, North Carolina**
**Exhibit 5**
**General Fund**
**Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual  
For the Year Ended June 30, 2022**

	Budgeted Amounts			Variance with Final Budget- Positive (Negative)
	Original Budget	Final Budget	Actual Amounts	
Revenues:				
Ad valorem taxes	\$ 10,501,165	\$ 10,501,165	\$ 10,582,398	\$ 81,233
Other taxes and licenses	7,420,101	8,502,225	10,260,892	1,758,667
Unrestricted intergovernmental	903,200	903,200	952,365	49,165
Restricted intergovernmental	1,442,709	1,011,743	1,010,044	(1,699)
Permits and fees	315,775	325,275	388,634	63,359
Sales and services	246,428	258,263	313,943	55,680
Net investment earnings	110,000	110,000	(866,305)	(976,305)
Miscellaneous	132,500	22,902	82,619	59,717
Total revenues	21,071,878	21,634,773	22,724,590	1,089,817
Expenditure:				
Current:				
General Government	3,637,012	3,802,086	3,342,466	459,620
Public Safety	6,480,725	6,786,322	6,633,356	152,966
Environmental Protection	1,897,958	2,051,702	1,851,026	200,676
Public Services	2,242,458	2,578,498	2,256,872	321,626
Streets and Drainage	79,750	94,750	55,498	39,252
Debt service:				
Principal	3,728,579	3,785,934	3,818,546	(32,612)
Interest and other charges	245,413	246,658	247,532	(874)
Capital outlay:				
General Government	646,172	693,983	484,808	209,175
Public Safety	45,109	1,702,522	1,333,580	368,942
Environmental Protection	-	1,488,475	1,245,804	242,671
Public Services	720,050	2,453,010	2,381,450	71,560
Streets and Drainage	1,458,520	705,100	409,617	295,483
Contingency	125,000	-	-	-
Total expenditures	21,306,746	26,389,040	24,060,555	2,328,485
Revenues over (under) expenditures	(234,868)	(4,754,267)	(1,335,965)	3,418,302
Other financing sources (uses):				
Transfers from Capital Reserve Fund	4,185,733	3,485,733	3,275,050	(210,683)
Transfers to Capital Reserve Fund	(4,465,479)	(4,665,479)	(4,473,391)	192,088
Transfers to Capital Project Fund	-	(489,950)	(489,950)	-
Installment financing	-	3,028,313	3,028,313	-
Sale of Capital Assets	20,000	20,000	24,633	4,633
Restricted Fund Balance	124,000	124,000	-	(124,000)
Committed Fund Balance	53,902	53,902	-	(53,902)
Appropriated Fund Balance	316,712	3,197,748	-	(3,197,748)
Total other financing sources (uses)	234,868	4,754,267	1,364,655	(3,389,612)
Net change in fund balance	\$ -	\$ -	28,690	\$ 28,690
Fund balances, beginning of the year			13,933,119	
Fund balances, end of year			<u>\$ 13,961,809</u>	
A legally budgeted Capital Reserve Fund is consolidated into the General Fund for reporting purposes:				
Interest Income			\$ (341,852)	
Transfers to General Fund			(3,275,050)	
Transfers to Capital Project Funds			(1,612,476)	
Transfers from General Fund			4,473,391	
Fund balance, beginning of the year			5,882,037	
Fund balance, end of year			<u>\$ 19,087,859</u>	

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

**Town of Nags Head, North Carolina**  
**Proprietary Funds**  
**Statement of Fund Net Position**  
**June 30, 2022**

**Exhibit 6**

	Business-type Activities	
	Major Fund	Total
	Water	Enterprise Funds
	Fund	June 30, 2022
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 3,933,212	\$ 3,933,212
Accounts receivable trade (net)	577,183	577,183
Accounts receivable other (net)	50,543	50,543
Inventories	81,701	81,701
Restricted cash and cash equivalents	465,321	465,321
Total current assets	5,107,960	5,107,960
Capital assets:		
Land and construction in progress	1,603,243	1,603,243
Other capital assets, net of depreciation	4,637,507	4,637,507
Total capital assets (net)	6,240,750	6,240,750
Total noncurrent assets	6,240,750	6,240,750
Total assets	11,348,710	- 11,348,710
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Pension deferrals OPEB	14,358	14,358
Changes of assumptions or other inputs OPEB	70,879	70,879
Pension deferrals LGERS	189,094	189,094
Total deferred outflows of resources	274,331	274,331
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	429,775	429,775
Salaries and benefits	28,005	28,005
Accrued interest payable	103	103
Compensated absences - current	20,000	20,000
Direct placement installment purchases-current	28,218	28,218
Liabilities payable from restricted assets:		
Customer bonds and deposits	458,296	458,296
Total current liabilities	964,397	964,397
Noncurrent liabilities:		
Net pension liability	120,647	120,647
Compensated absences	14,150	14,150
Total OPEB liability	401,861	401,861
Direct placement installment purchases	12,581	12,581
Total noncurrent liabilities	549,239	549,239
Total liabilities	1,513,636	1,513,636
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Pension deferrals LGERS	177,884	177,884
Pension deferrals OPEB	93,427	93,427
Prepaid water consumption units	108,000	108,000
Total deferred inflows of resources	379,311	379,311
<b>NET POSITION</b>		
Net investment in capital assets	6,199,951	6,199,951
Restricted for capital reserve fund	7,153	7,153
Unrestricted	3,522,990	3,522,990
Net Position	\$ 9,730,094	\$ 9,730,094

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



**Town of Nags Head, North Carolina**
**Exhibit 7**
**Proprietary Funds**
**Statement of Revenues, Expenses and Changes in Fund Net Position**
**For the Year Ended June 30, 2022**

	Business-type Activities		
	Major Fund Water Fund	Non-Major Fund Nags Head Leasing	Total Enterprise Funds
<b>OPERATING REVENUES</b>			
Charges for services	\$ 3,760,396	\$ -	\$ 3,760,396
Tap and connection fees	21,277	-	21,277
Late payment penalties	25,275	-	25,275
Water tag fees	3,450	-	3,450
Miscellaneous	1,900	-	1,900
<b>Total operating revenues</b>	<b>3,812,298</b>	<b>-</b>	<b>3,812,298</b>
<b>OPERATING EXPENSES</b>			
Administration	293,960	-	293,960
Septic Health	107,390	-	107,390
Operations	1,835,918	-	1,835,918
Distribution	797,276	-	797,276
Depreciation and amortization	365,539	-	365,539
<b>Total operating expenses</b>	<b>3,400,083</b>	<b>-</b>	<b>3,400,083</b>
<b>Total operating income</b>	<b>412,215</b>	<b>-</b>	<b>412,215</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Intergovernmental grant	474,062	-	474,062
Investment earnings	42,038	1	42,039
Change in fair market value of investments	(335,311)	1	(335,310)
Interest expense	(1,219)	-	(1,219)
<b>Total nonoperating revenues (expenses)</b>	<b>179,570</b>	<b>2</b>	<b>179,572</b>
<b>Income Before</b>			
<b>Contributions and Transfers</b>	<b>591,785</b>	<b>2</b>	<b>591,787</b>
Insurance recovery	16,850	-	16,850
Transfer from other funds	109	-	109
Transfer to other funds	-	(109)	(109)
Capital contributions	27,412	-	27,412
<b>Change in net position</b>	<b>636,156</b>	<b>(107)</b>	<b>636,049</b>
<b>Total net position - beginning</b>	<b>9,093,938</b>	<b>107</b>	<b>9,094,045</b>
<b>Total net position - ending</b>	<b>\$ 9,730,094</b>	<b>\$ -</b>	<b>\$ 9,730,094</b>

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

**Town of Nags Head, North Carolina**  
**Proprietary Funds**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2022**

**Exhibit 8**

	Business-Type Activities		
	Major Fund Water Fund	Non-Major Fund Nags Head Leasing	Total Enterprise Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from customers	\$ 3,896,064	\$ -	\$ 3,896,064
Cash paid for goods and services	(1,804,062)	-	(1,804,062)
Cash paid to or on behalf of employees for services	(1,008,744)	-	(1,008,744)
Customer deposits received	59,067	-	59,067
Customer deposits returned	(47,973)	-	(47,973)
Other operating revenues	1,900	-	1,900
Net cash provided by operating activities	1,096,252	-	1,096,252
<b>CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Transfer from Nags Head Leasing Fund	109	(109)	-
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Capital contribution	474,062		474,062
System development fees received	23,412	-	23,412
Insurance recovery	16,850	-	16,850
Interest paid on debt financing	(1,336)	-	(1,336)
Septic Loans issued	(34,550)	-	(34,550)
Repayment of septic loans	24,998	-	24,998
Principal paid on debt financing	(38,495)	-	(38,495)
Acquisition of capital assets	(1,518,088)	-	(1,518,088)
Net cash (used) by capital and related financing activities	(1,053,147)	-	(1,053,147)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Net investment earnings	(294,372)	2	(294,370)
Net (decrease) in cash and cash equivalents	(251,158)	(107)	(251,265)
Cash balances - beginning of the year	4,649,691	107	4,649,798
Cash balances - end of the year	\$ 4,398,533	\$ -	\$ 4,398,533
<b>Reconciliation of operating income to net cash provided by operating activities</b>			
<b>Operating income</b>	\$ 412,215	\$ -	\$ 412,215
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization expense	365,539	-	365,539
Changes in assets, deferred outflows of resources, and liabilities:			
Decrease in accounts receivable	85,666	-	85,666
(Increase) in inventories	(17,933)	-	(17,933)
(Increase) in deferred outflows of resources-pension	(25,204)	-	(25,204)
(Increase) in deferred outflows of resources-OPEB	(27,479)	-	(27,479)
(Decrease) in net pension liability	(169,290)	-	(169,290)
Increase in deferred inflows of resources-pension	174,906	-	174,906
Increase in accounts payable	239,541	-	239,541
(Decrease) in accrued liabilities	(3,222)	-	(3,222)
Increase in customer deposits	11,094	-	11,094
Increase in deferred inflows of resources-OPEB	41,496	-	41,496
Increase in OPEB liability	8,923	-	8,923
Total adjustments	684,037	-	684,037
Net cash provided by operating activities	\$1,096,252	\$ -	\$1,096,252

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, 2022**

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**I. Summary of Significant Accounting Policies**

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

**A. Reporting Entity**

The Town of Nags Head is a municipal corporation, which is governed by an elected mayor and four commissioners. As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. The blended component unit has a June 30 fiscal year end. The blended component unit of the Town has no account balance at the end of the fiscal year.

Blended Component Unit – Nags Head t 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 Town has no fiduciary funds to report. 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, 2022**

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The Town reports the following major governmental funds:

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

The Town reports non-major governmental funds consisting of four legally budgeted capital project funds – the beach renourishment capital project fund accounting for the Town’s maintenance on a 2019 beach nourishment project, the beach nourishment maintenance capital project fund accounting for the Town’s maintenance on a 2022 beach nourishment restoration project, the beach nourishment master plan capital project fund accounting for long-term beach nourishment planning, and the capital projects fund accounting for the acquisition, construction and improvements of various capital equipment and facilities.

The Town reports the following major enterprise fund:

**Water Fund.** This fund is used to account for the Town’s water operations. Additionally, the Town has legally adopted a **Water Capital Reserve Fund**, a fund that is restricted for future capital projects, and is consolidated in the Water Fund.

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

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2022**

operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

*Governmental Fund Financial Statements.* Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under installment financing contracts from direct borrowings and direct placements 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. Multi-year capital project ordinances have been adopted for the Beach Renourishment, Beach Nourishment Maintenance, Beach Nourishment Master Plan, and Capital Project Funds which are general governmental fund capital projects. Capital Reserve ordinances have been adopted for the Capital Reserve Fund and the Water Capital Reserve Fund, and a revised budget is amended as reserve funds have been used.

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2022**

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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.

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 Super NOW 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 money market mutual fund.

The Town's investments with a maturity of more than one year at acquisition and non-money market investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT Government Portfolio, a SEC-registered (2a-7) money market mutual fund, are measured at fair value. Because the NCCMT Government Portfolio has a weighted average maturity of less than 90 days, it is presented as an investment with a maturity of less than 6 months. Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost. Non-participating interest earning investment contracts are reported at cost.

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

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2022**

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**2. Cash and Cash Equivalents**

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

**3. Restricted Assets**

Money in the Capital Reserve Funds are classified as restricted as their use is restricted to the Capital Reserve Fund per NC G. S. Chapter 159, Article 3, Part 2. NC G. S. Chapter 162A, Article 8 requires that all system development fee capital contributions for future capital projects and debt service payments related to the Town's water system be accounted for in a capital reserve fund. North Carolina controlled substance excise taxes are classified as restricted assets since they may only be used for law enforcement purposes. Any proceeds obtained through the sale of property acquired through the Federal Excess Property Program must be allocated to the law enforcement budget. 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	\$ 251,599
	Public safety	105,708
	Capital reserve fund	5,115,792
	Bonds and deposits	<u>7,710</u>
Total General Fund		<u>\$ 5,480,809</u>

**Business-type Activities:**

Water Fund	Customer deposits	\$ 450,016
	Capital reserve fund	7,025
	Cash bonds	<u>8,280</u>
Total business-type activities		<u>\$ 465,321</u>

Total Restricted Cash	<u>\$ 5,946,130</u>
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**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, 2021.

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2022**

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**5. Allowances for Doubtful Accounts**

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

**6. Lease Receivable**

The Town's lease receivable is measured at the present value of lease payments expected to be received during the lease term.

A deferred inflow of resources is recorded for the leases. The deferred inflow of resources is recorded at the initiation of the leases in an amount equal to the initial recording of the lease receivable. The deferred inflow of resources is amortized on a straight-line basis over the term of the leases.

**7. 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.

**8. 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.



**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2022**

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

#### 9. Right to use assets

The Town has recorded right to use lease assets as a result of implementing GASB 87. The right to use assets are initially measured at an amount equal to the initial measurement of the related lease liability plus any lease payments made prior to the lease term, less lease incentives, and plus ancillary charges necessary to place the lease into service. The right to use assets are amortized on a straight-line basis over the life of the related lease.

#### 10. 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*, represent a consumption of net assets that applies to future periods 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 2022 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 and changes of assumptions for the 2022 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* represent an acquisition of net assets that applies to future periods and so will not be recognized as revenue until then. The Town has several items that meet the criterion for this category – prepaid taxes, prepaid privilege licenses, leases, prepaid water impact fees, receivables for property taxes and privilege licenses, and OPEB and pension deferrals.

#### 11. 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.

#### 12. 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

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2022**

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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 nonexempt employees to accrue compensatory time up to the specified limits of 240 hours and 480 hours for nonexempt employees who work in public safety, emergency response, or seasonal activities. The Town uses a first-in, first-out method for the use of this compensatory time.

#### 13. Reimbursement for Pandemic-related Expenditures

In fiscal year 2022, the American Rescue Plan Act (ARPA) established the Coronavirus State and Local Fiscal Recovery Funds to support urgent COVID-19 response efforts and replace lost revenue for the eligible state, local, territorial, and tribal governments. The Town was allocated \$948,124 of fiscal recovery funds to be paid in two equal installments. The first installment of \$474,062 was received in July 2021. The second installment will be received in July 2022. Town staff and the Board of Commissioners have elected to use \$474,062 of the ARPA funds for water line infrastructure improvements. The Town plans on using the rest of the funds for water line infrastructure improvements in fiscal year 2023. The entire \$474,062 fiscal year 2022 allocation was used towards the infrastructure improvements and was recorded in the water fund. The entire remaining balance will be used towards the infrastructure improvements and will be recorded in the water fund as well.

#### 14. 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.

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.

Leases – portion of fund balance that is not an available resource because it represents the year-end balance of the lease receivable in excess of the deferred inflow of resources for the lease receivable, which is not a spendable resource.

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.

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2022**

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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 – North Carolina G.S. 159-8 prohibits units of government from budgeting or spending a portion of their fund balance. This is one of several statutes enacted by the North Carolina State Legislature in the 1930's that were designed to improve and maintain the fiscal health of local government units. Restricted by State Statute (RSS) is calculated at the end of each fiscal year for all annually budgeted funds. The calculation in G.S. 159-8(a) provides a formula for determining what portion of fund balance is available for appropriation. The amount of fund balance not available for appropriation is what is known as "restricted by State statute". *Appropriated fund balance in any fund shall not exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts, as those figures stand at the close of the fiscal year next preceding the budget.* Per GASB guidance, RSS is considered a resource upon which a restriction is "imposed by law through constitutional provisions or enabling legislation." RSS is reduced by inventories and prepaids as they are classified as nonspendable. Outstanding Encumbrances are included within RSS. RSS is included as a component of Restricted Net position and Restricted fund balance on the face of the balance sheet.

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. The governing body approved these capital project budget ordinances. The budget ordinances require Board of Commissioner approval to modify monies allocated between object levels for multi-year funds.

Committed for public services complex - portion of fund balance that has been budgeted by the Board of Commissioners for construction of the public services complex that is not classified in restricted.

Committed for beach nourishment capital projects – portion of fund balance that has been budgeted by the Board of Commissioners for beach nourishment maintenance and planning that is not classified in restricted.

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.

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2022**

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Assigned for subsequent year's expenditures – portion of fund balance that is appropriated in the next year's budget that is not already classified as restricted or committed.

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.

In the proprietary fund financial statements, net position is composed of three classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent.

The proprietary fund types of net position are as follows:

Net investment in capital assets – portion of net position representing total net capital assets and unexpended bond proceeds, less long-term debt.

Restricted net position - portion of net position 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 Water Fund due to GASB 54. This amount represents capital reserve funds for use for funding capital improvements and debt payments related to the Town's water system. State Statute [N.C.G.S. 162A, Article 8] requires that all system development fee capital contributions be accounted for in a capital reserve fund.

Unrestricted net position – portion of net position that has not been restricted to specific purposes.

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

#### **15. 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.

#### **G. Reconciliation of Government-wide and Fund Financial Statements**

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2022**

**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 \$25,513,726 consists of several elements as follows:

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)	\$ 130,904,459	
Less accumulated depreciation	<u>(88,021,874)</u>	
Net capital assets		42,882,585

Right to use leased assets used in governmental activities are not financial resource and therefore are not reported in the funds:

Right to use assets at historical cost	140,004	
Accumulated amortization	<u>(41,411)</u>	98,593

Deferred outflows of resources related to pensions are not reported in the funds:

Pension related deferrals-LGERS	2,048,705	
Pension related deferrals-LEOSSA	413,565	
Changes of assumptions or other inputs-OPEB	813,448	
Pension related deferrals-OPEB	<u>170,531</u>	3,446,249

Liabilities for earned revenues considered deferred inflows of resources in fund statements:

Deferred taxes receivable	1,471	
Deferred miscellaneous receivable	<u>1,490</u>	
		2,961

Deferred inflows of resources related to pensions are not reported in the funds:

Pension related deferrals-LGERS	(1,927,256)	
Pension related deferrals -LEOSSA	(63,173)	
Pension related deferrals -OPEB	<u>(1,072,231)</u>	(3,062,660)

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:

Direct placement installment financings payable	(9,649,186)	
Compensated absences	(721,629)	
Lease liabilities	(99,542)	
Net pension liability-LGERS	(1,307,131)	
Total pension liability-LEOSSA	(1,363,416)	
Total OPEB liability	<u>(4,612,008)</u>	(17,752,912)

Other long-term liabilities (accrued interest) are not available

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2022**

to pay for current period expenditures and, are deferred in the funds.	(101,090)
Net adjustment	<u>\$ 25,513,726</u>

**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 (\$2,387,085) as follows:

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		
Capital outlay expenditures recorded in the fund statements capitalized as assets in the statement of activities	8,222,328	
Loss on disposal of capital asset that is recorded on the statement of activities but not in the fund stat	(2,151)	
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>(11,233,676)</u>	(3,013,499)
Right to use leased asset capital outlay expenditures which were capitalized	140,004	
Amortization expense for intangible assets	<u>(41,411)</u>	98,593
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities.		771,015
Contributions to the OPEB plan in the current fiscal year are not included on the Statement of Activities.		164,786
Benefit payments paid and administrative expenses for the LEOSA plan are not included on the Statement of Activities		64,531
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues/expenditures in the funds.		
Changes in tax revenues		(2,010)

The issuance of long-term debt (e.g., installment financing contracts from direct borrowings and direct placements) provides current financial resources premiums, discounts, and similar items when debt is first

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2022**

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:

Debt issued or incurred:		
Direct borrowing and placement installment financings	(3,028,313)	
Lease liabilities	(140,004)	
Accrued interest payable	14,039	
	<u>(3,154,278)</u>	
Principal repayments	<u>3,818,546</u>	
		664,268
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.		
Increase in compensated absences	(97,516)	
Pension expense - LGERS	(558,797)	
Pension expense - LEOSA	(170,322)	
Plan expense - OPEB	<u>(308,134)</u>	
		<u>(1,134,769)</u>
Net adjustment		<u><u>\$(2,387,085)</u></u>

## **H. 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.

## **I. Stewardship, Compliance and Accountability**

### **A. Excess of Expenditures over Appropriations**

For the fiscal year ended June 30, 2022, the expenditures made in the Town's General Fund exceeded the authorized appropriations made by the governing board for general government activities by \$33,486. This over-expenditure occurred because of reclassifications for leases as required by initial implementation of GASB 87. Management and the Board will more closely review the budget reports to ensure compliance in future years.

## **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

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2022**

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, 2022, the Town's deposits had a carrying amount of \$632,425 and a bank balance of \$586,376. Of the bank balance, \$250,000 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. At June 30, 2022, the Town's petty cash fund totaled \$1,000.

## 2. Investments

At June 30, 2022, the Town's investments were as follows:

<b>Investment Type</b>	<b>Valuation Measurement Method</b>	<b>Book Value at 6/30/22</b>	<b>&lt; 9 months</b>	<b>9 months-3 Years</b>	<b>3-5 Years</b>	<b>5-10 Years</b>
Government Agency: FHLMC	Fair Value Level 2	1,943,819	-	259,929	-	1,683,890
Government Agency: FHL Bank	Fair Value Level 2	9,750,223	-	1,488,058	3,304,835	4,957,330
Government Agency: FFC Bank	Fair Value Level 2	10,422,175	-	2,799,280	4,995,745	2,627,150
Government Agency: FNMA	Fair Value Level 2	1,342,320	-	-	459,990	882,330
Commercial Paper- Credit Suisse	Amortized Cost	1,992,352	1,992,352	-	-	-
Commercial Paper - ING US Funding	Amortized Cost	1,492,522	1,492,522			
NC Capital Management Trust- Government Portfolio*	Fair Value Level 1	32,008	32,008	-	-	-
Total		\$26,975,419	\$3,516,882	\$ 4,547,267	\$ 8,760,570	\$10,150,700

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**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2022**

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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.

*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, the NC Capital Management Trust portfolio at 0.12% and Commercial Paper at 12.62% matured in less than 9 months, 16.47% of U.S. Government Agencies matured in less than 3 years, 30.06% of U.S Government Agencies matured in less than 5 years, and 33.57% of U.S. Government Agencies matured in less than 10 years based on the \$27,608,844 cash and investments total.

Also, the Town's Internal Management Policy requires purchases of securities to be laddered with staggered maturity dates. Investment income of \$242,726 was realized during fiscal year 2022. During the year one investment was sold for a realized loss of (\$2,433). Because of the fair market value on June 30, unrealized loss on investments held on June 30 was (\$2,182,112). When combined, total investment income for fiscal year 2022 was a net loss of (\$1,941,819).

*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 investment in Credit Suisse and ING US Funding commercial paper is 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 Farm Credit Bank, Federal Home Loan Mortgage Corporation, and Federal National Mortgage Association were rated AAA by Standard and Poor's and AAA by Moody's Investors Services. The Town's investment in the NC Capital Management Trust Government Portfolio, which consists of an SEC-registered mutual fund, is authorized by N.C.G.S. 159-309(c) (8). The Government Portfolio, which invests in treasuries and government agencies, is a money market fund (2a7) and maintains an AAAm rating from Standard and Poor's and AAAMf by Moody's Investors Service as of June 30, 2022. It is reported at fair value.

*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 Officer.

*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 Home Loan Bank at 35.32%, Federal Farm Credit Bank at 37.75%, Federal Home Loan Mortgage Corporation at 7.04%, Credit Suisse commercial paper at 7.22%, and ING US Funding commercial paper at 5.41%.

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2022**

**3. Receivables**

The receivables shown in Exhibit 1 at June 30, 2022, were:

	<b>Accounts</b>	<b>Taxes</b>	<b>Due from other Governments</b>	<b>Grants Receivable</b>	<b>Interest Receivable</b>	<b>Total</b>
<b>Governmental</b>						
General	\$ 2,724	\$ 6,471	\$ 2,720,073	\$ 11,290	\$ 48,076	\$ 2,788,634
Allowance for doubtful accounts	-	(5,000)	-	-	-	(5,000)
Total governmental activities	<u>\$ 2,724</u>	<u>\$ 1,471</u>	<u>\$ 2,720,073</u>	<u>\$ 11,290</u>	<u>\$ 48,076</u>	<u>\$ 2,783,634</u>
<b>Business-type</b>						
Water	\$ 637,608	\$ -	\$ -	\$ -	\$ 8,887	\$ 646,495
Allowance for doubtful accounts	(18,769)	-	-	-	-	(18,769)
Total business type activities	<u>\$ 618,839</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,887</u>	<u>\$ 627,726</u>

Due from other governments consisted of the following:

Occupancy tax	\$ 1,161,031
Land transfer tax	442,916
Sales taxes	713,514
Sales tax reimbursement	178,574
ABC Mixed Beverage	8,023
Utilities sales tax	160,770
Cable sales tax	28,049
Telecommunications sales tax	5,117
N.C. Division of Motor Vehicles	14,547
Other	7,531
Total	<u>\$ 2,720,073</u>

**4. Leases Receivable**

For the year ended June 30, 2022, the financial statements include the adoption of GASB Statement No. 87, Leases. The primary objective of this statement is to enhance the relevance and consistency of information about governments' leasing activities. This statement establishes a single model for lease accounting based on the principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. For additional information, refer to the disclosures below.

On July 1, 2021, the Town of Nags Head recorded a 107-month lease (original lease date of May 22, 2015) as Lessor for the use of Water Tower - 123 West Westside Court. An initial lease receivable was recorded in the amount of \$362,953. As of June 30, 2022, the value of the lease receivable is \$328,046. The lessee is required to make monthly fixed payments of \$3,116. The lease has an interest rate of 0.8140%. The value of the deferred inflow of resources as of June 30, 2022, was \$322,248, and Nags Head recognized lease revenue of \$40,705 during the fiscal year. The lease has 4 extension options, each for 60 months.

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2022**

On July 1, 2021, the Town of Nags Head recorded an 18-month lease (original lease date of November 8, 2019) as Lessor for the use of Lab Space - 425 Health Center Drive. An initial lease receivable was recorded in the amount of \$18,393. As of June 30, 2022, the value of the lease receivable is \$6,143. The lessee is required to make monthly fixed payments of \$1,025. The lease has an interest rate of 0.4350%. The value of the deferred inflow of resources as of June 30, 2022, was \$6,131, and Nags Head recognized lease revenue of \$12,262 during the fiscal year. The lease has 1 extension option for 12 months.

On July 1, 2021, the Town of Nags Head recorded an 80-month lease (original lease date April 26, 2018) as Lessor for the use of Century Link Gull St Building. An initial lease receivable was recorded in the amount of \$91,473. As of June 30, 2022, the value of the lease receivable is \$78,114. The lessee is required to make annual fixed payments of \$13,646. The lease has an interest rate of 0.4350%. The value of the deferred inflow of resources as of June 30, 2022, was \$77,865, and Nags Head recognized lease revenue of \$13,608 during the fiscal year. The lease has 2 extension options, each for 60 months.

On December 15, 2021, the Town of Nags Head entered into a 50-month lease as Lessor for the use of 105 West Seachase Drive. An initial lease receivable was recorded in the amount of \$285,021. As of June 30, 2022, the value of the lease receivable is \$254,891. The lessee is required to make monthly fixed payments of \$5,610. The lease has an interest rate of 0.6480%. The value of the deferred inflow of resources as of June 30, 2022, was \$248,172, and Nags Head recognized lease revenue of \$36,850 during the fiscal year. The lease has 1 extension option for 60 months.

On July 1, 2021, the Town of Nags Head recorded a 107-month (original lease date May 18, 2020) lease as Lessor for the use of Town Hall Monopole - 5401 South Croatan Highway. An initial lease receivable was recorded in the amount of \$299,916. As of June 30, 2022, the value of the lease receivable is \$271,096. The lessee is required to make monthly fixed payments of \$2,575. The lease has an interest rate of 0.8140%. The value of the deferred inflow of resources as of June 30, 2022, was \$266,281, and Nags Head recognized lease revenue of \$33,635 during the fiscal year. The lease has 4 extension options, each for 60 months.

On July 1, 2021, the Town of Nags Head recorded a 79-month lease (original lease date February 6, 2009) as Lessor for the use of Wireless Tower - 5401 South Croatan Highway. An initial lease receivable was recorded in the amount of \$279,970. As of June 30, 2022, the value of the lease receivable is \$241,867. The lessee is required to make monthly fixed payments of \$3,231. The lease has an interest rate of 0.4350%. The value of the deferred inflow of resources as of June 30, 2022, was \$237,532, and Nags Head recognized lease revenue of \$42,438 during the fiscal year. The lease has 1 extension option for 60 months.

On July 1, 2021, the Town of Nags Head recorded a 97-month lease (original lease date September 6, 2017) as Lessor for the use of Communications Water Tower. An initial lease receivable was recorded in the amount of \$483,862. As of June 30, 2022, the value of the lease receivable is \$431,221. The lessee is required to make monthly fixed payments of \$4,615. The lease has an interest rate of 0.6480%. The value of the deferred inflow of resources as of June 30, 2022, was \$424,044, and Nags Head recognized lease revenue of \$59,818 during the fiscal year. The lease has 2 extension options, each for 60 months.

Principal and Interest Expected to Maturity

Fiscal Year	Governmental Activities		
	Principal Payments	Interest Payments	Total Payments
2023	245,500	10,044	255,544
2024	248,544	8,468	257,012
2025	259,862	6,826	266,688
2026	243,362	5,145	248,507
2027	202,466	3,749	206,215
2028 - 2031	411,644	4,040	415,685

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2022**

**5. Capital Assets**

Capital asset activity for the Primary Government for the year ended June 30, 2022, was as follows:

	<b>Beginning Balances</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balances</b>
<b>Governmental Activities:</b>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 12,309,818	\$ 872,780	\$ -	\$ 13,182,598
Art	107,553	-	-	107,553
Construction in progress	44,991	1,826,343	-	1,871,333
Total capital assets not being depreciated	<u>12,462,362</u>	<u>2,699,123</u>	<u>-</u>	<u>15,161,485</u>
<b>Capital assets being depreciated:</b>				
Buildings	8,102,934	827,220	-	8,930,154
Other improvements	447,218	2,160	-	449,378
Improvements	43,539,622	2,099,555	-	45,639,177
Equipment	4,459,788	315,487	41,710	4,733,565
Vehicles and motorized equipment	10,216,084	1,543,163	488,968	11,270,280
Infrastructure	43,984,801	735,620	-	44,720,421
Total capital assets being depreciated	<u>110,750,447</u>	<u>5,523,206</u>	<u>530,677</u>	<u>115,742,975</u>
<b>Less accumulated depreciation for:</b>				
Buildings	4,534,195	229,931	-	4,764,126
Other improvements	92,645	36,175	-	128,819
Improvements	24,310,881	9,314,869	-	33,625,750
Equipment	2,811,293	412,602	39,560	3,184,335
Vehicles and motorized equipment	6,847,694	706,081	488,968	7,064,808
Infrastructure	38,720,017	534,020	-	39,254,037
Total accumulated depreciation	<u>77,316,725</u>	<u>\$ 11,233,676</u>	<u>\$ 528,528</u>	<u>88,021,874</u>
Total capital assets being depreciated, net	<u>33,433,722</u>			<u>27,721,100</u>
<b>Governmental activity capital assets, net</b>	<u><u>\$ 45,896,084</u></u>			<u><u>\$ 42,882,585</u></u>

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

General Government	\$ 9,338,378
Public Safety	562,806
Public Works	751,584
Environmental Protection	350,122
Streets and Drainage	230,786
Total Depreciation Expense	<u><u>\$ 11,233,676</u></u>

In Governmental activity, capital outlay purchases were \$8,222,328. Decreases resulted from capital asset disposals totaled \$530,677. Accumulated depreciation on disposals totaled \$528,528. There was a loss on disposal of a capital asset in the environmental protection function of \$2,149. Accumulated depreciation increased by \$11,233,676.

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2022**

Capital asset activities for the Business-type activities for the year ended June 30, 2022, are as follows:

	<b>Beginning Balances</b>	<b>Increases</b>	<b>Decreases (Transfers)</b>	<b>Ending Balances</b>
<b>Business-Type Activities:</b>				
<b>Water Fund</b>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 204,205	\$ -	\$ -	\$ 204,205
Construction in progress	73,721	1,355,148	29,831	1,399,038
Total capital assets not being depreciated	277,926	1,355,148	29,831	1,603,243
<b>Capital assets being depreciated:</b>				
Building	3,283,693	-	-	3,283,693
Other	178,232	150,000	-	328,232
Improvements	704,641	-	-	704,641
Equipment	1,071,962	42,771	8,985	1,105,748
Vehicles and motorized equipment	296,699	-	41,557	255,142
Intangibles	4,203,619	-	-	4,203,619
Infrastructure	3,581,404	-	-	3,581,404
Total capital assets being depreciated	13,320,250	192,771	50,543	13,462,479
<b>Less accumulated depreciation for:</b>				
Building	2,408,817	41,983	-	2,450,800
Other	169,225	3,240	-	172,465
Improvements	412,506	18,617	-	431,124
Equipment	937,488	38,788	8,985	967,291
Vehicles and motorized equipment	202,114	25,642	41,557	186,200
Intangibles	3,295,754	108,403	-	3,404,158
Infrastructure	1,084,070	128,866	-	1,212,936
Total accumulated depreciation	8,509,974	\$ 365,539	\$ 50,543	8,824,972
Total capital assets being depreciated, net	4,810,276			4,637,507
<b>Water Fund capital assets, net</b>	<u>\$ 5,088,202</u>			<u>6,240,750</u>

Depreciation expense of \$365,539 was charged to business-type activities.

As used in this section, the term depreciation includes amortization of intangible assets. Capital asset disposals totaled \$50,543. There was \$50,543 accumulated depreciation on disposals.

The government has active construction projects as of June 30, 2022. At year-end, the government's estimated commitments to projects ongoing are as follows:

<b>Project</b>	<b>Spent-to-date</b>	<b>Remaining Commitment</b>
Engineering for water line replacements	\$ 1,399,038	\$212,291
Epstein Street Bath House	58,104	41,896
Security System	102,663	106,563
Surface Overlay and Storm Drainage	18,791	2,209
Fire Apparatus	1,062,005	298,370
Frontload Residential Sanitation Truck	150,067	222,317
Public Works Master Plan	460,403	79,536
Total	<u>\$3,251,071</u>	<u>\$963,182</u>

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2022**

**6. Right to Use Leased Assets**

The Town of Nags Head has recorded two right to use leased assets. The assets are right to use assets for leased computer equipment and office equipment. The related leases are discussed in the Leases subsection of the Liabilities section of this note. The right to use lease assets are amortized on a straight-line basis over the terms of the related leases.

Right to use asset activity for the year ended June 30, 2022, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Right to use assets				
Leased Computer Equipment	\$ -	\$ 133,540	\$ -	\$ 133,540
Leased Equipment	-	6,464	-	6,464
Total right to use assets	-	140,004	-	140,004
Less accumulated amortization for:				
Leased Computer Equipment	-	37,974	-	37,974
Leased Equipment	-	3,437	-	3,437
Total accumulated amortization	-	41,411	-	41,411
Right to use assets, net	\$ -	\$ 98,593	\$ -	\$ 98,593

**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 Annual Comprehensive Financial Report (ACFR) for the State of North Carolina. The State's ACFR 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](http://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

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2022**

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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.

*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, 2022, was 12.100% of compensation for law enforcement officers and 11.350% 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 \$842,179 for the year ended June 30, 2022.

*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, 2022, the Town reported a liability of \$1,427,778 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2021. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2020. The total pension liability was then rolled forward to the measurement date of June 30, 2021, 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

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2022**

determined. At June 30, 2021 (measurement date), the Town's proportion was 0.09310%, which was a decrease of 0.00292% from its proportion measured as of June 30, 2020.

For the year ended June 30, 2022, the Town recognized pension expense of \$610,374. At June 30, 2022, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 454,227	\$ -
Changes of assumptions and other inputs	897,009	-
Net difference between projected and actual earnings on pension plan investments	-	2,039,866
Changes in proportion and differences between Town contributions and proportionate share of contributions	44,384	65,274
Town contributions subsequent to the measurement date	842,179	-
Total	<u>\$ 2,237,799</u>	<u>\$ 2,105,140</u>

The \$842,179 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, 2023. 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:**

2023	\$ 127,490
2024	(43,440)
2025	(169,360)
2026	(624,211)
2027	-
Thereafter	-
	<u>\$ (709,521)</u>

*Actuarial Assumptions.* The total pension liability in the December 31, 2020, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5 percent
Salary increases	3.25 to 8.25 percent, including inflation and productivity factor
Investment rate of return	6.50 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.



**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2022**

The actuarial assumptions used in the December 31, 2020, valuation were based on the results of an actuarial experience study for the period January 1, 2011, through December 31, 2015.

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, 2022, are summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
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	100%	

The information above is based on 30-year expectations developed with the consulting actuary for the 2021 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 6.50%. 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 6.50 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 (5.50 percent) or one percentage point higher (7.50 percent) than the current rate:

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2022**

	<b>1% Decrease (5.50%)</b>	<b>Current Discount Rate (6.50%)</b>	<b>1% Increase (7.50%)</b>
Town's proportionate share of the net pension liability	\$ 5,542,515	\$ 1,427,778	\$ (1,958,412)

*Pension plan fiduciary net position.* Detailed information about the pension plan's fiduciary net position is available in the separately issued Annual Comprehensive Financial Report (ACFR) 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 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, 2020 (valuation date) the Separation Allowance's membership consisted of:

Retirees receiving benefits	3
Terminated plan members entitled to but not yet receiving benefits	0
Active plan members	23
Total	26

*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 nor does the Plan provide pay related benefits.

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2022**

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*3. Actuarial Assumptions*

The entry age normal actuarial cost method was used in the December 31, 2020, valuation. The total pension liability in the December 31, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5 percent
Salary increases	3.25 to 7.75 percent, including inflation and productivity factor
Discount rate	2.25 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, 2020, 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, 2019.

The plan currently uses mortality tables that vary by age, and health status (i.e., healthy, beneficiary, and disabled). 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.

Deaths after retirement (healthy) are based on the Safety Mortality Table for Retirees. Rates for all members are multiplied by 97% and Set Forward by 1 year.

Deaths after retirement (Disabled Members at Retirement) mortality rates are based on the Non-Safety Mortality Table for Disabled Retirees. Rates are Set Back 3 years for all ages.

Deaths after retirement (Survivors of Deceased Members) mortality rates are based on the Below-median Teachers Mortality Table for Contingent Survivors. Rates for male members are Set Forward 3 years. Rates for female members are Set Forward 1 year. Because the contingent survivor tables have no rates prior to age 45, the Below-median Teachers Mortality Table for Employees is used for ages less than 45.

Deaths prior to retirement are based on the Safety Mortality Table for Employees.

*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 \$64,113 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, 2022, the Town reported a total pension liability of \$1,363,416. The total pension liability was measured as of December 31, 2021, based on a December 31, 2020, actuarial valuation. The total pension

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2022**

liability was then rolled forward to the measurement date of December 31, 2021, utilizing updated procedures incorporating the actuarial assumptions. For the year ended June 30, 2022, the Town recognized pension expense of \$170,322.

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 125,227	\$ 13,199
Changes of assumptions and other inputs	255,875	49,974
Benefit payments and administrative expenses subsequent to the measurement date	32,463	-
Total	<u>\$ 413,565</u>	<u>\$ 63,173</u>

\$32,463 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, 2023.

Other amounts reported as deferred inflows of resources to pensions will be recognized in pension expense as follows:

<b>Year ended June 30:</b>	Deferred Outflows of Resources	Deferred Inflows of Resources	Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2023	\$ 102,438	\$ 20,456	\$ 81,982
2024	97,477	16,594	80,883
2025	88,016	12,733	75,283
2026	74,415	6,523	67,892
2027	17,666	6,300	11,366
Thereafter	1,090	567	523
	<u>\$ 381,102</u>	<u>\$ 63,173</u>	<u>\$ 317,929</u>

\$32,057 paid as benefits came due and \$406 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 2.25 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 (1.25 percent) or 1-percentage-point higher (3.25 percent) than the current rate:

	<b>1% Decrease (1.25%)</b>	<b>Current Discount Rate (2.25%)</b>	<b>1% Increase (3.25%)</b>
Total pension liability	\$ 1,487,147	\$ 1,363,416	\$ 1,250,660

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2022**

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

	<b>2022</b>
Total Pension Liability	
Beginning balance	\$ 1,303,038
Service Cost at end of year	64,728
Interest on the total pension liability	24,530
Changes of benefit terms	-
Differences between expected and actual experience in the measurement of the total pension liability	73,600
Changes of assumptions or other inputs	(38,367)
Benefit payments	(64,113)
Other changes	-
Net changes in Total Pension Liability	60,378
Ending balance of the total pension liability	\$ 1,363,416

***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	\$ 610,374	\$ 170,322	\$ 780,696
Pension Liability	1,427,778	1,363,416	2,791,194
Proportionate share of the net pension liability	0.09310%	n/a	
Deferred of Outflows of Resources			
Differences between expected and actual experience	454,227	125,227	579,454
Changes of assumptions	897,009	255,875	1,152,884
Changes in proportion and differences between contributions and proportionate share of contributions	44,384	-	44,384
Benefit payments and administrative costs paid subsequent to the measurement date	842,179	32,463	874,642
Deferred of Inflows of Resources			
Differences between expected and actual experience	-	13,199	13,199

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2022**

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Changes of assumptions	-	49,974	49,974
Net difference between projected and actual earnings on plan investments	2,039,866	-	2,039,866
Changes in proportion and differences between contributions and proportionate share of contributions	65,274	-	65,274

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 Annual Comprehensive Financial Report (ACFR) for the State of North Carolina. The State's ACFR includes the pension trust fund financial statements for the Internal Revenue Code Section 401(k) plan that includes the Supplemental Retirement Income Plan for Law Enforcement Officers. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

*Funding Policy*

Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2022, were \$154,176 which consisted of \$82,939 from the Town and \$71,237 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 three percent of each employee's salary (excluding law enforcement officers), and all amounts contributed are vested immediately. Employees may also make voluntary contributions to the plan. Total contributions for the year ended June 30, 2022, were \$439,681 which consisted of \$170,285 from the Town and \$269,396 from employees. No amounts were forfeited.

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2022**

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, 2022, were \$107,448 which consisted of \$80,084 from regular employees and \$27,364 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 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. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75. Membership of the health care plan consisted of the following at June 30, 2021, the date of the latest actuarial valuation:

Inactive members or beneficiaries currently receiving benefits	14
Inactive members entitled to but not yet receiving benefits	-
Active members	107
Total membership	<u>121</u>

**Total OPEB Liability**

The Town's total OPEB liability of \$5,013,869 was measured as of June 30, 2021 and was determined by an actuarial valuation as of that date.

*Actuarial assumptions and other inputs.* The total OPEB liability in the June 30, 2021, 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	0.75 %
Wage inflation	3.25 %
Salary increases, including wage inflation	
General Employees	3.25% – 8.41%
Firefighters	3.25% – 8.15%
Law Enforcement Officers	3.25% – 7.90%

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2022**

Municipal Bond Index Rate	
Prior Measurement Date	2.21 %
Measurement Date	2.16 %
Health Care Cost Trends	
Pre-Medicare	7.00% for 2021 decreasing to an ultimate rate of 4.50% by 2031
Dental	3.50%
Vision	2.00%

The Town selected a Municipal Bond Index Rate equal to the Bond Buyer 20-year General Obligation Bond Index published at the last Thursday of June by The Bond Buyer, and the Municipal Bond Index Rate as of the measurement date as the discount rate used to measure the Total OPEB Liability.

Mortality rates were based on the Pub-2010 mortality tables, with adjustments for LGERS experience and generational mortality improvements using Scale MP-2019.

The demographic actuarial assumptions for retirement, disability incidence, withdrawal and salary increases used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period January 1, 2015 through December 31, 2019, adopted by the LGERS Board.

The remaining actuarial assumptions (e.g., initial per capita costs, health care costs trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2021 valuation were based on a review of recent plan experience performed concurrently with the June 30, 2021 valuation.

**Changes in the Total OPEB Liability**

	<b>Total OPEB Liability</b>
<b>Balance at June 30, 2020</b>	\$ 5,024,282
<b>Changes for the year</b>	
Service cost at end of year (includes interest for the year)	280,694
Interest on total OPEB liability and Cash Flows	115,222
Changes in benefit terms	-
Differences between expected and actual experience	(704,774)
Changes of assumptions or other inputs	482,032
Benefit payments	(183,587)
Other changes	-
<b>Net changes</b>	<u>\$ (10,413)</u>
<b>Balance at June 30, 2021</b>	<u><u>\$ 5,013,869</u></u>

*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 (1.16 percent) or 1-percentage-point higher (3.16 percent) than the current discount rate:

	<b>1% Decrease</b>	<b>Current Discount Rate</b>	<b>1% Increase</b>
	<b>(1.16%)</b>	<b>(2.16%)</b>	<b>(3.16%)</b>
Total OPEB liability	\$ 5,569,786	\$ 5,013,869	\$ 4,521,956

*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



**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2022**

calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	<b>1% Decrease</b>	<b>Current</b>	<b>1% Increase</b>
Total OPEB liability	\$ 4,395,925	\$ 5,013,869	\$ 5,756,586

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

For the year ended June 30, 2022, the Town recognized OPEB expense of \$351,177. At June 30, 2022, 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	\$ -	\$ 960,215
Changes of assumptions or other inputs	884,327	205,443
Benefit payments and administrative costs subsequent to the measurement date	184,889	-
Total	<u>\$ 1,069,216</u>	<u>\$ 1,165,658</u>

\$184,889 reported as deferred outflows of resources related to OPEB resulted from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total OPEB liability in the year ended June 30, 2023. \$(281,331) reported as Deferred Inflows of Resources related to OPEB benefits will be recognized in OPEB Expense as follows:

**Year ended June 30:**

2023	\$ (50,484)
2024	(50,484)
2025	(50,484)
2026	(50,484)
2027	(37,390)
Thereafter	<u>(42,005)</u>
Total	<u>\$ (281,331)</u>

\$184,889 paid as benefits came due subsequent to the measurement date are reported as deferred outflows of resources.

**2. Other Employment Benefit – Death Benefits**

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

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2022**

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, 2022, the Town made contributions to the State for death benefits of \$ 5,169. The Town's required contributions for employees not engaged in law enforcement and for law enforcement officers represented .050% 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.

### 3. Payables

Payables on Exhibit 1 at June 30, 2022, were as follows:

	Vendors	Salaries and Benefits	Accrued Interest	Unearned Revenue	Customer Deposits	Total
<b>Governmental Activities</b>						
General	\$422,974	\$ 484,869	\$101,090	\$1,415,764	\$ 7,710	\$ 2,432,407
Nonmajor Funds	184,240	-	-	-	-	184,240
Total Governmental activities	<u>\$607,214</u>	<u>\$ 484,869</u>	<u>\$101,090</u>	<u>\$1,415,764</u>	<u>\$ 7,710</u>	<u>\$2,616,647</u>
<b>Business-type Activities</b>						
Water	429,775	28,005	103	-	458,296	916,179
Total Business-type activities	<u>\$429,775</u>	<u>\$ 28,005</u>	<u>\$ 103</u>	<u>\$ -</u>	<u>\$458,296</u>	<u>\$ 916,179</u>

### 4. Deferred Outflows and Inflows of Resources

Deferred outflows of resources at year-end reported on the Statement of Net Position is comprised of the following:

	Statement of Net Position
Benefit payments made for LEOSA subsequent to measurement date	\$ 32,463
Contributions to pension plan in current fiscal year-LGERS	842,179
Benefit payments made for OPEB subsequent to measurement date	184,889
Differences between expected and actual experience-LGERS	454,227
Changes of assumptions-LGERS	897,009
Changes in proportion and differences between employer contributions and proportionate share of contributions-LGERS	44,384
Differences between expected and actual experience-LEOSA	125,227
Changes of assumptions and other inputs-OPEB	884,327

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2022**

Changes of assumptions and other inputs-LEOSSA	<u>255,875</u>
Total	<u><u>\$ 3,720,580</u></u>

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

	Statement of Net Position	Government Funds Balance Sheet
Prepaid taxes (General Fund)	\$ 8,464	\$ 8,464
Property taxes receivable, less penalties (General Fund)	-	1,471
Privilege licenses receivable, less penalties (General Fund)	-	1,490
Prepaid privilege licenses (General Fund)	125	125
Prepaid water consumption units (Water Fund)	108,000	-
Lease Receivable (General Fund)	1,582,273	1,582,273
Differences between expected and actual experience- LEOSSA (General Fund)	13,199	-
Differences between projected and actual earnings on pension plan investments-LGERS	2,039,866	
Differences between expected and actual experience-OPEB	960,215	-
Changes in proportion and difference between contributions and proportionate share of contributions-LGERS	65,274	-
Changes of assumptions/other inputs-LEOSSA General Fund	49,974	-
Changes of assumptions and other inputs-OPEB	205,443	-
Total	<u><u>\$ 5,032,833</u></u>	<u><u>\$ 1,593,823</u></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.

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2022**

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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.

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 officer and tax collector are each individually bonded for \$125,000 each. The remaining employees that have access to funds are bonded under a blanket bond for \$250,000.

#### 6. Claims and Judgments

##### 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 compensation for the easement rights. However, a group of owners refused to give the Town an easement. The Town filed condemnation actions to obtain the necessary easement rights. As of June 30, 2021, the owners of 9 properties contended that they were entitled to more than \$50 per lot for the Town's condemnation of the easement rights, and the owners of one property contended that the Town owes them \$32,000 for attorney fees after their case was dismissed by the Court. As of October 7, 2021, settlements had been reached, paid and/or finalized with all, but one (1) of the remaining condemnations. The final remaining case remains in settlement negotiations and might ultimately be decided via litigation. The final remaining case is not expected to have a material negative effect on the Town's finances.

As part of the Town's 2022 Beach Nourishment Project, the Town sought to obtain easements on an oceanfront property. This property includes a beach cottage that has been storm damaged and unusable since before the Town's 2011 Beach Nourishment Project. Although the Town had clear authority to acquire the Beach Nourishment Easement needed for the 2022 Project, the owner of this property has filed a counterclaim asserting that the Town has inversely condemned the entire property. There are numerous legal defenses to these counterclaims, and we expect to defend those claims aggressively. This litigation was just recently filed and we do not have an estimate of any potential damages to which the Town might be exposed, except that the value of the property is probably less than \$200,000.

The Town has filed two actions to enforce a Town zoning ordinance. The Town contends that the current use of the property constitutes a "contractor's warehouse" or a rental management warehouse, and as such is not permitted in the current zoning district. The owners contend that the use complies with the requirements of a contractor's office. After the Town filed suit to enforce the ordinance and to seek civil penalties until compliance, the owners filed claims against the Town alleging various violations of their property rights. The action remains pending as of this date. There have been some discussions about resolving the dispute but the matter is likely to be resolved when motions are heard by the Court. While the exact amount of the property owner's potential damages and attorney's fees is not known and has not been quantified, it is not expected that this case will have a material negative effect on the Town's finances.

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

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2022**

**7. Long-Term Obligations**

**a. Leases**

For the year ended June 30, 2022, the financial statements include the adoption of GASB Statement No. 87, Leases. The primary objective of this statement is to enhance the relevance and consistency of information about governments' leasing activities. This statement establishes a single model for lease accounting based on the principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. For additional information, refer to the disclosures below.

On July 1, 2021, the Town of Nags Head recorded a 22-month lease (original lease date May 18, 2018) as Lessee for the use of Canon Copier - Administration Office. An initial lease liability was recorded in the amount of \$6,464. As of June 30, 2022, the value of the lease liability is \$2,944. Town of Nags Head is required to make monthly fixed payments of \$295. The lease has an interest rate of 0.4350%. The value of the right to use asset as of June 30, 2022, of \$6,464 with accumulated amortization of \$3,437 is included with Equipment on the Lease Class activities table found at the Right to Use Leased Assets section.

On July 1, 2021, the Town of Nags Head recorded a 42-month lease (original lease date October 2, 2019) as Lessee for the use of Dell Computer Equipment. An initial lease liability was recorded in the amount of \$133,540. As of June 30, 2022, the value of the lease liability is \$96,598. Town of Nags Head is required to make monthly fixed payments of \$3,150. The lease has an interest rate of 0.8140%. The value of the right to use asset as of June 30, 2022, of \$133,540 with accumulated amortization of \$37,974 is included with Computer Equipment on the Lease Class activities table found at the Right to Use Leased Assets section.

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2022, were as follows:

Principal and Interest Requirements to Maturity				
Fiscal Year	Governmental Activities			Total Payments
	Principal Payments	Interest Payments		
2023	40,096	654		40,750
2024	37,456	344		37,800
2025	<u>21,990</u>	<u>60</u>		<u>22,050</u>
	<u>\$99,542</u>	<u>\$1,058</u>		<u>\$100,600</u>

**b. Installment Finance Purchase Contracts from Direct Borrowings and Direct Placements**

In February 2018, the Town entered into a 5-year direct borrowing contract for \$285,350 to finance equipment, which is pledged as collateral while the debt is outstanding. The interest rate is 2.91% per annum fixed. The contract requires annual principal and interest payments beginning February 2018.

In January 2019, the Town entered into a 4.5-year direct placement special obligation bond contract (Series 2019A) for \$11,380,000 to finance beach nourishment maintenance. The interest rate is 3.08% per annum fixed. The contract requires annual principal installments plus accrued interest installments paid semi-annually beginning July 2019. The Town's occupancy tax revenue is pledged as collateral for the debt while the debt is outstanding.

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2022**

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In February 2019, the Town entered into a 5-year direct borrowing contract for \$705,000 to finance stormwater drainage improvements and an HVAC system. The interest rate is 3.11% per annum fixed. The contract requires annual principal and interest payments beginning February 2019. The Town's Fire Station 16 property located at 5314 South Croatan Highway, Nags Head, NC 27959 is pledged as collateral for the debt while the debt is outstanding.

In March 2020, the Town entered into a 3-year direct borrowing contract for \$584,701 to finance vehicles and equipment, which are pledged as collateral while the debt is outstanding. The interest rate is 1.74% per annum fixed. The contract requires annual principal and interest payments beginning March 2020.

In March 2020, the Town entered into a 5-year direct borrowing contract for \$306,328 to finance a residential sanitation vehicle, which is pledged as collateral while the debt is outstanding. The interest rate is 1.74% per annum fixed. The contract requires annual principal and interest payments beginning March 2020.

In May 2020, the Town entered into a 6-year direct borrowing contract for \$1,401,396 to finance pedestrian path construction, park lighting improvements, and an above ground fuel tank/pump system. The interest rate is 2.42% per annum fixed. A deed of trust and security agreement was recorded to collateralize the property where the fuel tanks are located at 2200 South Lark Avenue, Nags Head, North Carolina. The contract requires annual principal and interest payments beginning May 2020.

In January 2021, the Town entered into a 2-year direct borrowing contract for \$179,076 to finance vehicles and equipment, which are pledged as collateral while the debt is outstanding. The interest rate is 1.39% per annum fixed. The contract requires annual principal and interest payments beginning January 2022.

In January 2021, the Town entered into a 7-year direct borrowing contract for \$495,376 to finance a fire pumper truck, which is pledged as collateral while the debt is outstanding. The interest rate is 1.85% per annum fixed. The contract requires annual principal and interest payments beginning January 2022.

In April 2021, the Town entered into a 3-year direct borrowing contract for \$312,008 to finance vehicles, which are pledged as collateral while the debt is outstanding. The interest rate is 1.25% per annum fixed. The contract requires annual principal and interest payments beginning April 2021.

In April 2021, the Town entered into a 5-year direct borrowing contract for \$1,126,780 to finance equipment and portable radios, which are pledged as collateral while the debt is outstanding. The interest rate is 1.65% per annum fixed. The contract requires annual principal and interest payments beginning April 2021.

In January 2022, The Town entered into a 10-year direct borrowing contract for \$1,200,000 to finance a piece of property located at 105 W Seachase Drive in Nags Head, North Carolina, which is pledged as collateral while the debt is outstanding. The interest rate is 2.37% per annum fixed. The contract requires annual principal and interest payments beginning January 2023.

In March 2022, The Town entered into a 3-year direct borrowing contract for \$275,439 to finance vehicles and equipment, which are pledged as collateral while the debt is outstanding. The interest rate is 2.22% per annum fixed. The contract requires annual principal and interest payments beginning March 2022.

In March 2022, The Town entered into a 5-year direct borrowing contract for \$194,795 to finance a piece of equipment, which is pledged as collateral while the debt is outstanding. The interest rate is 2.47% per annum fixed. The contract requires annual principal and interest payments beginning March 2022.

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2022**

In March 2022, The Town entered into a 10-year direct borrowing contract for \$1,358,079 to finance a Fire Apparatus, which is pledged as collateral while the debt is outstanding. The interest rate is 2.78% per annum fixed. The contract requires annual principal and interest payments beginning March 2023.

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

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion of Balance
Direct borrowing installment finance purchases	\$ 3,570,958	\$ 3,028,313	\$ 1,502,085	\$ 5,097,186	\$ 1,247,088
Direct placement installment finance purchases	6,828,000	-	2,276,000	4,552,000	2,276,000
Lease liabilities	-	140,004	40,461	99,542	40,096
Total OPEB liability	4,631,344	-	19,336	4,612,008	-
Total pension liability (LEOSSA)	1,303,038	60,378	-	1,363,416	-
Net pension liability (LGRS)	3,141,267	-	1,834,136	1,307,131	-
Compensated absences	624,113	926,936	829,420	721,629	310,000
Governmental activities long-term liabilities	<u>\$ 20,098,720</u>	<u>\$ 4,155,631</u>	<u>\$ 6,501,438</u>	<u>\$ 17,752,912</u>	<u>\$ 3,873,184</u>

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

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion of Balance
Direct borrowing installment finance purchases	\$ 79,295	\$ -	\$ 38,495	\$ 40,799	\$ 28,218
Total OPEB liability	392,938	8,923	-	401,861	-
Net pension liability (LGRS)	289,937	-	169,290	120,647	-
Compensated absences	40,700	67,987	74,536	34,150	20,000
Business-type activities long-term liabilities	<u>\$ 802,870</u>	<u>\$ 76,910</u>	<u>\$ 282,321</u>	<u>\$ 597,457</u>	<u>\$ 48,218</u>

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

Year Ending June 30	Principal	Interest
2023	\$ 3,523,088	\$ 223,031
2024	3,228,395	126,100
2025	808,705	70,306
2026	361,858	52,459
2027	326,905	43,685
2028	331,975	35,772
2029	261,072	27,730
2030	264,994	20,964
2031	269,025	14,089
2032	273,168	7,102
Total	<u>\$ 9,649,186</u>	<u>\$ 621,239</u>

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2022**

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

<b>Year Ending June 30</b>	<b>Principal</b>	<b>Interest</b>
2023	\$ 28,218	\$ 731
2024	6,291	304
2025	6,291	152
<b>Total</b>	<b>\$ 40,799</b>	<b>\$ 1,187</b>

**c. 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, 2022, the Town had a legal debt margin of \$238,877,118.

**8. Water Consumption Units**

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 a 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, 2022, 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 729 WCU's which are guaranteed by the Town and are valued at \$1,458,000.

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

<b>Fiscal Year</b>	<b>Number of WCU's</b>	<b>Amount</b>
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 54 WCU's in the amount of \$108,000 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.

**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 \$58,822 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. As of June 30, 2022, the Board of Commissioners adopted a resolution declaring the intention to pay off this interfund balance using fire facility



**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2022**

fee revenues. Any accumulated fire facility fees will be used to repay the interfund balance until paid in full. During the current year, \$4,503 in repayments were made.

Transfers and Capital Contributions to/from other funds for the year ended June 30, 2022, consisted of the following:

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

Beach nourishment taxes designated for future beach nourishment	\$ 776,655
Municipal Service District (MSD) taxes collected	1,635,797
Restricted sales tax from municipal service district (MSD) taxes collected	1,206,806
Facility fees	29,133
Restricted for Streets and Storm Water	625,000
Restricted for Parks and Paths	200,000
	<u>\$ 4,473,391</u>

Transfers from the General Fund to the Capital Project Fund for the following purpose:

Public Services Complex design	<u>\$ 489,950</u>
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Transfers from Capital Reserve Fund to General Fund for the following purposes:

Beach nourishment MSD restricted for beach nourishment	\$ 2,451,252
Parks and paths	242,890
Streets and Storm Water	570,681
Police facility fees	370
Recreation facility fees	9,856
	<u>\$ 3,275,049</u>

Transfers from Capital Reserve Fund to Beach Nourishment Maintenance Capital Project Fund for the purpose of beach nourishment maintenance.

\$ 35,000

Transfers from the Capital Reserve Fund to the Beach Nourishment Master Plan Capital Project Fund for the purpose of long-term beach nourishment planning.

\$ 1,577,476

Transfers from the Water Fund to the Water Capital Reserve Fund for funding future capital improvements and debt payments related to the Town's water system.

\$ 23,412

Transfer balance from Nags Head Leasing Fund into Water Fund to consolidate balances.

\$ 109

Transfers from the Water Capital Reserve Fund to the Water Fund for funding capital improvements related to the Town's water system.

\$ 57,130

**D. Net Investment in Capital Assets**

	<b>Governmental</b>	<b>Business-type</b>
Capital assets	\$ 42,882,585	\$ 6,240,750
Less: long term debt	(9,649,186)	(40,799)
Less: liabilities from restricted debt proceeds	-	-
Add: unexpended debt proceeds	-	-
Net investment in capital assets	<u>\$ 33,233,399</u>	<u>\$ 6,199,951</u>

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2022**

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**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	\$ 19,087,859
Less:	
Nonspendable	(112,860)
Stabilization by State Statute	(3,922,259)
Restricted for Public Safety	(105,708)
Restricted for State Street Aid	(251,599)
Restricted for Capital Reserve Fund	(5,126,050)
Assigned for subsequent year's expenditures	(3,275,000)
Fund Balance Policy	(6,294,383)
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 at a minimum of 25% of expenditures less bond debt as per audited financial statements at the end of each fiscal year. The \$6,294,383 reported above is more than the 25% of expenditures, less bond debt of \$2,451,252, calculation of \$23,711,729.

The following amounts represent open purchase orders and contracts outstanding at June 30, 2022. These encumbrances outstanding will be re-appropriated in the subsequent year's budget.

General Fund	\$ 1,154,135
Water Fund	757,207
Total	<u><u>\$ 1,911,342</u></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.

At June 30, 2022, the facility fees were transferred to the Capital Reserve Fund where they will remain until funds are needed for appropriate capital expenditures.

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2022**

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

	<b>Admin.</b>	<b>Fire</b>	<b>Police</b>	<b>Sanitation</b>	<b>Recreation</b>	<b>Total</b>
Beginning of year balance	\$ 40,600	\$ -	\$ -	\$ 2,673	\$ 26,420	\$ 69,693
Current year additions (including interest)	10,087	4,503	5,517	3,849	3,856	27,812
Current year expenses	-	(4,503)	(370)	-	(9,856)	(14,729)
End of year balance	\$ 50,688	\$ -	\$ 5,147	\$ 6,521	\$ 20,420	\$ 82,776

### **G. Beach Nourishment**

The Town currently has three legally adopted Capital Project Ordinances (non-major governmental funds) for the purpose of beach nourishment. The Town originally adopted a capital project ordinance for beach renourishment, a collaborative effort with FEMA and the NC Division of Emergency Management. In order to provide an economy of scale, a scheduled nourishment maintenance project was combined with the federal and state grant funds awarded as a result of sand lost due to 2016's Hurricane Matthew. Construction on this project is complete, and the Town is completing monitoring and survey work with these funds in order to maintain eligibility for future FEMA community assistance funds.

In fiscal year 2021, the Town adopted the Beach Nourishment Maintenance Capital Project Fund. This restoration construction project occurred in the summer of 2022 replaced sand lost during 2019's Hurricane Dorian. The project is engineered to provide enough healthy, protective beach to allow the Town to align its regularly scheduled beach nourishment maintenance with those of the other northern Dare County beaches, tentatively planned for 2027. The project will be primarily funded through a FEMA/North Carolina disaster assistance grant and a North Carolina Department of Environmental Quality, Division of Water Resources Coastal Storm Damage Mitigation grant.

In fiscal year 2021, the Town adopted a Beach Nourishment Master Plan Capital Project Fund, a multi-decadal master plan project in order to assist the Town with maintaining and enhancing the protective and recreational capacity of its beach and dune system. This includes analysis of beach system performance and its relationship to long-term trends, along with recommendations for future actions.

A town wide tax and additional taxes on the properties located in the municipal service districts (MSD) locally fund beach nourishment projects and debt service repayments. Funds received from the town wide tax and MSD tax are transferred from the General Fund to the Capital Reserve Fund and are restricted for future beach nourishment. Per state statute, sales tax revenues derived from the MSD are also transferred into the Capital Reserve Fund and are restricted for beach nourishment.

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2022**

	<b>Beach nourishment taxes (MSD and town-wide)</b>	<b>Restricted sales taxes from municipal service district tax</b>	<b>Total</b>
Beginning of year balance	\$ 2,928,601	\$ 2,035,396	\$ 4,963,997
Current year additions	2,412,452	1,206,806	3,619,258
Current year net interest	(248,232)	(35,714)	(283,946)
Current year uses	(1,577,476)	(2,486,252)	(4,063,728)
End of year balance	\$ 3,515,345	\$ 720,236	\$ 4,235,581

#### **H. Tax Funds Restricted**

In the fiscal year ending June 30, 2014, the Town began restricting funds in the Capital Reserve Fund for parks and paths. In the fiscal year ending June 30, 2017, the Town began restricting funds in the Capital Reserve Fund for stormwater in lieu of a stormwater fee. The June 30, 2016, ending Fund Balance in the Stormwater Enterprise Fund was transferred into the stormwater capital reserve on July 1, 2016. Beginning in fiscal year June 30, 2021, the Town broadened the scope of the stormwater capital reserve to a streets and stormwater capital reserve to address maintenance and improvements to the Town's street and drainage system on a life-cycle basis. Funds are accumulated in the capital reserve fund for use in a subsequent year for these specific purposes adopted by the Board of commissioners. During the current fiscal year ending June 30, 2022, \$ 200,000 was restricted for parks and paths and \$625,000 was restricted for streets and stormwater. The balance at June 30, 2022, included in the capital reserve fund for this purpose is:

	<b>Parks and Paths</b>	<b>Streets and Storm Water</b>
Beginning of year balance	\$ 66,313	\$ 782,035
Current year additions	200,000	625,000
Current year interest	(2,099)	(49,983)
Current year uses	(242,891)	(570,681)
End of year balance	\$ 21,323	\$ 786,371

#### **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, 2022, was \$3,973 plus an additional \$303 in related FICA.

#### **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

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2022**

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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, 2022. 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 water fund owned this property which is more appropriately owned by the general fund. Transfer and payment for the purchase by the General Fund began in the fiscal year ending June 30, 2013, in the amount of \$300,000. The General Fund transferred an additional \$300,000 in fiscal year ending June 30, 2014, \$73,756 in the fiscal year ending June 30, 2019, and \$76,886 in the fiscal year ending June 30, 2020. The Board of Commissioners formalized for the general fund to purchase the remaining land from the water fund for \$872,532 in fiscal year 2021. The donated piece of land with a book value of \$626,094 was also transferred from the water fund to the general fund upon full repayment in fiscal year ending June 30, 2021. 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. Both of these pieces of property are capital assets recorded in the general fund.

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. Coronavirus Disease (COVID-19)**

During the fiscal year 2020, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. The COVID-19 pandemic has had significant effects on global markets, supply chains, businesses, and communities. Specific to the Town, COVID-19 is expected to impact various parts of its fiscal year 2022-23 operations and financial results. Management believes the Town is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as events associated with the pandemic continue to develop.

**Town of Nags Head, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2022**

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**C. 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 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 fiscal year 2022 was \$75.94 per ton, plus an additional fuel surcharge per ton which varies each month.

**D. 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, 2022, accumulated amortization totaled \$3,404,158.

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.

## **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 Nine Fiscal Years \***  
**Local Government Employees' Retirement System**

	<b>2022</b>	<b>2021</b>	<b>2020</b>
Town of Nags Head's proportion of the net pension liability (asset) (%)	0.09310%	0.09602%	0.09116%
Town of Nags Head's proportion of the net pension liability (asset) (\$)	\$ 1,427,778	\$ 3,431,204	\$ 2,489,508
Town of Nags Head's covered payroll	\$ 6,830,772	\$ 6,664,768	\$ 6,382,086
Town of Nags Head's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	20.90%	51.48%	39.01%
Plan fiduciary net position as a percentage of the total pension liability**	95.51%	90.86%	91.63%

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

\*\* This will be the same percentage for all participant employers in the LGERS plan.

This schedule is presented to illustrate the requirement for specified information for 10 years. However, until a full 10-year trend is compiled, information is only presented for those years for which information is available.



2019	2018	2017	2016	2015	2014
0.09691%	0.10036%	0.09857%	0.11405%	0.10721%	0.10930%
\$ 2,299,037	\$ 1,533,223	\$ 2,091,986	\$ 511,850	\$ (632,268)	\$ 1,317,485
\$ 6,293,652	\$ 6,008,611	\$ 5,807,371	\$ 5,376,833	\$ 5,585,383	\$ 5,159,503
36.53%	25.52%	36.02%	9.52%	-11.32%	25.54%
94.18%	91.47%	98.09%	99.07%	102.64%	94.35%

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

	<b>2022</b>	<b>2021</b>	<b>2020</b>
Contractually required contribution	\$ 842,179	\$ 701,447	\$ 604,634
Contributions in relation to the contractually required contribution	842,179	701,447	604,634
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Town of Nags Head's covered payroll	\$ 7,353,869	\$ 6,830,772	\$ 6,664,768
Contributions as a percentage of covered payroll	11.45%	10.27%	9.07%

This schedule is presented to illustrate the requirement for specified information for 10 years. However, until a full 10-year trend is compiled, information is only presented for those years for which information is available.

2019	2018	2017	2016	2015	2014
\$ 502,605	\$ 484,882	\$ 448,317	\$ 396,478	\$ 384,097	\$ 397,372
502,605	484,882	448,317	396,478	384,097	397,372
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
\$ 6,382,086	\$ 6,293,652	\$ 6,008,611	\$ 5,807,371	\$ 5,376,833	\$ 5,585,383
7.88%	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**  
**Last Six Fiscal Years**

**A-3**

	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
Total Pension Liability						
Beginning balance	\$ 1,303,038	\$ 922,305	\$ 910,087	\$ 823,639	\$ 772,627	\$ 769,077
Service Cost at end of year	64,728	38,543	32,304	46,110	33,911	38,198
Interest on the total pension liability	24,530	29,022	31,960	25,267	29,059	26,713
Differences between expected and actual experience in the measurement of the total pension liability	73,600	33,839	(16,921)	104,529	(21,647)	-
Changes of assumptions or other inputs	(38,367)	343,442	28,988	(41,378)	49,282	(19,711)
Benefit payments	(64,113)	(64,113)	(64,113)	(48,080)	(39,593)	(41,650)
Net change in Total Pension Liability	60,378	380,733	12,218	86,448	51,012	3,550
Ending balance of the total pension liability	<u>\$ 1,363,416</u>	<u>\$ 1,303,038</u>	<u>\$ 922,305</u>	<u>\$ 910,087</u>	<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.

**Notes to Schedule:**

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

This schedule is presented to illustrate the requirement for specified information for 10 years. However, until a full 10-year trend is compiled, information is only presented for those years for which information is available.

**Schedule of Total Pension Liability as a Percentage of Covered Payroll**  
**Law Enforcement Officers' Special Separation Allowance**  
**Last Six Fiscal Years**

	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
Total pension liability	\$ 1,363,416	\$ 1,303,038	\$ 922,305	\$ 910,087	\$ 823,639	\$ 772,627
Covered-employee payroll	1,507,527	1,383,788	1,168,578	1,396,151	1,227,153	1,386,134
Total Pension Liability as a percentage of of covered-employee payroll	90.44%	94.16%	78.93%	65.19%	67.12%	55.74%

**Notes to the schedule:**

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.

This schedule is presented to illustrate the requirement for specified information for 10 years. However, until a full 10-year trend is compiled, information is only presented for those years for which information is available.

**Town of Nags Head, North Carolina**  
**Schedule of Changes in the Total OPEB Liability and Related Ratios**  
**Last Five Fiscal Years**

A-5

	Measurement Period Ending				
	2021	2020	2019	2018	2017
<b>Total OPEB Liability</b>					
Service Cost at end of year (includes interest for the year)	\$ 280,694	\$ 208,084	\$ 340,542	\$ 348,444	\$ 370,146
Interest on Total OPEB Liability and Cash Flows	115,222	153,860	165,619	143,590	116,800
Difference between expected and actual experience	(704,774)	(22,396)	(522,224)	(18,158)	(12,992)
Changes of assumptions or other inputs	482,032	569,014	79,662	(131,192)	(209,200)
Benefit payments	(183,587)	(143,139)	(123,419)	(113,891)	(109,742)
<b>Net change in total OPEB liability</b>	(10,413)	765,423	(59,819)	228,793	155,012
Total OPEB liability-beginning	5,024,282	4,258,859	4,318,678	4,089,885	3,934,873
Total OPEB liability-ending	<u>\$ 5,013,869</u>	<u>\$ 5,024,282</u>	<u>\$ 4,258,859</u>	<u>\$ 4,318,678</u>	<u>\$ 4,089,885</u>
<b>Covered-employee payroll</b>	\$ 6,044,153	\$ 5,784,194	\$ 5,784,194	\$ 5,922,513	\$ 5,922,513
<b>Total OPEB liability as a percentage of covered-employee payroll</b>	82.95%	86.86%	73.63%	72.92%	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:

<u>Fiscal year</u>	<u>Rate</u>
2022	2.16%
2021	2.21%
2020	3.50%
2019	3.89%
2018	3.56%

This schedule is presented to illustrate the requirement for specified information for 10 years. However, until a full 10-year trend is compiled, information is only presented for those years for which information is available.

The Town of Nags Head has no assets accumulated in a trust that meets the criteria of GASB codification P22.101 or P52.101 to pay related benefits for the pension/OPEB plan.

## **APPENDIX B**

### **SUMMARY OF PRINCIPAL LEGAL DOCUMENTS**

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## APPENDIX B

### SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following is a brief summary of the provisions of the Contract, the Indenture and the Deed of Trust. This summary is not intended to be definitive and is qualified in its entirety by reference to each of the aforementioned documents for the complete terms thereof. Copies of said documents are available from the Town on request.

#### DEFINITIONS

*“Acquisition and Construction Fund”* means the special fund created under the Indenture.

*“Additional Bonds”* means additional parity bonds or other parity obligations executed and delivered in accordance with the Indenture.

*“Additional Payments”* means the reasonable and customary expenses and fees (including, but not limited to, attorneys’ fees, costs and expenses) of the Trustee and the Corporation, any expenses of the Corporation in defending an action or proceeding in connection with the Contract or the Indenture and any taxes or any other expenses, including, but not limited to, licenses, permits, state and local income, sales and use or ownership taxes or property taxes which the Town or the Corporation is expressly required to pay as a result of the Contract (together with interest that may accrue thereon if the Town fails to pay the same).

*“Authorized Denomination”* means principal amounts of \$5,000 or any integral multiple thereof.

*“Bond Fund”* means the special fund created under the Indenture.

*“Bonds”* means the 2023 Bonds and any Additional Bonds.

*“Business Day”* means a day other than (a) a day on which the Trustee or the Town is authorized by law to remain closed or (b) a day on which the New York Stock Exchange is closed.

*“Cede & Co.”* means Cede & Co., the nominee of DTC or any successor nominee of DTC with respect to the Bonds.

*“Code”* means the Internal Revenue Code of 1986, as amended, and the rulings and regulations (including temporary and proposed regulations) promulgated thereunder, or any successor statute thereto.

*“Contract”* means the Installment Financing Contract dated as of March 1, 2023 between the Corporation and the Town and any amendments or supplements thereto, including the Exhibits attached thereto.

*“Corporation”* means Nags Head Leasing Corporation or any successor thereto.

*“Corporation Representative”* means any person or persons at the time designated to act on behalf of the Corporation for purposes of performing any act on behalf of the Corporation under the Contract and the Indenture by a written certificate furnished to the Town and the Trustee containing the specimen signature of such person or persons and signed on behalf of the Corporation by its President.

"*Cost of Acquisition and Construction*" includes payment of or reimbursement for the following items:

- (a) the Costs of Issuance;
- (b) obligations incurred or assumed for the Projects in connection with the acquisition, construction, renovation, equipping and financing or refinancing thereof, including, without limitation, costs of obtaining title insurance and a survey of the Mortgaged Property; and
- (c) all other costs which are considered to be a part of the cost of acquisition, construction, renovation, equipping and financing of the Projects in accordance with generally accepted accounting principles and, to the extent applicable, which will not affect the exclusion from gross income for federal income tax purposes of the designated interest component of Installment Payments payable by the Town, including sums required to reimburse the Town for advances made by the Town that are properly chargeable to the acquisition, construction, renovation, equipping and financing of the Projects.

"*Costs of Issuance*" means the costs incurred in connection with the initial execution and delivery of the Bonds, including, without limitation, all printing expenses in connection with the Indenture, the Contract, and the documents and certificates contemplated by the Indenture, the Preliminary Official Statement and the Official Statement for the Bonds, and the Bonds, legal fees and expenses of counsel to the Corporation, special counsel, counsel to the Town, other counsel, counsel to the purchaser or purchasers of the Bonds, financial advisor fees, rating agency fees, any accounting expenses incurred in connection with determining that the Bonds are not "*arbitrage bonds*" within the meaning of the Code, the Trustee's initial fees and expenses (including attorney's fees, costs, and expenses), and state license fees, on the submission of requisitions by the Town signed by a Town Representative stating the amount to be paid, to whom it is to be paid and the reason for such payment, and that the amount of such requisition is justly due and owing and has not been the subject of another requisition which was paid and is a proper expense of executing and delivering the Bonds.

"*Deed of Trust*" means the Deed of Trust, Security Agreement and Fixture Filing dated as of March 1, 2023 from the Town to the deed of trust trustee named therein for the benefit of the Corporation or its assignees.

"*Deed of Trust Trustee*" means the trustee named in the Deed of Trust and any trustee subsequently named pursuant to the terms of the Deed of Trust.

"*DTC*" means The Depository Trust Company, a limited purpose company organized under the law of the State of New York, and its successors and assigns.

"*DTC Participant*" or "*DTC Participants*" means securities brokers and dealers, banks, trust companies, clearing corporations and certain other corporations which have access to the DTC system.

"*Event of Default*" means those events of default specified in the Contract and the Indenture, as applicable.

"*Federal Securities*" means, to the extent such investments qualify under Section 159-30, or any replacement statute, of the General Statutes of North Carolina as amended from time to time, (a) direct obligations of the United States of America, obligations the principal of and interest on which are guaranteed by the United States of America or obligations of any agency or instrumentality of the United States of America, in each case for the payment of which the full faith and credit of the United States of

America are pledged (including any securities issued or held in the name of the Trustee in book entry form on the books of the Department of the Treasury of the United States of America) which obligations are held by the Trustee and are not subject to prepayment or purchase before maturity at the option of anyone other than the holder; (b) any bonds or other obligations of any state or territory of the United States of America or of any agency, instrumentality or local governmental unit of any such state or territory which are (1) not callable before maturity or (2) as to which irrevocable instructions have been given to the trustee or escrow agent of such bonds or other obligations by the obligor to give due notice of redemption and to call such bonds for redemption on the date or dates specified, and which are rated by Moody's and S&P within its highest rating category and which are secured as to principal, redemption premium, if any, and interest by a fund consisting only of cash or bonds or other obligations of the character described in clause (a) of this definition which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified prepayment date or dates pursuant to such irrevocable instructions, as appropriate; or (c) evidences of ownership of proportionate interests in future interest and principal payments on specified obligations described in clause (a) or (b) held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor on the underlying obligations described in clause (a) or (b), and which underlying obligations are not available to satisfy any claim of the custodian or any person claiming through the custodian or to whom the custodian may be obligated.

*"Fiscal Year"* means a twelve-month period commencing on the first day of July of any year and ending on the 30th day of June of the succeeding year, or such other twelve-month period which may subsequently be adopted as the Fiscal Year of the Town.

*"Indenture"* means the Indenture of Trust dated as of March 1, 2023 between the Corporation and the Trustee, as amended or supplemented from time to time, pursuant to which the Bonds are executed and delivered.

*"Installment Payments"* means those payments made by the Town to the Corporation as described in the Contract and in the Payment Schedule attached thereto.

*"Interest Payment Date"* means each June 1 and December 1, beginning December 1, 2023.

*"LGC"* means the Local Government Commission of North Carolina.

*"Moody's"* means Moody's Investors Service, its successors and their assigns, and, if such entity for any reason no longer performs the function of a securities rating agency, *"Moody's"* will be deemed to refer to any other nationally recognized securities rating agency designated by the Corporation.

*"Mortgaged Property"* means the property subject to the lien and security interest created by the Deed of Trust, as more particularly described therein.

*"Net Proceeds,"* means, when used with respect to any (1) proceeds from policies of insurance which are payable to the Corporation or the Trustee with respect to the Mortgaged Property, (2) proceeds from any payment and performance bond maintained pursuant to the Contract, (3) proceeds of any condemnation award arising out of the condemnation of all or any portion of the Mortgaged Property or (4) proceeds from any sale or lease of the Mortgaged Property pursuant to the Deed of Trust or otherwise subsequent to an Event of Default, the amount remaining after deducting from the gross proceeds thereof all expenses (including, without limitation, attorneys' fees and costs) incurred in the collection of such proceeds.

“*Opinion of Counsel*” means an opinion in writing of legal counsel, who may be counsel to the Trustee, the Town or the Corporation.

“*Outstanding*” or “*Bonds Outstanding*” means, as of the date in question, all Bonds which have been executed and delivered under the Indenture, except:

- (a) Bonds canceled or which have been surrendered to the Trustee for cancellation;
- (b) Bonds in lieu of which other Bonds have been authenticated under the Indenture;
- (c) Bonds which have been prepaid as provided in the Indenture (including Bonds prepaid on a partial payment as provided in the Indenture); and
- (d) Bonds which have been deemed to have been paid under the Indenture.

“*Owner*” or “*Owners*” means, initially, Cede & Co., as nominee for DTC, and if the book entry system of evidence and transfer of ownership in the Bonds is discontinued pursuant to the Indenture, the registered owner or owners of any Bond fully registered as shown in the registration books of the Trustee.

“*Payment Schedule*” means the document attached to the Contract which sets forth the Town’s Installment Payments.

“*Permitted Investments*” means investments which are qualified under Section 159-30, or any replacement statute, of the General Statutes of North Carolina, as amended from time to time.

“*Person*” or “*person*” means natural persons, firms, associations, corporations and public bodies.

“*Prepayment Fund*” means the special fund of that name created under the Indenture.

“*Projects*” means, initially, the 2023 Projects, as the term “Projects” may be amended in connection with any other project financed or refinanced with the proceeds of Additional Bonds executed and delivered under the Indenture.

“*Purchase Price*” means the amount advanced by the Corporation to enable the Town to finance the Projects, as such price may be adjusted in connection with the execution and delivery of Additional Bonds under the Indenture.

“*Rebate Fund*” means the special fund of that name created under the Indenture.

“*Revenues*” means (a) all Net Proceeds not applied to the replacement of the Mortgaged Property; (b) all Installment Payments; and (c) all investment income on all funds and accounts created under the Indenture (other than the Rebate Fund).

“*S&P*” means S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC, its successors and their assigns, and, if such entity for any reason no longer performs the function of a securities rating agency, “*S&P*” will be deemed to refer to any other nationally recognized securities rating agency designated by the Corporation.

“*State*” means the State of North Carolina.

“*Tax Certificate*” means the Tax Certificate executed by and among the Town, the Corporation and the Trustee to signify the acceptance of certain covenants and obligations necessary for the exclusion of interest with respect to the 2023 Bonds from the gross income of the owners thereof under the Code.

“*Town*” means the Town of Nags Head, North Carolina or any successor to its functions.

“*Town Representative*” means (1) the Mayor, the Town Manager, the Deputy Town Manager, the Finance Director and the Town Clerk of the Town, or the person or persons at the time designated to act on behalf of the Town for the purpose of performing any act under the Contract by a written certificate furnished to the Trustee and the Corporation containing the specimen signatures of such person or persons and signed on behalf of the Town by the Mayor or the Town Manager of the Town, or (2) if any or all of the Town’s rights and obligations are assigned under the Contract, the person or persons at the time designated to act on behalf of the Town and the assignee by a written certificate similarly furnished and of the same tenor.

“*Trustee*” means The Bank of New York Mellon Trust Company, N.A., acting in the capacity of trustee for the Owners pursuant to the Indenture, and any successor thereto appointed under the Indenture.

“*Trust Estate*” means the property pledged and assigned to the Trustee pursuant to and defined as such in the granting clauses of the Indenture.

“*Trustee Representative*” means the person or persons at the time designated to act on behalf of the Trustee for purposes of performing any act on behalf of the Trustee under the Indenture by a written certificate furnished to the Town and the Corporation containing the specimen signature of such person or persons and signed on behalf of the Trustee by any duly authorized officer of the Trustee.

“*2023 Bonds*” means the Limited Obligation Bonds (Town of Nags Head, North Carolina), Series 2023, evidencing proportionate undivided interests in rights to receive certain Revenues pursuant to the Contract.

“*2023 Projects*” means (a) the construction, equipping, and furnishing of public services facilities, and (b) the conversion of the Town’s residential and commercial water meters to an Advanced Metering Infrastructure (AMI) system.

“*Underwriter*” means PNC Capital Markets LLC.

## THE CONTRACT

***Advancement.*** In the Contract, the Corporation agrees to make an advance to the Town of the Purchase Price, and the Town accepts from the Corporation the Purchase Price to be applied in accordance with the terms and conditions of the Contract. The Town will use the proceeds of the Purchase Price to finance the Projects and to pay certain costs incurred in connection with the execution and delivery of the Contract.

***Title; Release of Security Interest.*** Title to the Mortgaged Property and any and all additions, repairs, replacements or modifications thereto will be in the Town from and after the date of execution and delivery of the Contract. The Mortgaged Property is subject only to the security interest created under the Contract. The Town will own the Mortgaged Property free and clear of any lien or security interest created by the Contract and the Deed of Trust, as applicable, on the repayment in full of the Purchase Price and the payment of all other amounts due under the Contract. The Town will deliver to the Trustee the Deed of Trust simultaneously with the execution and delivery of the Contract and will cause the Deed of Trust to

be recorded in the Dare County Register of Deeds. On payment in full of all of the Town's obligations under the Contract, including the Purchase Price and all other payments due under the Contract, the Corporation or its assignee, at the Town's expense and request, will discharge the Indenture and release the lien on the Mortgaged Property, at which time the Contract will terminate.

***Installment Payments; Additional Payments.*** As consideration for the Corporation's advance of the Purchase Price to the Town, the Town shall repay to the Trustee, as assignee of the Corporation under the Indenture, the Purchase Price in installments with interest as provided in the Contract and the Payment Schedule attached to the Contract (each an "*Installment Payment*"). Each installment shall be deemed to be an Installment Payment and shall be paid in the amounts and at the times set forth on the Payment Schedule except as provided in the Contract. There shall be credited against the amount of Installment Payments otherwise payable under the Contract amounts equal to (1) earnings derived from the investment of the Bond Fund and the Prepayment Fund and (2) any other money not constituting Installment Payments required to be deposited in the Bond Fund. Installment Payments shall be sufficient in the aggregate to repay the Purchase Price together with interest thereon. As further consideration for the Corporation's advance of the Purchase Price to the Town, the Town shall also pay the Additional Payments, as required in the Contract, on a timely basis directly to the person or entity to which such Additional Payments are owed.

***Limited Obligation of the Town.*** NOTWITHSTANDING ANY PROVISION OF THE CONTRACT, THE INDENTURE OR THE DEED OF TRUST WHICH MAY BE TO THE CONTRARY, NO PROVISION OF THE CONTRACT, THE INDENTURE OR THE DEED OF TRUST SHALL BE CONSTRUED OR INTERPRETED AS CREATING A PLEDGE OF THE FAITH AND CREDIT OF THE TOWN WITHIN THE MEANING OF THE CONSTITUTION OF THE STATE. NO PROVISION OF THE CONTRACT, THE DEED OF TRUST OR THE INDENTURE SHALL BE CONSTRUED OR INTERPRETED AS CREATING A DELEGATION OF GOVERNMENTAL POWERS NOR AS A DONATION BY OR A LENDING OF THE CREDIT OF THE TOWN WITHIN THE MEANING OF THE CONSTITUTION OF THE STATE. THE CONTRACT, THE DEED OF TRUST AND THE INDENTURE SHALL NOT DIRECTLY OR INDIRECTLY OR CONTINGENTLY OBLIGATE THE TOWN TO MAKE ANY PAYMENTS BEYOND THOSE APPROPRIATED IN THE SOLE DISCRETION OF THE TOWN FOR ANY FISCAL YEAR IN WHICH THE CONTRACT IS IN EFFECT; PROVIDED, HOWEVER, ANY FAILURE OR REFUSAL BY THE TOWN TO APPROPRIATE FUNDS WHICH RESULTS IN THE FAILURE BY THE TOWN TO MAKE ANY PAYMENT COMING DUE UNDER THE CONTRACT WILL IN NO WAY OBVIATE THE OCCURRENCE OF THE EVENT OF DEFAULT RESULTING FROM SUCH NONPAYMENT. NO DEFICIENCY JUDGMENT MAY BE RENDERED AGAINST THE TOWN IN ANY ACTION FOR BREACH OF A CONTRACTUAL OBLIGATION UNDER THE CONTRACT, AND THE TAXING POWER OF THE TOWN IS NOT AND MAY NOT BE PLEDGED DIRECTLY OR INDIRECTLY OR CONTINGENTLY TO SECURE ANY MONEY DUE UNDER THE CONTRACT. NO PROVISION OF THE CONTRACT, THE DEED OF TRUST OR THE INDENTURE SHALL BE CONSTRUED TO PLEDGE OR TO CREATE A LIEN ON ANY CLASS OR SOURCE OF THE TOWN'S MONEY, NOR SHALL ANY PROVISION OF THE CONTRACT, THE INDENTURE OR THE DEED OF TRUST RESTRICT THE FUTURE ISSUANCE OF ANY OF THE TOWN'S BONDS OR OBLIGATIONS PAYABLE FROM ANY CLASS OR SOURCE OF THE TOWN'S MONEY. TO THE EXTENT OF ANY CONFLICT BETWEEN THIS PROVISION AND ANY OTHER PROVISION OF THE CONTRACT, THE INDENTURE OR THE DEED OF TRUST, THIS PROVISION SHALL TAKE PRIORITY.

***Damage, Destruction or Condemnation; Use of Net Proceeds.*** If, during the term of the Contract, (1) any portion of the Mortgaged Property is destroyed or damaged by fire or other casualty; (2) title to or the temporary or permanent use of any portion of the Mortgaged Property or the estate of the Town or the Corporation or its assignee in any portion of the Mortgaged Property is taken under the power of eminent domain by any governmental authority; (3) a material defect in construction of any portion of the Mortgaged Property becomes apparent; or (4) title to or the use of any portion of the Mortgaged Property is lost by reason of a defect in title thereto, then the Town continues to be obligated, subject to the provisions set forth below, to pay the amounts specified in the Contract at the respective times required.

Subject to the provisions set forth below, the Town shall direct the Trustee in writing to cause the Net Proceeds of any insurance policies, performance or payment bonds, if any, condemnation awards or Net Proceeds made available by reason of any occurrence described above, to be deposited in a separate fund held by the Trustee. Except as set forth below, all Net Proceeds so deposited will be applied to the prompt repair, restoration, modification, improvement or replacement of the Mortgaged Property on receipt of requisitions approved by a Town Representative stating with respect to each payment to be made: (a) the requisition number; (b) the name and address of the person, firm or corporation to whom payment is due; (c) the amount to be paid; and (d) that each obligation mentioned therein has been properly incurred, is a proper charge against the Acquisition and Construction Fund or such separate fund, and has not been the basis of any previous withdrawal and specifying in reasonable detail the nature of the obligation, accompanied by a bill or a statement of account for such obligation. The Trustee will cooperate with the Town in the administration of such separate fund and will not unreasonably withhold its approval of requisitions under this paragraph. The Trustee shall be fully protecting in releasing amounts approved by the Town Representative and the Trustee has no duty or obligation to determine whether or not any such requisitioned amounts are appropriate. If the Net Proceeds (plus any amount withheld therefrom by reason of any deductible clause) are insufficient to pay in full the cost of any repair, restoration, modification, improvement or replacement of the Mortgaged Property, the Town may complete the work and pay any cost in excess of the amount of the Net Proceeds, and the Town agrees that, if by reason of any such insufficiency of the Net Proceeds, the Town will make any payments pursuant to the provisions of this paragraph, the Town is not entitled to any reimbursement therefor from the Corporation, the Trustee or the Owners nor is the Town entitled to any diminution of the amounts payable under the Contract. Any repair, restoration, modification, improvement or replacement paid for in whole or in part out of such Net Proceeds will be the property of the Town, subject to the Deed of Trust to the extent it relates to the Mortgaged Property, and will be included as part of the Mortgaged Property as set forth in the Contract.

On the occurrence of an event described above with respect to the Mortgaged Property, the Town may elect not to repair, restore, improve or replace the affected portion of the Mortgaged Property if (1) (a) the Net Proceeds are less than \$1,000,000 and (b) a Town Representative certifies to the Corporation that such Net Proceeds are not necessary to restore the affected portion of the Mortgaged Property to its intended use or (2) the Town uses the Net Proceeds, together with any other available funds of the Town that may be necessary, to redeem or defease all of the Outstanding Bonds in accordance with the terms of the Indenture. In such event, the Town shall direct the Trustee in writing to either deposit such Net Proceeds in the Bond Fund to be applied toward the next payment of principal and interest with respect to the Bonds or in the Prepayment Fund or an escrow fund to affect the prepayment or defeasance of the Outstanding Bonds, as the case may be.

Within 90 days of the occurrence of an event specified above, the Town will commence the repair, restoration, modification, improvement or replacement of the Mortgaged Property, or will elect, by written notice to the Trustee, to proceed under the provisions of the immediately preceding paragraph. For purposes of these provisions, "*commence*" will include the retention of an architect or engineer in anticipation of repair, restoration, modification, improvement or replacement of the Mortgaged Property.

**Care and Use.** Subject to the provisions of applicable law and the Contract, the Town shall use the Mortgaged Property in a careful and proper manner, in compliance with all applicable laws and regulations, and, at its sole cost and expense, shall service, repair and maintain the Mortgaged Property so as to keep the Mortgaged Property in good condition, repair, appearance and working order for the purposes intended, ordinary wear and tear excepted. The Town shall replace any part of the Mortgaged Property as may from time to time become worn out, unfit for use, lost, stolen, destroyed or damaged, if necessary to the proper operation of the Mortgaged Property. Any and all additions to or replacements of the Mortgaged Property and all parts thereof shall constitute accessions to the Mortgaged Property and shall be subject to all the

terms and conditions of the Contract and included in the term “*Mortgaged Property*” and as used in the Contract.

**General Tax Covenant.** In the Contract, the Town covenants that it will not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of the interest portion of the Installment Payments created by the Contract and allocable to the 2023 Bonds under Section 103 of the Code. The Town will not directly or indirectly use or permit the use of any proceeds of any fund created under the Indenture allocable to the 2023 Bonds, or take or omit to take any action that would cause the obligation created by the Contract and allocable to the 2023 Bonds to be an “*arbitrage bond*” within the meaning of Section 148(a) of the Code. To that end, the Town and the Corporation have executed the Tax Certificate and will comply with all requirements of Section 148 of the Code to the extent applicable. The Town further represents and covenants that the Installment Payments created by the Contract allocable to the 2023 Bonds are not and will not constitute a “*private activity bond*” as defined in Section 141 of the Code.

**Property Insurance.** The Town shall continually maintain or cause to be maintained insurance to the full insurable value of the Mortgaged Property against, to the extent commercially available at a reasonable cost, loss by fire, wind damage, hazards customarily included in the term “*extended coverage*” with responsible and reputable insurance companies and shall promptly pay all premiums therefor when due. All insurance policies and renewals thereof shall name the Corporation and the Trustee as parties insured thereunder, as the respective interests of each of such parties may appear, and have attached thereto a mortgagee long form loss payable clause in favor of the Trustee, and provide that no such policy can lapse or be canceled, substantially modified or terminated without at least 30 days prior notice to the Trustee and that any loss payable thereunder shall be made payable and shall be applied as provided in the Contract. In the event of loss, the Town shall give immediate written notice by mail to the Trustee, who may, but shall not be obligated to, make proof of loss. In the event of a foreclosure of the Deed of Trust or other transfer of title to the Mortgaged Property, all right, title and interest of the Town in any insurance policies then in force shall pass to the Trustee. Additionally, during the term of the Contract, the Town shall continually maintain standard liability insurance as is customarily maintained by like entities with respect to facilities similar to the Mortgaged Property.

The Town may provide for and maintain the insurance required under the Contract partially or wholly by means of an adequate risk retention fund. Reserves for a risk retention fund shall be determined by using actuarial principles. Any risk retention fund shall be reviewed annually by the Town’s risk manager or an independent insurance consultant or actuarial consultant. The Trustee shall conclusively rely on a letter of the Town’s risk manager or an independent insurance consultant or actuarial consultant as to the adequacy of any risk retention fund. The Trustee has made no evaluation as to the sufficiency of the insurance requirements set forth in the Contract.

**Assignment.** The Town may not sell, assign, lease, sublease, pledge or otherwise encumber or suffer a lien or encumbrance on or against any interest in the Contract or the Mortgaged Property (except for permitted encumbrances under the Contract) without the Trustee’s prior written consent. Notwithstanding the foregoing, the Town may lease all or a portion of the Mortgaged Property subject to the following conditions:

- (a) the obligation of the Town to make Installment Payments and Additional Payments under the Contract will remain obligations of the Town;
- (b) the Town will furnish or cause to be furnished to the Trustee a true and complete copy of such lease at least 30 days before the execution and delivery of any such lease;



(c) no lease will cause the interest component of Installment Payments relating to any Bonds intended to be excludable from gross income of the recipient thereof for federal income tax purposes to become includable in gross income for federal income tax purposes; and

(d) the Trustee may request to receive an Opinion of Counsel to the Town to the effect that such lease is subordinate in all respects to the lien of the Deed of Trust and that such lease is subject to immediate termination at the direction of the Trustee following an Event of Default by the Town under the Contract.

***Amendments and Modifications.***

--*Without Consent of the Owners.* The Indenture provides that the Corporation and the Trustee may, with the written consent of the Town, but without the consent of or notice to the Owners, consent to any amendment, change or modification of the Contract or the Deed of Trust as may be required (a) by the provisions of the Contract, the Deed of Trust or the Indenture; (b) for the purpose of curing any ambiguity, inconsistency, or formal defect or omission in the Contract or the Deed of Trust; (c) to more precisely identify the Mortgaged Property or to add or substitute improvements acquired in accordance with the Contract, the Deed of Trust and the Indenture; (d) to execute and deliver Additional Bonds as provided in the Indenture; (e) to amend the Town's continuing disclosure obligation as provided in any supplement or amendment to the Contract; or (f) in connection with any other change therein which does not materially adversely affect the interests of the existing Owners.

--*With Consent of the Owners.* The Indenture provides that, except for the amendments, changes or modifications permitted by the above provision, neither the Corporation nor the Trustee will consent to any other amendment, change or modification of the Contract or the Deed of Trust without the giving of notice thereof to the LGC and to the Owners and receipt of consent by the LGC and by the Owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding given and procured as provided in the Indenture. If the Town and the Corporation request the consent of the Trustee to any such proposed amendment, change or modification of the Contract or the Deed of Trust, the Trustee will, on being satisfactorily indemnified with respect to expenses, cause notice of such proposed amendment, change or modification to be given in the same manner as provided in the Indenture. Such notice will be prepared by the Town or the Corporation, will briefly set forth the nature of such proposed amendment, change or modification and will state that copies of the instrument embodying the same are on file at the designated corporate trust office of the Trustee for inspection by all Owners.

The consent by the purchaser of a series of Additional Bonds constitutes the consent of the Owners of that series of Additional Bonds.

***Events of Default.*** The Town is deemed to be in default under the Contract upon the happening of any of the following Events of Default:

(a) The Town fails to make any Installment Payment on the date such Installment Payment is due under the Contract;

(b) The Town fails to budget and appropriate money sufficient to pay all Installment Payments and the reasonably estimated Additional Payments coming due in any Fiscal Year;

(c) The Town fails to perform or observe any term, condition or covenant of the Contract on its part to be observed or performed, other than as referred to in (a) or (b) above, or of the Deed of Trust on its part to be observed or performed, or breaches any warranty by the Town therein contained, for a period of 30 days after written notice specifying such failure and requesting

that it be remedied has been given to the Town by the Trustee unless the Trustee agrees in writing to an extension of such time prior to its expiration; provided, however, that if the failure cannot be corrected within the stated period, Trustee will not unreasonably withhold consent for an extension;

(d) Any bankruptcy, insolvency or reorganization proceedings or similar litigation, is instituted by the Town, or a receiver, custodian or similar officer is appointed for the Town or any of its property, and such proceedings or appointments are not vacated or fully stayed within 90 days after the institution or occurrence thereof; or

(e) Any representation or statement made by the Town in the Contract, in the Deed of Trust or in any other document executed or delivered in connection therewith is found to be incorrect or misleading in any material respect on the date made.

***Remedies on Default.*** On the occurrence of any Event of Default, the Trustee may, and if required by a majority in aggregate principal amount of the Owners of the Bonds, the Trustee shall, to the extent permitted by applicable law and the Contract, exercise any one or more of the following remedies as the Trustee elects or as shall be directed in writing by a majority in aggregate principal amount of the Owners of the Bonds:

(a) Declare the unpaid portion of the principal and interest components of Installment Payments immediately due and payable without notice or demand to the Town;

(b) Proceed by appropriate court action to enforce performance by the Town of the applicable covenants of the Contract or to recover for the breach thereof; or

(c) Exercise or direct the Deed of Trust trustee to exercise all the rights and remedies of a secured party or creditor under the Uniform Commercial Code of the State and the general laws of the State with respect to the enforcement of the security interest granted or reserved under the Contract and the Deed of Trust including, without limitation, to the extent permitted by law, re-enter and take possession of the Mortgaged Property without any court order or other process of law and without liability for entering the premises and sell, lease, sublease or make other disposition of the same in a commercially reasonable manner for the account of the Town, and apply the proceeds of any such sale, lease, sublease or other disposition, after deducting all costs and expenses, including court costs and attorneys' fees, costs and expenses incurred with the recovery, repair, storage and other sale, lease, sublease or other disposition, toward the balance due under the Contract and, thereafter, shall pay any remaining proceeds to the Town.

NOTWITHSTANDING ANY OTHER PROVISIONS IN THE CONTRACT TO THE CONTRARY, IT IS THE INTENT OF THE PARTIES TO THE CONTRACT TO COMPLY WITH GENERAL STATUTES OF NORTH CAROLINA SECTION 160A-20. NO DEFICIENCY JUDGMENT MAY BE RENDERED AGAINST THE TOWN IN VIOLATION OF SECTION 160A-20 INCLUDING, WITHOUT LIMITATION, ANY DEFICIENCY JUDGMENT FOR AMOUNTS THAT MAY BE OWED UNDER THE CONTRACT WHEN THE SALE OF ALL OR ANY PORTION OF THE MORTGAGED PROPERTY IS INSUFFICIENT TO PRODUCE ENOUGH MONEY TO PAY IN FULL ALL REMAINING OBLIGATIONS UNDER THE CONTRACT.

## THE INDENTURE

***Funds and Accounts.*** The Indenture creates (1) the Bond Fund; (2) the Prepayment Fund; (3) the Rebate Fund; and (4) the Acquisition and Construction Fund, to be held in trust by the Trustee.

--*The Bond Fund.* There has been created and established with the Trustee a special fund to be designated “*Town of Nags Head 2023 Installment Financing Contract Bond Fund*” (the “*Bond Fund*”), the money in which shall be used to pay the principal, premium, if any, and interest with respect to the Bonds. Within the Bond Fund there has been created an Interest Account and a Principal Account, the money in each of which is to be used as set forth in the Indenture.

--*The Interest Account.* There shall be deposited into the Interest Account of the Bond Fund (1) that portion of each payment of Installment Payments which is designated and paid as interest under the Contract; (2) investment earnings on the Bond Fund and the Prepayment Fund, as provided in the Indenture; (3) Net Proceeds from any lease of the Mortgaged Property, including after an Event of Default to the extent required to pay the next installment of interest or any previous installment of interest not paid; (4) all money required to be deposited therein in accordance with the Indenture; and (5) all other money received by the Trustee under the Indenture accompanied by directions from the Town that such money is to be deposited into the Interest Account of the Bond Fund. The Trustee shall credit all amounts deposited into the Interest Account of the Bond Fund, including particularly the amounts set forth in the Contract, toward the interest component of the Installment Payment then due and payable under the Contract. The Trustee shall notify the Town of all amounts credited toward such Installment Payments within 30 days of such credit.

--*The Principal Account.* There shall be deposited into the Principal Account of the Bond Fund (1) that portion of each payment of Installment Payments which is designated and paid as principal with respect to the Bonds under the Contract; (2) Net Proceeds from any lease of the Mortgaged Property, including after an Event of Default after the deposit described under the caption “--*The Interest Account*” above; (3) all money required to be deposited therein in accordance with the Indenture; and (4) all other money received by the Trustee under the Indenture accompanied by directions from the Town that such money is to be deposited into the Principal Account of the Bond Fund.

--*Use of Money in Bond Fund.* Money in the Interest Account of the Bond Fund shall be used for the payment of the interest with respect to the Bonds as the same becomes due and payable. Money in the Principal Account of the Bond Fund shall be used for the payment of the principal with respect to the Bonds. Investment earnings on money on deposit in the Interest Account and Principal Account of the Bond Fund shall be applied to the next payment of Installment Payments with respect to the Bonds. If the Bonds are to be prepaid in whole pursuant to the Indenture, any money remaining in the Interest Account and the Principal Account of the Bond Fund shall be applied to such prepayment along with other money held by the Trustee for such purpose.

--*The Prepayment Fund.* There has been created and established with the Trustee a special fund to be designated the “*Town of Nags Head 2023 Installment Financing Contract Prepayment Fund*” (the “*Prepayment Fund*”). The Trustee shall deposit into the Prepayment Fund money provided by the Town as a prepayment of Installment Payments. Money on deposit in the Prepayment Fund shall be disbursed for prepayment of the Bonds as provided in the Indenture. Any income from investment of money in the Prepayment Fund shall be deposited into the Interest Account of the Bond Fund and applied to the interest component of the next payment of the Installment Payments. Whenever any money on deposit in the Prepayment Fund is disbursed for prepayment of less than all of the Outstanding Bonds, the Installment Payments set forth in the Contract shall be recalculated by or on behalf of the Town to reflect the reduction in the outstanding principal amount of the Bonds after such prepayment and the Town will promptly notify the Trustee in writing of such recalculation.

--*The Rebate Fund.* If the Town informs the Trustee that funds are to be set aside in a separate account of the Trustee to be held for the payment of rebate payments to the Federal Government pursuant to the terms of the Tax Certificate, the Trustee shall create and establish the “*Town of Nags Head 2023 Installment Financing Contract Rebate Fund*” (the “*Rebate Fund*”). The Trustee shall deposit in the Rebate Fund the amounts as directed in writing by the Town. The Town shall make or cause to be made the calculation or calculations required by the Tax Certificate and shall direct the Trustee in writing to make deposits and disbursements from the Rebate Fund in accordance therewith. The Trustee shall invest the Rebate Fund as directed in writing by the Town. The Rebate Fund is a trust fund, but amounts therein do not constitute part of the Trust Estate.

--*The Acquisition and Construction Fund.* There has been created and established with the Trustee a special fund to be designated “*Town of Nags Head 2023 Installment Financing Contract Acquisition and Construction Fund*” (the “*Acquisition and Construction Fund*”) and within the Acquisition and Construction Fund, an account designated the “*2023 Account.*” The Trustee shall deposit in the 2023 Account the amount set forth in the Indenture. In addition, the Trustee shall deposit into the Acquisition and Construction Fund such amounts as the Town may designate in a certificate signed by a Town Representative in connection with the execution and delivery of Additional Bonds under the Indenture. Any money held in the Acquisition and Construction Fund or any account thereof shall be invested and reinvested by the Trustee at the written direction of the Town in accordance with the Indenture, and the income therefrom shall be retained in the Acquisition and Construction Fund or any account thereof and used (together with all other money held in the Acquisition and Construction Fund) to pay the Cost of Acquisition and Construction attributable to the Projects and otherwise, as directed by the Town in accordance with the Contract. The Trustee shall create additional accounts within the Acquisition and Construction Fund on the Town’s written direction.

***Investment of Money.*** All money held as part of the Bond Fund, the Prepayment Fund, the Acquisition and Construction Fund or any other fund or account created under the Indenture or the Contract except the Rebate Fund will be deposited or invested and reinvested from time to time by the Trustee, at the written direction of the Town as agent of the Corporation, in deposits or investments, which are certified by the Town to be Permitted Investments subject to the following restrictions:

(a) Money in the Acquisition and Construction Fund shall be invested only in obligations which will by their terms mature not later than the date the Town estimates, in a writing provided to the Trustee, the money represented by the particular investment will be needed for withdrawal from the Acquisition and Construction Fund;

(b) Money in the Bond Fund shall be invested only in obligations which will by their terms mature on such dates as to ensure that on the date of each interest and principal payment, there will be in the Bond Fund from matured obligations and other money already in the Bond Fund, cash to pay the interest and principal payable on such payment date; and

(c) Money in the Prepayment Fund shall be invested in obligations which will by their terms mature, or will be subject to prepayment at the option of the owner thereof, on or before the date funds are expected to be required for expenditure or withdrawal.

The Rebate Fund shall be invested and reinvested by the Trustee, at the written direction of the Town. The Town acknowledges that such investment direction is required to comply with the terms of the Tax Certificate.

If the Town fails to provide the Trustee with written investment direction for any funds held by the Trustee under the Indenture, then the Trustee will hold such amounts uninvested in cash and without

liability for interest. Any and all such deposits or investments shall be held by or under the control of the Trustee. The Trustee may make any and all such deposits or investments through its own investment department or the investment department of any bank or trust company under common control with the Trustee and may charge its ordinary and customary fees for such investments, as agreed to by the Town. The Trustee is specifically authorized to enter into agreements with itself or any other person, which agreements guarantee the repurchase of specific Permitted Investments at specific prices. Except as expressly provided in the Indenture, deposits or investments shall at all times be a part of the fund or account from which the money used to acquire such deposits or investments shall have come, and all income and profits on such deposits or investments shall be credited to, and losses thereon shall be charged against, such fund or account. In computing the amount in any fund or account held under the provisions of the Indenture, obligations purchased as a deposit or investment of money therein shall be valued at the market price thereof, exclusive of accrued interest. The Trustee shall sell and reduce to cash a sufficient amount of such deposits or investments whenever the cash balance in any fund or account created under the Indenture is insufficient to satisfy the purposes of such fund or account.

***Additional Bonds.*** So long as the Contract remains in effect and no Event of Default has occurred and is continuing, additional Bonds or other obligations may be executed and delivered on the terms and conditions provided in the Indenture.

Additional Bonds may be delivered by the Trustee at the written direction of the Corporation to provide funds to pay: (1) the cost of expanding the Projects, acquiring, constructing, renovating and equipping other facilities or acquiring equipment and other capital assets for utilization by or on behalf of the Town for public purposes; (2) the cost of refunding of all or any portion of the Bonds then Outstanding or any other financing obligations of the Town; and (3) the Costs of Issuance relating to the execution, delivery and sale of the Additional Bonds.

Additional Bonds may be executed and delivered only on there being filed with the Trustee:

(a) Originally executed counterparts of a supplemental indenture and an amendment to the Contract adopted in accordance with the requirements of the Indenture and approved by the LGC, if so required by law, including requirements regarding approval of the Owners, if applicable, expressly providing that the Additional Bonds being executed and delivered as well as any Bonds and Additional Bonds theretofore executed and delivered will be secured on a parity as provided in the Indenture, except that the date or dates of the Additional Bonds, the rate or rates of interest with respect to the Additional Bonds, the time or times of payment of the principal and interest with respect thereto, and provisions for the prepayment thereof, if any, all will be as provided in the supplemental indenture and amendment to the Contract, and further providing for an increase in the Purchase Price and the Installment Payments required or authorized to be paid to the Trustee under the Contract in such amount as will be necessary to pay (assuming that no Event of Default will occur), the principal, premium, if any, and interest with respect to the Additional Bonds.

(b) A written opinion or opinions of nationally recognized bond counsel and mutually acceptable to the Town and the Corporation, to the effect that the amendment to the Contract and the execution and delivery of the Additional Bonds have been duly authorized, that the amendment to the Contract is valid and enforceable against the Town and, to the extent applicable, that the exclusion from gross income for federal income tax purposes of the interest component of the Installment Payments will not be adversely affected by the execution and delivery of the Additional Bonds, and that the execution, sale, and delivery of the Additional Bonds will not constitute a default under the Contract or the Indenture or cause any violation of the covenants, agreements or representations under the Contract or the Indenture.

(c) A written order to the Trustee to deliver the Additional Bonds to the purchaser or purchasers therein identified on payment to the Trustee of a specified sum plus accrued interest, if any.

Each of the Additional Bonds executed and delivered pursuant to the Indenture will evidence a proportionate undivided interest in rights to receive certain Revenues under the Contract, as amended, proportionately and ratably secured with the 2023 Bonds originally executed and delivered and all Additional Bonds, if any, executed and delivered pursuant to the Indenture, without preference, priority or distinction of any 2023 Bond or Additional Bond over any other.

***Supplemental Indentures.***

*--Consent of Owners Not Required.* The Trustee and the Corporation may, with the written consent of the Town, but without the consent of, or notice to, the Owners, enter into such indentures supplemental to the Indenture for any one or more or all of the following purposes:

(a) To add to the covenants and agreements of the Corporation contained in the Indenture other covenants and agreements to be thereafter observed by the Corporation or to surrender any rights or powers herein reserved to or conferred upon the Corporation which are not contrary to or inconsistent with the Indenture as then in effect;

(b) To cure any ambiguity, or to cure, correct or supplement any defect or omission or inconsistent provision contained in the Indenture, or to make any provisions with respect to matters arising under the Indenture or for any other purpose if such provisions are necessary or desirable and do not adversely affect the interests of the Owners;

(c) To grant to or confer upon the Trustee for the benefit of the Owners any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the Owners or the Trustee which are not contrary to or inconsistent with the Indenture as then in effect or to subject to the pledge and lien of the Indenture additional revenues, properties, or collateral;

(d) To modify, alter, supplement or amend the Indenture in such manner as shall permit the qualification of the Indenture, if required, under the Trust Indenture Act of 1939 or, the Securities Act of 1933, as from time to time amended, or any similar federal statute thereafter in effect;

(e) To make any other change in the Indenture that is determined by the Trustee to be not materially adverse to the interests of the Owners and which does not involve a change requiring consents of specific Owners; or

(f) To execute and deliver Additional Bonds.

*--Consent of Owners Required.* Exclusive of supplemental indentures covered under the caption “*--Consent of Owners Not Required*” above, the written consent of the Town, the LGC and the consent of the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding is required for the execution by the Corporation and the Trustee of any indenture or indentures supplemental to the Indenture; provided, however, that (1) if such supplemental indenture will, by its terms, not take effect so long as any Bonds so affected remain Outstanding, the consent of the holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under this paragraph, and (2) without the consent of the LGC and the Owners of all



the Bonds at the time Outstanding affected thereby nothing contained in the Indenture shall permit, or be construed as permitting:

- (a) A change in the terms of prepayment or maturity of the principal amount of or the interest with respect to any Outstanding Bond, or a reduction in the principal amount of or premium payable on any prepayment of any Outstanding Bond or the rate of interest with respect thereto;
- (b) The deprivation of the Owner of any Bond then Outstanding of the lien created by the Indenture (other than as originally permitted thereby);
- (c) A privilege or priority of any Bond or Bonds over any other Bond or Bonds; or
- (d) A reduction in the aggregate principal amount of the Bonds required for consent to such supplemental indenture.

If at any time the Town or the Corporation requests the Trustee in writing to enter into such supplemental indenture for any of the purposes described above, the Trustee will, on being satisfactorily indemnified with respect to expenses, cause notice of the proposed execution of such supplemental indenture to be mailed by first class mail to the Owners of the Bonds then Outstanding at the address shown on the registration books maintained by the Trustee (or by such other method as permitted by the Owners). Such notice will be prepared by the Town or the Corporation, will briefly set forth the nature of the proposed supplemental indenture and will state that copies thereof are on file at the designated corporate trust office of the Trustee for inspection by all Owners. If, within 60 days or such longer period as is prescribed by the Town following the giving of such notice, the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding at the time of the execution of any such supplemental indenture have consented to and approved the execution thereof as provided in the Indenture, no Owner has any right to object to any of the terms and provisions contained therein, or in the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Trustee or the Corporation from executing the same or from taking any action pursuant to the provisions thereof.

The consent by the purchaser of a series of Additional Bonds constitutes the consent of the Owners of that series of Additional Bonds.

Any consent or request by the Owners of any Bond is conclusive and binding on such Owner and on all future Owners of the Bonds and of any Bonds executed and delivered on the transfer of any Bond, whether or not notation of such consent or request is made on the Bond.

*--Consent of Initial Purchaser, Underwriter or Remarketing Agent.* Notwithstanding anything in the Indenture to the contrary, (1) any initial purchaser, underwriter or remarketing agent holding any Bonds may, regardless of its intent to sell or distribute such Bonds in the future, consent as the Owner of such Bonds to any amendment or supplemental indenture as required by the Indenture, including any amendment or supplemental indenture that adversely affects the interests of other Owners and (2) any such holder providing its consent under this paragraph will not be entitled to receive, nor will the Town be required to provide, any prior notice or other documentation regarding such amendment or supplemental indenture.

***Exclusion of Bonds Held By or For the Town and the Corporation.*** In determining whether the Owners of the requisite principal amount of Bonds Outstanding have given any request, demand, authorization, direction, notice, consent or waiver under the Indenture, Bonds owned by the Town and the Corporation will be disregarded and deemed not to be Outstanding, except that, in determining whether the Trustee is protected in relying on any such request, demand, authorization, direction, notice, consent or waiver, only Bonds which the Trustee actually knows to be so owned will be disregarded.

***Events of Default.*** If any of the following events occur, it is defined as and shall be deemed an “*Event of Default*” under the Indenture:

(a) Default in the payment of the principal or premium, if any, with respect to any Bond when the same becomes due and payable, whether at the stated maturity thereof or as a sinking fund prepayment or on proceedings for prepayment for which notice of such prepayment was not a conditional notice.

(b) Default in the payment of any installment of interest with respect to any Bond when the same becomes due and payable.

(c) The occurrence of an “*Event of Default*” under the Contract.

***Remedies on Default.***

(a) On the occurrence and continuance of an Event of Default, the Trustee may, and shall, if required in writing by the Owners of not less than a majority in aggregate principal amount the Bonds then Outstanding, by written notice to the Town, declare the obligations of the Town as to the principal and interest components of Installment Payments and the aggregate principal amount of the Bonds and the accrued interest with respect thereto to be immediately due and payable, whereupon they will, without further action, become due and payable.

(b) The provisions of the preceding paragraph are subject to the condition that if, after the principal with respect to any of the Installment Payments and the Bonds has been so declared to be due and payable, and before the earlier of (1) the exercise of rights granted under the Deed of Trust or (2) to the extent permitted by the Indenture and applicable law, any judgment or decree for the payment of the money due has been obtained or entered as provided in the Indenture, the defaulting party (the “*Defaulting Party*”) shall cause to be deposited with the Trustee a sum sufficient to pay all matured installments of the principal and interest with respect to all Bonds which have become due otherwise than by reason of such declaration (with interest on such overdue installments of principal and interest, to the extent permitted by law, at the rate or rates per annum borne by the Bonds) and such amount as is sufficient to cover reasonable compensation and reimbursement of expenses payable to the Trustee, and all Events of Default under the Indenture other than nonpayment of the principal or interest with respect to the Bonds which have become due by said declaration have been remedied, then, in every such case, such Event of Default shall be deemed waived and such declaration and its consequences rescinded and annulled, and the Trustee shall promptly give written notice of such waiver, rescission or annulment to the Defaulting Party and shall give notice thereof by first class mail to all Owners; but no such waiver, rescission and annulment shall extend to or affect any subsequent Event of Default or impair any right or remedy consequent thereon.

The provisions of paragraph (a) above are further subject to the condition that any waiver of any event of default under the Contract and a rescission and annulment of its consequences shall constitute a waiver of the corresponding Event of Default under the Indenture and a rescission and annulment of the consequences thereof. If notice of such event of default under the Contract has been given as provided in the Indenture, the Trustee shall promptly give written notice of such waiver, rescission or annulment to the Defaulting Party and shall give notice thereof by first class mail to all Owners; but no such waiver, rescission and annulment shall extend to or affect any subsequent Event of Default or impair any right or remedy consequent thereon.



(c) On the occurrence and continuance of any Event of Default and on the written direction of Owners of not less than a majority in principal amount of the Bonds Outstanding and receipt of indemnity to the Trustee's satisfaction, the Trustee shall, to the extent permitted by the Indenture and applicable law, in its own name and as the Trustee of an express trust:

(1) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Owners, and require the Defaulting Party to carry out any agreements with or for the benefit of the Owners and to perform its or their duties under the Contract and the Indenture, provided that any such remedy may be taken only to the extent permitted under the applicable provisions of the Contract or the Indenture, as the case may be;

(2) take whatever action at law or in equity is permissible and may appear necessary or desirable to enforce its rights against the Defaulting Party or the Mortgaged Property held as security therefor, including exercising its rights under the Deed of Trust.

No right or remedy is intended to be exclusive of any other rights or remedies, but each and every such right or remedy shall be cumulative and in addition to any other remedy given under the Indenture or now or thereafter existing at law or in equity or by statute. If any Event of Default has occurred and if requested in writing by the Owners of a majority in aggregate principal amount of Bonds then Outstanding and indemnified as provided in the Indenture, the Trustee is obligated to exercise, to the extent permitted by applicable law and subject to the Indenture, such one or more of the rights and powers conferred by the Indenture as the Trustee, being advised by counsel, shall deem most expedient in the interests of the Owners. When the Trustee incurs costs or expenses (including legal fees, costs and expenses) or renders services after the occurrence of an Event of Default, such costs and expenses and the compensation for such services are intended to constitute expenses of administration under any federal or state bankruptcy, insolvency, arrangement, moratorium, reorganization or other debtor relief law.

***Application of Money.*** All money received by the Trustee pursuant to any right given or action taken under the provisions of the Indenture (other than amounts in the Rebate Fund) shall, after payment of the costs and expenses of the proceedings resulting in the collection of such money and of any outstanding fees of the Trustee and the costs, expenses, liabilities and advances incurred or made by the Trustee, including the reasonable fees, costs, and expenses of its agents and counsel, be deposited in the Bond Fund and applied as follows:

(a) Unless the principal with respect to all of the Bonds have become or have been declared due and payable, all such money shall be applied:

*FIRST* - To the payment to the persons entitled thereto of all installments of interest then due with respect to the Bonds, in the order of the maturity of the installments of such interest beginning with the earliest such maturity and, if the amount available is not sufficient to pay in full any particular installment, then to the payment ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or privilege; and

*SECOND* - To the payment to the persons entitled thereto of the unpaid principal and premium, if any, with respect to any of the Bonds which have become due (other than Bonds matured or called for prepayment for the payment of which money is held pursuant to the provisions of the Indenture), in the order of their due dates and beginning with the earliest due date and, if the amount available is not sufficient to pay in full the principal of such Bonds due on any particular date, then to the payment ratably, according to the amount

of principal due on such date, to the persons entitled thereto without any discrimination or privilege; and

*THIRD* - To the payment to the persons entitled thereto of interest on overdue installments of principal, premium, if any, and interest, to the extent permitted by law, and if the amount available is not sufficient to pay in full any particular installment, then to the payment ratably, according to the amounts due on such particular installment, to the persons entitled thereto, without any discrimination or privilege; and

*FOURTH* - To be held for the payment to the persons entitled thereto, as the same become due, of the principal, premium, if any, and interest with respect to the Bonds which may thereafter become due in accordance with the terms of the Indenture.

(b) If the principal with respect to all of the Bonds has become due or has been declared due and payable, all such money shall be applied to the payment of the principal and interest then due and unpaid with respect to the Bonds, without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due, respectively, for principal and interest, to the persons entitled thereto without any discrimination or privilege, with interest on overdue installments of interest or principal, to the extent permitted by law.

Whenever money is to be applied pursuant to the provisions described above, such money shall be applied at such times, and from time to time, as the Trustee determines, having due regard to the amount of such money available for application and the likelihood of additional money becoming available for such application in the future. Whenever the Trustee applies such funds, it shall fix the date (which shall be an Interest Payment Date unless it deems another date more suitable) on which such application is to be made and on such date interest with respect to the amounts of principal to be paid on such dates, and for which money is available, shall cease to accrue. The Trustee shall also select a new record date for such payment date. The Trustee shall give such notice as it may deem appropriate of the deposit with it of any such money and of the fixing of any such record date and payment date, and shall not be required to make payment to the Owner of any Bond until such Bond is presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

Whenever the principal, premium, if any, and interest with respect to all of the Bonds have been paid under the provisions of the Indenture and all expenses and charges of the Trustee have been paid, any balance remaining in the Bond Fund shall be paid to the Town.

***Defeasance.*** If, when the Bonds secured by the Indenture become due and payable in accordance with their terms or otherwise as provided in the Indenture, the whole amount of the principal, premium, if any, and interest due and payable with respect to all of the Bonds shall be paid or provision has been made for the payment of the same, together with all other sums payable under the Indenture, then the right, title and interest of the Trustee in and to the Trust Estate and all covenants, agreements and other obligations of the Corporation to the Trustee and the Owners shall then cease, terminate and become void and be discharged and satisfied. In such event, on the written request of the Town, the Trustee shall transfer and convey to the Town all property assigned or pledged to the Trustee by the Corporation then held by the Trustee pursuant to the Indenture, and the Trustee shall execute such documents as may be reasonably required by the Town and shall turn over to the Town any surplus in any fund created under the Indenture other than the Rebate Fund and unclaimed funds set aside pursuant to the Indenture.

Outstanding Bonds shall, before the maturity or prepayment date thereof, be deemed to have been paid within the meaning and with the effect expressed in the above paragraph if (a) in case said Bonds are

to be prepaid on any date before their maturity, the Town has given to the Trustee in form satisfactory to the Trustee irrevocable instructions to give on a date, in accordance with the provisions of the Indenture, notice of prepayment of such Bonds on said prepayment date, (b) there has been deposited with the Trustee either money in an amount which shall be sufficient, or Federal Securities, the principal of and the interest on which when due, and without any reinvestment thereof, will provide money which, together with the money, if any, deposited with or held by the Trustee at the same time, sufficient to pay when due the principal, premium, if any, and interest due and to become due with respect to said Bonds on and before the prepayment date or maturity date thereof, as the case may be, and (c) in the event said Bonds are not by their terms subject to prepayment within the next 60 days, the Town has given the Trustee in form satisfactory to it (1) irrevocable instructions to give, as soon as practicable in the same manner as the notice of prepayment is given pursuant to the Indenture, a notice to the Owners of such Bonds that the deposit required by (b) above has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with the Indenture and stating such maturity or prepayment date on which money is to be available for the payment of the principal, premium, if any, and interest with respect to said Bonds, (2) verification from an independent accountant or other nationally recognized expert selected by the Town that the money or Federal Securities deposited with the Trustee will be sufficient to pay when due the principal, premium, if any, and interest due and to become due with respect to the Bonds on and before the prepayment date or maturity date thereof, and (3) an opinion of nationally recognized bond counsel selected by the Town that, to the extent applicable, such deposit of money or Federal Securities will not adversely affect the exclusion from gross income for federal income tax purposes of interest with respect to the applicable Bonds. Neither the Federal Securities nor money deposited with the Trustee pursuant to the Indenture or principal or interest payments on any such Federal Securities shall be withdrawn or used for any purpose other than, and such Federal Securities or money shall be held in trust for, the payment of the principal, premium, if any, and interest with respect to said Bonds; provided any cash received from such principal or interest payments on such Federal Securities deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable, be reinvested in Federal Securities of the type described in clause (b) of this paragraph maturing at the times and in amounts sufficient (together with any other money or Federal Securities then held by the Trustee as described above) to pay when due the principal, premium, if any, and interest to become due with respect to said Bonds on or before such prepayment date or maturity date thereof, as the case may be. At such time as any Bonds shall be deemed paid as aforesaid, such Bonds shall no longer be secured by or entitled to the benefits of the Indenture and the Contract, except for the purpose of exchange and transfer and any payment from such money or Federal Securities deposited with the Trustee.

The release of the obligations of the Corporation described in the preceding paragraph is without prejudice to the rights of the Trustee to be paid reasonable compensation for all services rendered by it under the Indenture and all its reasonable expenses, charges and other disbursements incurred with respect to the administration of the trust created by the Indenture and the performance of its powers and duties under the Indenture.

## **THE DEED OF TRUST**

***Deed of Trust and Security Interest.*** To secure (1) the obligations of the Town to make the Installment Payments and (2) the payment and performance of all the other liabilities and obligations, whether now existing or hereafter arising, of the Town to the Corporation under the Contract and the Deed of Trust, the Town has granted and conveyed to the Deed of Trust Trustee for the benefit of the Beneficiary, its successors and assigns all right, title and interest that the Town now has or may hereafter acquire in the Mortgaged Property as more fully described in the Deed of Trust.

***Town's Continuing Obligation.*** The Town will remain liable for full payment and performance, as the case may be, of all obligations secured by the Deed of Trust, notwithstanding the occurrence of any

event or circumstance whatsoever. However, no deficiency judgment may be rendered against the Town in favor of the Beneficiary in violation of Section 160A-20 of the North Carolina General Statutes, including, without limitation, any deficiency judgment for amounts that may be owed under the Contract or the Deed of Trust when the sale of all or any portion of the Mortgaged Property is insufficient to produce enough money to pay in full all remaining obligations under the Contract or the Deed of Trust.

***Release of Mortgaged Property.*** Notwithstanding any other provisions of the Deed of Trust, at any time so long as there is no Event of Default, the Deed of Trust Trustee must release the Mortgaged Property or any part thereof from the lien and security interest of the Deed of Trust when and if the following requirements have been fulfilled:

(a) In connection with any release of the Mortgaged Property, or any part thereof, there shall be filed with the Beneficiary a certified copy of the resolution of the Board of Commissioners for the Town stating the purpose for which the Town desires such release of the Mortgaged Property, giving an adequate legal description of the part of the Mortgaged Property to be released, requesting such release and providing for the payment by the Town of all expenses in connection with such release.

(b) In connection with the release of any part of the Mortgaged Property constituting less than the entire Mortgaged Property, either (1) the tax, insured or appraised value of the Mortgaged Property remaining after the proposed release is not less than 50% of the aggregate principal components of the Installment Payments related to the Bonds then Outstanding under the Indenture or (2) the Town (i) provides for the substitution of other real property therefor and the tax, insured or appraised value of the Mortgaged Property remaining after the proposed substitution is not less than the replacement value of the Mortgaged Property (as determined above) immediately before the proposed substitution, (ii) delivers to the Deed of Trust Trustee and the Corporation an opinion of Bond Counsel to the effect that the substitution (A) is permitted by law and under the Deed of Trust and (B) will not adversely affect the tax treatment of any Outstanding Bonds, and (iii) records a modification to the Deed of Trust reflecting such substitution of the Mortgaged Property.

(c) In connection with the release of any part of the Mortgaged Property constituting less than the entire Mortgaged Property, such release shall not prohibit the Town's ingress, egress and regress to and from the remainder of the Mortgaged Property not being released, or materially interfere with the use of the remainder of the Mortgaged Property not being released.

(d) In connection with the release of all property constituting the entire Mortgaged Property, there is paid to the Beneficiary an amount sufficient to provide for the payment in full of all Outstanding Bonds in accordance with the Indenture.

***Grant and Release of Easements.*** Notwithstanding any other provisions of the Deed of Trust, at any time so long as there is no Event of Default, with the consent of the Trustee, the Town may at any time or times grant easements, licenses, rights of way and other rights and privileges in the nature of easements with respect to any part of the Mortgaged Property and the Town may release existing interests, easements, licenses, rights of way and other rights or privileges with or without consideration. The Beneficiary agrees that it shall execute and deliver and will cause, request or direct the Deed of Trust Trustee to execute and deliver any instrument reasonably necessary or appropriate to grant or release any such interest, easement, license, right of way or other right or privilege but only upon receipt of (a) a copy of the instrument of grant or release, (b) a written request of the Town requesting such instrument and (c) a certificate executed by the Town that the grant or release is not detrimental to the proper conduct of the operations of the Town at

the Mortgaged Property and will not impair the effective use, nor materially decrease the value, of the Mortgaged Property.

**Release of Fixtures.** Notwithstanding any other provisions of the Deed of Trust, at any time so long as there is no Event of Default, the Town may at any time or times release Fixtures to be added to the Mortgaged Property from the security interest created by the Deed of Trust with or without consideration. The Beneficiary agrees that it shall execute and deliver and will cause, request or direct the Deed of Trust Trustee to execute and deliver any instrument reasonably necessary or appropriate to release any such Fixture but only upon receipt of (a) a copy of the instrument of release, (b) a written request of the Town requesting such instrument and (c) a certificate executed by the Town that the release is not detrimental to the proper conduct of the operations of the Town at the Mortgaged Property and will not impair the effective use, nor materially decrease the value, of the Mortgaged Property.

**Amendments.** See “THE CONTRACT—*Amendments and Modifications*” above.

**Events of Default.** The term “*Default*”, “*Event of Default*,” or “*Events of Default*,” as used in the Deed of Trust, shall mean any one or more of the following events:

(a) The occurrence of any “*Event of Default*” under the Contract; or

(b) Failure by the Town to perform or observe any term, condition or covenant of the Deed of Trust on its part to be observed or performed, other than as referred to in (a) above, or breach of any warranty by the Town therein contained, for a period of 30 days after written notice specifying such failure and requesting that it be remedied has been given to the Town by the Deed of Trust Trustee or the Beneficiary unless the Deed of Trust Trustee or the Beneficiary agrees in writing to an extension of such time before its expiration; provided, however, that if the failure cannot be corrected within the stated period, the Deed of Trust Trustee or the Beneficiary will not unreasonably withhold consent for an extension.

**Acceleration on Default; Additional Remedies.** If an Event of Default has occurred and is continuing, the Beneficiary shall, at the direction of a majority in aggregate principal amount of the Owners of the Outstanding Bonds, declare all Indebtedness to be due and payable and the same shall thereupon become due and payable in accordance with the Contract and the Deed of Trust without any presentment, demand, protest or notice of any kind. Thereafter, the Beneficiary may, to the extent permitted by applicable law and subject to the Contract:

(a) Either in person or by agent, with or without bringing any action or proceeding, or by a receiver appointed by a court and without regard to the adequacy of its security, enter upon and take possession of the Mortgaged Property, or any part thereof, in its own name or in the name of Deed of Trust Trustee, and do any acts which it deems necessary or desirable to preserve the value, marketability or rentability of the Mortgaged Property, or part thereof or interest therein, increase the income therefrom or protect the security thereof, and, with or without taking possession of the Mortgaged Property, sue for or otherwise collect the rents and issues thereof, including those rents and issues past due and unpaid, and apply the same, less costs and expenses of operation and collection including attorney’s fees, upon any Indebtedness, all in such order as the Beneficiary may determine. The entering upon and taking possession of the Mortgaged Property, the collection of such rents and issues and the application thereof as aforesaid, shall not cure or waive any Event of Default or notice of Event of Default under the Deed of Trust or invalidate any act done in response to such Default or pursuant to such notice of Default and notwithstanding the continuance in possession of the Mortgaged Property or the collection, receipt and application of rents and issues, the Deed of Trust Trustee or the Beneficiary, to the extent permitted by applicable law and

subject to the Contract, shall be entitled to exercise every right provided for in any instrument securing or relating to the Indebtedness or by law upon occurrence of any Event of Default, including the right to exercise the power of sale;

(b) Commence an action to foreclose the Deed of Trust as a mortgage, specially enforce any of the covenants of the Deed of Trust, or cause the Deed of Trust Trustee to foreclose the Deed of Trust by power of sale; and

(c) To the extent permitted by applicable law and subject to the Contract, exercise any or all of the remedies available to a secured party under the Uniform Commercial Code of North Carolina or under any other applicable laws.

NOTWITHSTANDING ANY PROVISIONS CONTAINED IN THE DEED OF TRUST, IT IS THE INTENT OF THE PARTIES TO COMPLY WITH THE PROVISIONS OF NORTH CAROLINA GENERAL STATUTES SECTION 160A-20. NO DEFICIENCY JUDGMENT MAY BE RENDERED AGAINST THE TOWN IN FAVOR OF THE BENEFICIARY IN VIOLATION OF SECTION 160A-20, INCLUDING, WITHOUT LIMITATION, ANY DEFICIENCY JUDGMENT FOR AMOUNTS THAT MAY BE OWED UNDER THE CONTRACT OR THE DEED OF TRUST WHEN THE SALE OF ALL OR ANY PORTION OF THE MORTGAGED PROPERTY IS INSUFFICIENT TO PRODUCE ENOUGH MONEY TO PAY IN FULL ALL REMAINING OBLIGATIONS UNDER THE CONTRACT OR THE DEED OF TRUST. NOTWITHSTANDING ANY PROVISION TO THE CONTRARY IN THE DEED OF TRUST, NO DEFICIENCY JUDGMENT MAY BE RENDERED AGAINST THE TOWN IN ANY ACTION TO COLLECT ANY OF THE INDEBTEDNESS SECURED BY THE DEED OF TRUST AND THE TAXING POWER OF THE TOWN IS NOT AND MAY NOT BE PLEDGED DIRECTLY OR INDIRECTLY OR CONTINGENTLY TO SECURE ANY MONEY DUE OR SECURED UNDER THE DEED OF TRUST.

## **APPENDIX C**

### **FORM OF OPINION OF BOND COUNSEL**

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APPENDIX C

FORM OF OPINION OF BOND COUNSEL

[Letterhead of Parker Poe Adams & Bernstein LLP]

March \_\_, 2023

Nags Head Leasing Corporation  
Nags Head, North Carolina

Town of Nags Head, North Carolina  
Nags Head, North Carolina

The Bank of New York Mellon Trust Company, N.A.  
Jacksonville, Florida

**\$17,110,000**  
***Limited Obligation Bonds***  
***(Town of Nags Head, North Carolina), Series 2023***  
***Evidencing Proportionate Undivided Interests in Rights to Receive***  
***Certain Revenues Pursuant to an Installment Financing Contract between***  
***Nags Head Leasing Corporation and the Town of Nags Head, North Carolina***

Ladies and Gentlemen:

We have acted as Bond Counsel in connection with the execution and delivery of the \$17,110,000 Limited Obligation Bonds (Town of Nags Head, North Carolina), Series 2023 (the “2023 Bonds”) evidencing proportionate undivided interests in rights to receive certain Revenues pursuant to an Installment Financing Contract dated as of March 1, 2023 (the “Contract”) between Nags Head Leasing Corporation, a nonprofit corporation organized and existing under the Constitution and laws of the State of North Carolina (the “Corporation”), and the Town of Nags Head, North Carolina (the “Town”).

The 2023 Bonds are being executed and delivered pursuant to an Indenture of Trust dated as of March 1, 2023 (the “Indenture”) between the Corporation and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”). To secure its obligations under the Contract, the Town has executed and delivered a Deed of Trust, Security Agreement and Fixture Filing dated as of March 1, 2023 (the “Deed of Trust”) from the Town to the deed of trust trustee named therein. The Corporation has assigned to the Trustee pursuant to the Indenture all of its rights, title and interest in and to the Contract, including the right to receive Installment Payments, but excluding certain reserved rights described in the Indenture, and the Deed of Trust. Each capitalized term used but not defined herein has the meaning given to such term in the Contract and the Indenture, as applicable.

The proceeds of the 2023 Bonds will be disbursed by the Trustee to (1) finance the capital costs of (a) the construction, equipping, and furnishing of public services facilities, and (b) the conversion of the Town’s residential and commercial water meters to an Advanced Metering Infrastructure (AMI) system

and (2) pay financing costs related to the 2023 Bonds. The Town has agreed under the Contract to pay its Installment Payments required thereunder directly to the Trustee.

In our capacity as Bond Counsel, we have examined executed copies of the Indenture, the Deed of Trust and the Contract, a specimen of the 2023 Bonds and such law and certified proceedings, instruments, opinions and other documents as we have deemed necessary to render the opinions hereinafter expressed. As to questions of fact material to the opinions hereinafter expressed, we have relied on representations of the Corporation and the Town contained in the Contract and the related documents thereto, the certified proceedings and other certifications of public officials and others furnished to us, including certifications furnished to us by or on behalf of the Corporation and the Town, without undertaking to verify the same by independent investigation. We have also relied on the opinion of Hornthal, Riley, Ellis & Maland LLP, as Town Attorney, dated the date hereof, with respect to the Town's due authorization, execution and delivery of the Contract and other matters set forth therein, and the opinion of Hornthal, Riley, Ellis & Maland LLP, as counsel to the Corporation, dated the date hereof, with respect to the Corporation's due authorization, execution and delivery of the Indenture and the Contract and other matters set forth therein. We have assumed the accuracy and truthfulness of all public records and of all certifications, documents and other proceedings that we have examined that have been executed or certified by public officials acting within the scope of their official capacities and have not verified the accuracy or truthfulness thereof. We have also assumed the genuineness of the signatures appearing upon such public records, certifications, documents, opinions and proceedings.

On the basis of the foregoing, we are of the opinion, under existing law, that:

1. The Indenture has been duly authorized, executed and delivered by the Corporation and is a valid, binding and enforceable obligation of the Corporation and, assuming the due authorization, execution and delivery by the Trustee, creates a valid lien on the Revenues in favor of the Trustee for the benefit of the Owners of the 2023 Bonds.

2. The Contract has been duly authorized, executed and delivered by the Town and the Corporation and is a valid, binding and enforceable obligation of the Town and the Corporation.

3. The 2023 Bonds have been duly authorized, executed and delivered for the purposes described above. The 2023 Bonds evidence valid and legally binding proportionate undivided interests in the Revenues pursuant to the Contract, enforceable in accordance with their terms. The 2023 Bonds are entitled to the benefits and security of the Indenture for the payment thereof from certain amounts to be paid under the Contract in accordance with the terms of the Indenture and the Contract.

4. The portion of the Installment Payments designated and paid as interest with respect to the 2023 Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal individual alternative minimum tax, although we observe that, for tax years beginning after December 31, 2022, the portion of the Installment Payments designated and paid as interest with respect to the 2023 Bonds included in adjusted financial statement income of certain corporations is not excluded from the federal corporate alternative minimum tax. The opinion set forth in the preceding sentence is subject to the condition that the Town and the Corporation comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the execution and delivery of the 2023 Bonds in order that the portion of the Installment Payments designated and paid as interest with respect to the 2023 Bonds be, or continue to be, excludable from gross income for federal income tax purposes. The Town and the Corporation have covenanted to comply with all such requirements. Failure to comply with certain of such requirements may cause the portion of the Installment

Payments designated and paid as interest with respect to the 2023 Bonds to be included in gross income for federal income tax purposes retroactively to the date of execution and delivery of the 2023 Bonds. We express no opinion regarding other federal tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest with respect to the 2023 Bonds.

5. The portion of the Installment Payments designated and paid as interest under the Contract with respect to the 2023 Bonds is exempt from State of North Carolina income taxation.

The rights of the Owners of the 2023 Bonds and the enforceability of the Indenture, the Contract and the 2023 Bonds may be limited by bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium, liquidation, readjustment of debt and other similar laws affecting creditors' rights and remedies generally, and by general principles of equity, whether such principles are considered in a proceeding at law or in equity.

Our services as Bond Counsel in connection with the execution and delivery of the 2023 Bonds have been limited to rendering the opinions expressed above based on our review of such proceedings and documents as we deem necessary to approve the validity of the 2023 Bonds and the tax-exempt status of interest with respect thereto. We have not been engaged or undertaken to review the accuracy, completeness or sufficiency of the Preliminary Official Statement or the Official Statement (collectively, the "*Official Statement*"), or any other offering material relating to the 2023 Bonds (except to the extent, if any, stated in the Official Statement), and we express no opinion herein relating thereto (excepting only the matters set forth as our opinion in the Official Statement and the section entitled "**TAX TREATMENT**") or as to the financial resources of the Town or the ability of the Town to make the payments required under the Contract, that may have been relied on by anyone in making the decision to purchase the 2023 Bonds.

This opinion is delivered to you and for your benefit in connection with the above transaction; it may not be relied on by you for any other purposes and may not be relied on by, nor may copies be provided to, any other person, firm, corporation or other entity without our prior written consent.

Respectfully submitted,

**PARKER POE ADAMS & BERNSTEIN LLP**

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## **APPENDIX D**

### **BOOK-ENTRY ONLY SYSTEM**

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## **BOOK-ENTRY ONLY SYSTEM**

### **The Depository Trust Company**

a subsidiary of The Depository Trust & Clearing Corporation

Beneficial ownership interests in the 2023 Bonds will be available only in a book-entry system. The actual purchasers of the 2023 Bonds (the "*Beneficial Owners*") will not receive physical bonds representing their interests in the 2023 Bonds purchased. So long as The Depository Trust Company ("*DTC*"), New York, New York, or its nominee is the registered owner of the 2023 Bonds, references in this Official Statement to the Owners of the 2023 Bonds shall mean DTC or its nominee and shall not mean the Beneficial Owners.

THE FOLLOWING DESCRIPTION OF DTC, ITS PROCEDURES AND RECORD KEEPING WITH RESPECT TO BENEFICIAL OWNERSHIP INTERESTS IN THE 2023 BONDS, PAYMENT OF INTEREST AND OTHER PAYMENTS WITH RESPECT TO THE 2023 BONDS TO DTC PARTICIPANTS OR TO BENEFICIAL OWNERS, CONFIRMATION AND TRANSFER OF BENEFICIAL OWNERSHIP INTERESTS IN THE 2023 BONDS AND/OR OTHER TRANSACTIONS BY AND BETWEEN DTC, DTC PARTICIPANTS AND BENEFICIAL OWNERS IS BASED ON INFORMATION FURNISHED BY DTC.

1. DTC will act as securities depository for the 2023 Bonds. The 2023 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond will be issued for the 2023 Bonds, in the aggregate principal amount of such issue, and will be deposited with DTC. SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE 2023 BONDS, AS DTC'S PARTNERSHIP NOMINEE, REFERENCE HEREIN TO THE OWNERS OR REGISTERED OWNERS OF THE 2023 BONDS WILL MEAN CEDE & CO. AND WILL NOT MEAN THE BENEFICIAL OWNERS OF THE 2023 BONDS.

2. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("*Direct Participants*") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of the 2023 Bonds. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("*DTCC*"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("*Indirect Participants*"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

3. Purchases of 2023 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2023 Bonds on DTC's records. The ownership interest of

each Beneficial Owner is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests with respect to the 2023 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive bonds representing their ownership interests in 2023 Bonds, except in the event that use of the book-entry system for the 2023 Bonds is discontinued.

4. To facilitate subsequent transfers, all 2023 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of 2023 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2023 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2023 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of 2023 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2023 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of 2023 Bonds may wish to ascertain that the nominee holding the 2023 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

6. Redemption notices shall be sent to DTC. If less than all of the 2023 Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 2023 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Town as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts 2023 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

BECAUSE DTC IS TREATED AS THE OWNER OF THE 2023 BONDS FOR SUBSTANTIALLY ALL PURPOSES UNDER THE INDENTURE, BENEFICIAL OWNERS MAY HAVE A RESTRICTED ABILITY TO INFLUENCE IN A TIMELY FASHION REMEDIAL ACTION OR THE GIVING OR WITHHOLDING OF REQUESTED CONSENTS OR OTHER DIRECTIONS. IN ADDITION, BECAUSE THE IDENTITY OF BENEFICIAL OWNERS IS UNKNOWN TO THE CORPORATION, TO THE TOWN, TO DTC OR TO THE TRUSTEE, IT MAY BE DIFFICULT TO TRANSMIT INFORMATION OF POTENTIAL INTEREST TO BENEFICIAL OWNERS IN AN EFFECTIVE AND TIMELY MANNER. BENEFICIAL OWNERS SHOULD MAKE APPROPRIATE ARRANGEMENTS WITH THEIR BROKER OR DEALER REGARDING DISTRIBUTION OF INFORMATION REGARDING THE 2023 BONDS THAT MAY BE TRANSMITTED BY OR THROUGH DTC.



8. Redemption proceeds, distributions, and dividend payments on the 2023 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Town or the Corporation, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, the Town or the Corporation, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Town or the Corporation, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants. THE CORPORATION AND THE TOWN CANNOT AND DO NOT GIVE ASSURANCE THAT DIRECT AND INDIRECT PARTICIPANTS WILL PROMPTLY TRANSFER PAYMENTS TO BENEFICIAL OWNERS.

9. A Beneficial Owner shall give notice to elect to have its 2023 Bonds purchased or tendered, through its Participant, to the Remarketing Agent, and shall effect delivery of such 2023 Bonds by causing the Direct Participant to transfer the Participant's interest in the 2023 Bonds, on DTC's records, to the Remarketing Agent. The requirement for physical delivery of 2023 Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the 2023 Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered 2023 Bonds to the Remarketing Agent's DTC account.

10. DTC may discontinue providing its services as depository with respect to the 2023 Bonds at any time by giving reasonable notice to the Corporation, the Town and the Trustee. Under such circumstances, in the event that a successor depository is not obtained, 2023 Bond certificates are required to be printed and delivered.

11. The Corporation or the Town may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, 2023 Bond certificates will be printed and delivered to DTC.

12. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources the Corporation and the Town believe to be reliable, but the Corporation and the Town take no responsibility for the accuracy thereof.

THE CORPORATION, THE TOWN AND THE TRUSTEE HAVE NO RESPONSIBILITY OR OBLIGATION TO DTC, THE DIRECT PARTICIPANTS, THE INDIRECT PARTICIPANTS OR THE BENEFICIAL OWNERS WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY PARTICIPANT, OR THE MAINTENANCE OF ANY RECORDS; (2) THE PAYMENT BY DTC OR ANY PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE 2023 BONDS, OR THE SENDING OF ANY TRANSACTION STATEMENTS; (3) THE DELIVERY OR TIMELINESS OF DELIVERY BY DTC OR ANY PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE INDENTURE TO BE GIVEN TO OWNERS; (4) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENTS UPON ANY PARTIAL PREPAYMENT OF THE 2023 BONDS; OR (5) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC OR ITS NOMINEE AS THE REGISTERED OWNER OF THE 2023 BONDS, INCLUDING ANY ACTION TAKEN PURSUANT TO AN OMNIBUS PROXY.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources the Corporation and the Town believe to be reliable, but the Corporation and the Town take no responsibility for the accuracy thereof.