

Comments of the Town Auditor Made to the Town Council  
October 3, 2017

Town of Southern Shores Audit  
June 30, 2017

I am pleased to be here this evening to present the results of your June 30, 2017 audited financial statements for the Town of Southern Shores. The Town has received an unmodified opinion on its financial statements which is the best opinion you can receive. This confirms that your financial statements are presented fairly in accordance with generally accepted accounting principles. Additionally, there were no significant deficiencies or material weaknesses noted and this is outlined in the internal control report...

You will see that total revenues exceeded expenses by \$ 747,400. This is a result of some revenues exceeding budget expectations and expenses under budget in all departments. This gives you a total ending fund balance of \$ 5,525,508.

You will see total assets of \$ 5,697,848 less liabilities and deferred revenues of 171,340, leaves you a total fund balance of \$ 5,652,508. From this total you have to segregate out those portions of fund balance that are restricted. The largest restriction you see there is the Stabilization by State Statute of \$ 1,667,644 – this is a statute that basically makes you restrict a portion of your fund balance resulting from revenues you have earned but do not have on hand at June 30. This includes the \$ 1,063,129 you see as due from other governments in your assets. To that we have to add the \$ 500,000 you have committed for beach nourishment plus a few other pending contracts at June 30 of \$ 104,515 for a total restriction of \$ 1,667,644.

After all the restrictions you are left with an unassigned fund balance of \$ 3,461,071 which more than satisfies your minimum fund balance policy of \$ 1,750,000. If you compare your unassigned fund balance to your total expenditures for the year it represents about 59% or 7 months of operating expenses.

You have a very strong unassigned fund balance.

Overall, the town ended the year in strong financial condition.

Teresa Osborne, CPA

## Peter Rascoe

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**From:** Peter Rascoe  
**Sent:** Thursday, September 28, 2017 3:24 PM  
**To:** Tom Bennett; Fred Newberry; Gary McDonald; Chris Nason; Leo Holland  
**Cc:** Bonnie Swain  
**Subject:** FY 2016-2017 Audit received  
**Attachments:** Communication with Governance at Conclusion of Audit.pdf; JUNE 30, 2017 Southern Shores Financial Statements.pdf

Council,

I am pleased to inform you of today's receipt of the Audit for the Town's finances for Fiscal Year 2016-2017. A hard copy of the Audit has been placed in each of your mail boxes at Town Hall. Attached is a .pdf version, along with a separate .pdf of cover letter, both of which the Auditor has requested not be placed on the Town website until actual approval is received from the NC Local Government Commission, which is standard practice.

Although the Financial Highlights of the year are shown on Page 3 of the Audit, I hope that you will refer to the supporting findings of the Auditor, especially the following:

1. Page 14, *Exhibit 3* - As shown under *Fund Balances*, the Town's year-end (June 30, 2017) Unassigned Fund Balance is \$3,461,071, representing 59% of the total general fund expenditures for the year. This amount of Unassigned Fund Balance is well above the Town's current policy for minimum unassigned fund balance retention. Also of note, this figure does not include the amount of funds (\$458,232) now being processed for payment by FEMA back to the Town for its Hurricane Matthew expenses, which when received, will be added to the Unassigned Fund Balance. Also to note, the year-end Unassigned Fund Balance is net of the Town's commitment of \$500,000 for the beach nourishment project. These figures are represented in the Restricted Funds shown in the same section (Stabilization by State Statute) totaling \$1,667,689.
2. Page 24, *Notes to the Financial Statements, II. Stewardship, Compliance, and Accountability* - Please note there are no reportings of any violations, deficits, or excesses over appropriations.
3. Page 56, *Report on Internal Controls and Compliance* - In *Internal Control Over Financial Reporting*, please note there no deficiencies in internal control reported. In *Compliance and Other Matters*, please note there are no reported instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Teresa Osborne of the Town's Auditor, Dowdy & Osborne, will be at your October 3, 2017 meeting to present her Audit findings and to answer any questions you may have regarding the Town's financial status for Fiscal year 2016-2017.

Peter

# Dowdy & Osborne LLP

CERTIFIED PUBLIC ACCOUNTANTS

Jeff Dowdy, CPA • Teresa Osborne, CPA

September 25, 2017

To the Mayor and Members of the Town Council  
Town of Southern Shores  
Southern Shores, North Carolina

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Southern Shores for the year ended June 30, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 12, 2017. Professional standards also require that we communicate to you the following information related to our audit.

## Significant Audit Findings

### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Town of Southern Shores are described in Note 1 to the financial statements. The Town implemented GASB Statement 73 – Accounting and Financial Reporting for Pensions. The implementation of this statement required the Town to record the beginning total pension liability and the effects on net position of benefit payments paid by the Town for the Law Enforcement Officers’ Special Separation Allowance. No other accounting policies were adopted and the application of existing policies was not changed during fiscal year 2017. We noted no transactions entered into by Town of Southern Shores during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

The financial statement disclosures are neutral, consistent, and clear.

### *Difficulties Encountered in Performing the Audit*

We encountered no difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit’s financial statements taken as a whole.

### *Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor’s report. We are pleased to report that no such disagreements arose during the course of our audit.

103 W. Woodhill Dr., Suite B • P.O. Box 9 • Nags Head, North Carolina 27959  
Telephone 252.449.4404 • Facsimile 252.449.6976

Town of Southern Shores  
North Carolina

Financial Statements

June 30, 2017

Tom Bennett, Mayor  
Fred Newberry, Mayor Pro-Tem  
Leo Holland, Council Member  
Gary McDonald, Council Member  
Chris Nason, Council Member

Peter Rascoe, Town Manager  
Bonnie Swain, Finance Officer  
Ben Gallop, Town Attorney



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CERTIFIED PUBLIC ACCOUNTANTS

Jeff Dowdy, CPA • Teresa Osborne, CPA

## **INDEPENDENT AUDITOR'S REPORT**

To the Mayor and Members of the Town Council  
Southern Shores, North Carolina

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Southern Shores, North Carolina, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

### **Opinions**

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Southern Shores, North Carolina as of June 30, 2017, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.



## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3-10, the Other Postemployment Benefits' Schedules of Funding Progress and Employer Contributions on pages 39-40, the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Asset and Contributions, on pages 41-42, and the Law Enforcement Officers' Special Separation Allowance Schedules of the Changes in Total Pension Liability and Total Pension Liability as a Percentage of Covered Payroll on pages 43-44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Town of Southern Shores, North Carolina. The individual fund statements, budgetary schedules, other schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2017 on our consideration of the Town of Southern Shores' internal control over financial reporting and on our tests of its compliance with certain laws, regulations, contracts, and grant agreements, and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Southern Shores' internal control over financial reporting and compliance.

### ***Dowdy & Osborne, LLP***

Dowdy & Osborne, LLP  
Certified Public Accountants

Nags Head, North Carolina

September 25, 2017

# Management Discussion and Analysis

## Town of Southern Shores

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### Management's Discussion and Analysis

As management of the Town of Southern Shores, we offer readers of the Town of Southern Shores' financial statements this narrative overview and analysis of the financial activities of the Town of Southern Shores for the fiscal year ended June 30, 2017. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town of Southern Shores' financial statements, which follow this narrative.

#### Financial Highlights

- The assets and deferred outflows of resources of the Town of Southern Shores exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$ 14,981,510 (*net position*).
- The government's total net position increased by \$ 1,074,227, due primarily to capitalization of assets (net of depreciation and disposals) in the current year amount of \$ 498,275 and revenues over budget and expenses under budget in the current year of \$ 651,802.
- As of the close of the current fiscal year, the Town of Southern Shores' governmental funds reported combined ending fund balances of \$ 5,583,271, an increase of \$ 688,515 over the prior year. Approximately 38% of this total amount or \$ 2,122,200 is non-spendable, restricted, committed or assigned.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$ 3,461,071 or 59% of total general fund expenditures for the fiscal year.
- Total property valuation increased \$ 15,741,818 (1.18%) from \$ 1,329,400,909 in fiscal year 2016 to \$ 1,345,142,727 in fiscal year 2017.
- The general fund budget for the year was adopted with a tax rate of 22 cents per \$ 100 of assessed valuation; which represented the same tax rate as the prior year.

#### Overview of the Financial Statements

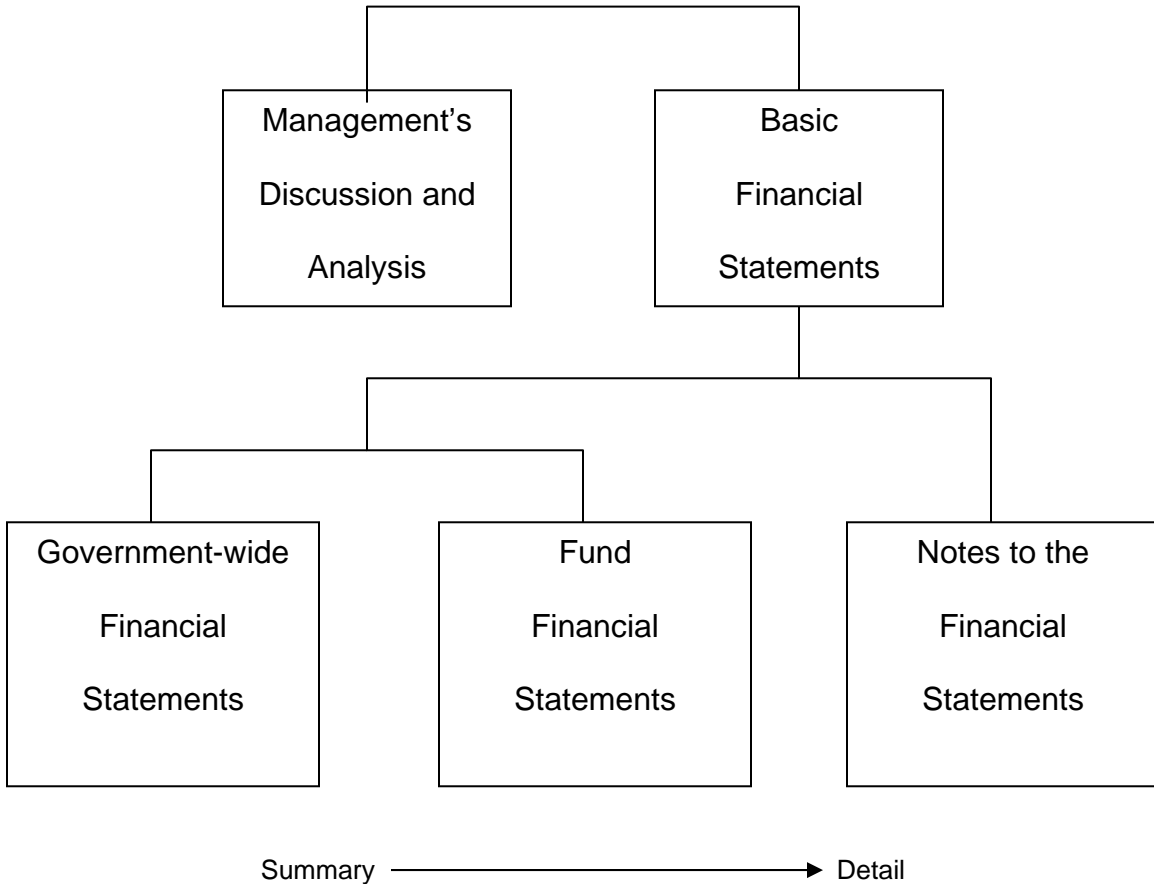
This discussion and analysis is intended to serve as an introduction to the Town of Southern Shores' basic financial statements. The town's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (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 Southern Shores.

# Management Discussion and Analysis Town of Southern Shores

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

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

# Management Discussion and Analysis

## Town of Southern Shores

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### Government-wide Financial Statements

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

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

The government-wide statements are divided into three categories: 1) governmental activities; 2) business-type activities; and 3) component units. The governmental activities include most of the town's basic services such as public safety, parks and recreation, and general administration. Property taxes and state and federal grant funds finance most of these activities. The town does not have any business-type activities or 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 2) 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 Southern Shores can be divided into two categories: governmental funds and proprietary funds. The town has only governmental 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 Southern Shores' basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* that provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more, or less financial resources available to finance the town's programs. The relationship between government activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The Town of Southern Shores adopts an annual budget for its General Fund and Capital Reserve 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

## Management Discussion and Analysis

### Town of Southern Shores

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.

**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 18-38 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 other postemployment healthcare benefits to its employees. Required supplementary information can be found beginning on pages 39-44 of this report.

### Government-Wide Financial Analysis

#### The Town of Southern Shores' Net Position

Figure 2

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Current and other assets	\$ 5,754,611	\$ 5,225,468
Capital assets	10,142,265	9,643,991
Deferred outflows of resources	<u>522,639</u>	<u>122,962</u>
Total assets and deferred outflows of resources	16,419,515	14,992,421
Long-term liabilities outstanding	1,253,525	386,840
Other liabilities	152,914	311,752
Deferred inflows of resources	<u>31,566</u>	<u>63,983</u>
	1,438,005	762,575
Net position:		
Net investment in capital assets	10,142,265	9,643,991
Restricted for Public Safety	6,762	6,687
Restricted for Capital Reserve Fund	166,815	71,217
Restricted for Stabilization by State Statute	1,667,689	718,405
Unrestricted	<u>2,997,979</u>	<u>3,789,546</u>
Total net position	<u>\$ 14,981,510</u>	<u>\$ 14,229,846</u>

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 the Town of Southern Shores exceeded liabilities and deferred inflows by \$ 14,981,510 as of June 30, 2017. The town's net position increased by \$ 1,074,227 for the fiscal year ended June 30, 2017. Net investment in capital assets (68% of total net position) reflects the town's investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt still outstanding that was issued to acquire those items. This amount increased by \$ 498,274; the amount by which current year capital acquisitions exceeded current year depreciation and loss on disposal of assets. The Town of Southern Shores uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Southern Shores' net investment in 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

## Management Discussion and Analysis

### Town of Southern Shores

liquidate these liabilities. An additional portion of the Town's net position, \$ 1,841,266 represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$ 2,997,979 is unrestricted.

**Town of Southern Shores Changes in Net Position**  
**Figure 3**

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Revenues:		
Program Revenues:		
Charges for services	\$ 147,869	\$ 148,093
Operating grants and contributions	533,633	89,272
Capital grants and contributions	337,172	917,771
General Revenues:		
Property taxes	2,961,684	2,929,472
Other taxes	2,528,353	2,558,876
Investment earnings	27,330	11,269
Other	<u>39,876</u>	<u>48,024</u>
Total Revenues	<u>6,575,917</u>	<u>6,702,777</u>
Expenses:		
General government	1,257,727	1,187,825
Public safety	2,171,283	2,088,070
Public works and transportation	1,442,140	905,268
Environmental protection	<u>630,540</u>	<u>674,619</u>
Total Expenses	<u>5,501,690</u>	<u>4,855,782</u>
Increase in net position	<u>1,074,227</u>	<u>1,846,995</u>
Net position, July 1 (previously reported)	14,229,846	12,170,628
Restatement due to GASB Statement 73 implementation	(322,563)	-
Restatement due to GASB Statement 73 implementation	-	<u>212,223</u>
Net position July 1 (restated)	<u>13,907,283</u>	<u>12,382,851</u>
Net position, June 30	<u>\$14,981,510</u>	<u>\$14,229,846</u>

The increase in operating grants and contributions is due primarily to FEMA revenues related to Hurricane Matthew of \$ 458,232. The decrease in capital grants and contributions is due to prior year grant funds for Tall Pine bridge construction of \$ 798,204 and current year grant funds for NC 12/ Dogwood improvements of \$ 228,529.

General government expenses increased \$ 69,902 due primarily to the book value write-off of the demolished building on Skyline property of \$ 49,501. Public safety expenses increased \$ 83,213 due primarily to increased LGERS and LEOSA pension expense and increased vacation payable. Public works and transportation increased \$ 536,872 due to Hurricane Matthew expenses of \$ 414,049 and Tropical Storm Hermine expenses of \$ 67,299 along with street light installations. Environmental protection expenses decreased \$ 44,079 due to a change in vendors for residential and commercial garbage collection.

#### Financial Analysis of the Town of Southern Shores' Funds

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

**Governmental Funds.** The focus of the Town of Southern Shores' 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 Southern Shores' financing requirements. Specifically, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

## Management Discussion and Analysis

### Town of Southern Shores

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The general fund is the chief operating fund of the Town of Southern Shores. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$ 3,461,071 while total fund balance reached \$ 5,526,508. The Town Council has adopted a fund balance policy which endeavors to establish, maintain and grow the Town's unreserved fund balance but in no circumstances shall it be allowed to decrease to an amount less than \$ 1,750,000 unless it is needed for an unforeseen emergency. The unassigned fund balance represents 59% of the current fiscal year general fund expenses.

At June 30, 2017, the governmental funds of Town of Southern Shores reported a combined fund balance of \$ 5,583,271 a 14 % (\$ 688,515) increase over last year. This increase includes an increase in Stabilization by State Statute of \$ 949,284 and a decrease in unassigned fund balance of \$ 300,410. The significant increase in Stabilization by State Statute is due to an increase in revenues earned but not received at year-end along with \$ 500,000 obligated for beach nourishment.

**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 increases of \$ 350,000 from fund balance for Hurricane Matthew which ended up being covered by FEMA reimbursements and \$ 605,000 for beach nourishment.

#### Capital Asset and Debt Administration

**Capital assets.** The Town of Southern Shores' investment in capital assets for its governmental activities as of June 30, 2017, totals \$ 10,142,265 (net of accumulated depreciation). These assets include buildings, land, vehicles and infrastructure.

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

- Street improvements costing approximately \$ 476,309
- Improvements to NC 12/Dogwood costing \$ 261,245
- Purchase of land on NC 12/Dogwood costing \$ 181,630
- Yaupon Trail bulkhead improvements costing \$ 79,110
- 2 police vehicles with accompanying equipment costing \$ 77,023
- License plate readers for police department costing \$ 20,074

**Management Discussion and Analysis  
Town of Southern Shores**

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**Town of Southern Shores' Governmental Activities Capital Assets**

**Figure 4  
(net of depreciation)**

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Land	\$ 467,905	\$ 286,275
Buildings	706,464	790,324
Equipment	121,039	122,358
Infrastructure	8,550,122	8,208,221
Vehicles	209,473	222,639
Construction in progress	<u>87,262</u>	<u>14,174</u>
Total	<u>\$ 10,142,265</u>	<u>\$ 9,643,991</u>

Additional information on the town's capital assets can be found on page 25 in the notes to the financial statements.

**Long-Term Debt.** The Town's long-term debt consist of pension liabilities, OPEB obligations and vacation outlined in the long-term debt schedule on page 36 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 % of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the Town of Southern Shores is \$ 107,611,418.

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

The following economic indicators affect the town.

- Overall land transfer tax collections increased 4.11% indicating an increase in real estate sales. The Town's portion of land transfer tax revenues decreased \$ 14,351 or 6.06% due to a combination of overall growth combined with a reduction due to the changes in the proportionate tax levies among the other local governments in Dare County.
- Travel and tourism has remained constant in Dare County and gross occupancy tax collections increased 8.38%. The Town's portion of occupancy tax decreased \$ 21,615 or 2.28% due to a combination of overall growth combined with a reduction due to the changes in the proportionate tax levies among the other local governments in Dare County.
- Building related revenues increased 6.6%.

**Budget Highlights for the Fiscal Year Ending June 30, 2018**

- The adopted budget includes a tax rate of 22 cents per \$ 100 of assessed valuation which represents no tax increase.
- The adopted budget includes \$ 575,000 for street construction.
- The Town is preparing for beach nourishment in the amount of \$ 1,000,000 to be financed with \$ 500,000 from Dare County, \$ 150,000 from a special assessment and \$ 350,000 from the Town.



## **Management Discussion and Analysis Town of Southern Shores**

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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 Southern Shores, 5375 N. Virginia Dare Trail, Southern Shores, North Carolina 27949.

**TOWN OF SOUTHERN SHORES, NORTH CAROLINA**

Exhibit 1

**STATEMENT OF NET POSITION**

June 30, 2017

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 4,496,335
Taxes receivable	18,425
Prepaid expenses	3,100
Due from governmental units	1,063,174
Restricted cash and cash equivalents	<u>173,577</u>
Total current assets	5,754,611
Non-current assets:	
Capital assets:	
Land	467,905
Construction in progress	87,262
Other capital assets, net of depreciation	<u>9,587,098</u>
Total capital assets	<u>10,142,265</u>
Total assets	<u>15,896,876</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Pension deferrals	<u>522,639</u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	88,531
Salaries and benefits payable	64,383
Current portion of vacation payable	<u>25,000</u>
Total current liabilities	177,914
Long-term liabilities:	
Net pension liability - LGERS	597,650
Total pension liability - LEOSSA	332,069
OPEB obligation	228,834
Long-term portion of vacation payable	<u>69,972</u>
Total liabilities	<u>1,406,439</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Pension deferrals	<u>31,566</u>
<b>NET POSITION</b>	
Net investment in capital assets	10,142,265
Restricted for Stabilization by State Statute	1,667,689
Restricted for Public Safety	6,762
Restricted for Capital Reserve Fund	166,815
Unrestricted	<u>2,997,979</u>
Total net position	<u>\$ 14,981,510</u>

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

# TOWN OF SOUTHERN SHORES, NORTH CAROLINA

## STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary government:</b>				
Governmental activities:				
General Government	\$ 1,257,727	\$ 139,995	\$ 4,200	\$ -
Public Safety	2,171,283	7,874	47,201	-
Public Works/Transportation	1,442,140	-	482,232	337,172
Environmental Protection	630,540	-	-	-
	<u>5,501,690</u>	<u>147,869</u>	<u>533,633</u>	<u>337,172</u>
Total primary government	\$ 5,501,690	\$ 147,869	\$ 533,633	\$ 337,172

General revenues:

Taxes:

Property taxes, levied for general purpose

Other taxes

Investment earnings, unrestricted

Miscellaneous, unrestricted

Total general revenues, special items, and transfers

Change in net position

Net position, beginning, previously reported

Restatement

Net position, beginning, restated

Net position-ending

**Exhibit 2**

<b>Net (Expense) Revenue and Changes in Net Position</b>	
<b>Governmental Activities</b>	<b>Total</b>
\$ (1,113,532)	\$ (1,113,532)
(2,116,208)	(2,116,208)
(622,736)	(622,736)
(630,540)	(630,540)
<u>(4,483,016)</u>	<u>(4,483,016)</u>
<u>\$ (4,483,016)</u>	<u>\$ (4,483,016)</u>

2,961,684	2,961,684
2,528,353	2,528,353
27,330	27,330
39,876	39,876
<u>5,557,243</u>	<u>5,557,243</u>
<u>1,074,227</u>	<u>1,074,227</u>
14,229,846	14,229,846
(322,563)	(322,563)
<u>13,907,283</u>	<u>13,907,283</u>
<u>\$ 14,981,510</u>	<u>\$ 14,981,510</u>

**TOWN OF SOUTHERN SHORES, NORTH CAROLINA**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
For the Year Ended June 30, 2017

Exhibit 3

	<u>Major Fund</u>	<u>Total Non- Major Fund</u>	<u>Total Governmental Funds</u>
	<u>General</u>		
<b><u>ASSETS</u></b>			
Cash and cash equivalents	\$ 4,439,617	\$ 56,718	\$ 4,496,335
Restricted cash and cash equivalents	173,577	-	173,577
Taxes receivable	18,425	-	18,425
Prepaid expenses	3,100	-	3,100
Due from governmental units	1,063,129	45	1,063,174
Total Assets	<u>5,697,848</u>	<u>56,763</u>	<u>5,754,611</u>
<b><u>LIABILITIES</u></b>			
Liabilities:			
Accounts payable	88,531	-	88,531
Salaries and benefits payable	64,384	-	64,384
Total Liabilities	<u>152,915</u>	<u>-</u>	<u>152,915</u>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>			
Property taxes receivable	18,425	-	18,425
Total Deferred Inflows of Resources	<u>18,425</u>	<u>-</u>	<u>18,425</u>
<b><u>FUND BALANCES</u></b>			
Non Spendable:			
Prepaid expenses	3,100	-	3,100
Restricted:			
Stabilization by State Statute	1,667,644	45	1,667,689
Public Safety	6,762	-	6,762
Capital Reserve Fund	166,815	-	166,815
Committed:			
LEO Special Separation Allowance	221,116	-	221,116
Assigned:			
Cemetery	-	56,718	56,718
Unassigned	3,461,071	-	3,461,071
Total Fund Balances	<u>5,526,508</u>	<u>56,763</u>	<u>5,583,271</u>
<b><u>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</u></b>	<b><u>\$ 5,697,848</u></b>	<b><u>\$ 56,763</u></b>	

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	10,142,265
Deferred outflows of resources related to pensions are not reported in the funds	522,639
Earned revenues considered deferred inflows of resources in fund statements	18,425
Long term liabilities used on governmental activities are not financial uses and therefore are not reported in the funds	(1,253,524)
Deferred inflows of resources related to pensions are not reported in the funds	<u>(31,566)</u>
Net position of governmental activities (Exhibit 1)	<u>\$ 14,981,510</u>

**TOWN OF SOUTHERN SHORES, NORTH CAROLINA**

Exhibit 4

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2017**

	Major Funds			Total Governmental Funds
	General	Canal Capital Project Fund	Total Non-Major Fund	
<b>REVENUES:</b>				
Ad valorem taxes	\$ 2,951,740	\$ -	\$ -	2,951,740
Other taxes and licenses	2,072,762	-	-	2,072,762
Unrestricted intergovernmental revenue	455,591	-	-	455,591
Restricted intergovernmental revenue	870,805	-	-	870,805
Permits and fees	132,252	-	-	132,252
Sales and services	1,587	-	14,030	15,617
Investment earnings	27,322	8	-	27,330
Other revenues	39,876	-	-	39,876
<b>TOTAL REVENUES</b>	<b>6,551,935</b>	<b>8</b>	<b>14,030</b>	<b>6,565,973</b>
<b>EXPENDITURES:</b>				
General government	1,138,683	-	8,209	1,146,892
Public safety	2,099,298	-	-	2,099,298
Public works and transportation	2,000,728	-	-	2,000,728
Environmental protection	630,540	-	-	630,540
<b>TOTAL EXPENDITURES</b>	<b>5,869,249</b>	<b>-</b>	<b>8,209</b>	<b>5,877,458</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>682,686</b>	<b>8</b>	<b>5,821</b>	<b>688,515</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers between funds	64,714	(64,714)	-	-
<b>REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	<b>747,400</b>	<b>(64,706)</b>	<b>5,821</b>	<b>688,515</b>
<b>FUND BALANCES:</b>				
Beginning of year - July 1	4,779,108	64,706	50,942	4,894,756
End of year - June 30	\$ 5,526,508	\$ -	\$ 56,763	\$ 5,583,271

**TOWN OF SOUTHERN SHORES, NORTH CAROLINA**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - GOVERNMENTAL FUNDS**  
**For the Year Ended June 30, 2017**

**Exhibit 4**  
**(continued)**

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

Net changes in fund balances - total governmental funds \$ 688,515

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of these 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 which were capitalized	1,168,479	
Depreciation expense for governmental assets	(618,724)	
Loss on asset disposals	<u>(51,480)</u>	498,275

Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities:

LGERS	117,138
LEOSSA	11,212

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

Change in unavailable revenue for tax revenues	9,944
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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	(10,195)	
Pension expense-LGERS	(164,913)	
Pension expense-LEOSSA	(27,489)	
Increase in OPEB obligation	<u>(48,260)</u>	(250,857)

Total changes in net position of governmental activities (Exhibit 2)	<u>\$ 1,074,227</u>
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**TOWN OF SOUTHERN SHORES, NORTH CAROLINA**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - ANNUAL BUDGET AND ACTUAL**  
**GENERAL FUND**  
**For the Year Ended June 30, 2017**

Exhibit 5

	General Fund			Variance with Final Budget- Positive (Negative)
	Original	Final	Actual Amounts	
<b>REVENUES:</b>				
Ad valorem taxes	\$ 2,918,365	\$ 2,918,365	\$ 2,951,740	\$ 33,375
Other taxes and licenses	1,971,422	1,971,422	2,072,762	101,340
Unrestricted intergovernmental revenues	450,300	450,300	455,591	5,291
Restricted intergovernmental revenues	239,417	389,417	870,805	481,388
Permits and fees	112,400	112,400	132,252	19,852
Sales and services	-	-	1,587	1,587
Investment earnings	7,500	7,500	26,230	18,730
Other revenue	4,400	8,000	39,876	31,876
<u>Total Revenues</u>	<u>5,703,804</u>	<u>5,857,404</u>	<u>6,550,843</u>	<u>693,439</u>
<b>EXPENDITURES:</b>				
General government	1,226,043	1,244,113	1,138,683	105,430
Public safety	2,237,632	2,241,232	2,099,298	141,934
Public works and transportation	1,487,323	2,643,990	2,000,728	643,262
Environmental protection	647,300	645,150	630,540	14,610
<u>Total Expenditures</u>	<u>5,598,298</u>	<u>6,774,485</u>	<u>5,869,249</u>	<u>905,236</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>				
	<u>105,506</u>	<u>(917,081)</u>	<u>681,594</u>	<u>1,598,675</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Fund balance appropriated	-	946,873	-	(946,873)
Transfer from capital project fund		64,714	64,714	
Transfer (to) from capital reserve fund	(105,506)	(94,506)	(94,506)	-
	<u>(105,506)</u>	<u>917,081</u>	<u>(29,792)</u>	<u>(946,873)</u>
<b>REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>				
	<u>\$ -</u>	<u>\$ -</u>	<u>651,802</u>	<u>\$ 651,802</u>
<b>FUND BALANCES:</b>				
Beginning			<u>4,707,891</u>	
Ending			<u>\$ 5,359,693</u>	
A legally adopted Capital Reserve Fund is consolidated into the General Fund for reporting purposes:				
Interest income			1,092	
Transfer from general fund			105,506	
Transfer to general fund			(11,000)	
Fund Balance, Beginning			71,217	
Fund Balance, Ending (Exhibit 4)			<u>\$ 5,526,508</u>	



**TOWN OF SOUTHERN SHORES**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

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**I. Summary of Significant Accounting Policies**

The accounting policies of the Town of Southern Shores 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 Southern Shores is a municipal corporation that is governed by an elected mayor and a four-member council.

**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. 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 town only has governmental activities.

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

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

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, State grants, and various other taxes and licenses. The primary expenditures are for general government services, public safety and street and sanitation services. Additionally, the Town has legally adopted a **Capital Reserve Fund**. Under GASB 54 guidance the Capital Reserve Fund is consolidated in the General Fund. The budgetary comparison for the Capital Reserve Fund has been included in the supplemental information.

**Canal Dredging Project Phase II Capital Project Fund.** The Canal Dredging Project Phase II Capital Project Fund was adopted on June 18, 2013 to account for the loan proceeds and expenses related to the second phase of the canal dredging project. This project was completed

**TOWN OF SOUTHERN SHORES**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

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in fiscal year 2014 and the debt was paid off in full in fiscal year 2015. The capital project fund was closed out in fiscal year 2017 and the remaining \$ 64,706 was transferred to the general fund.

**Cemetery Special Revenue Fund.** This fund is used to account for the operation of the town cemetery.

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

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

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad-valorem taxes receivable are not accrued as a revenue because the amount is not susceptible to accrual. At June 30, taxes receivable for property other than motor vehicle taxes 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. Uncollected taxes that were billed in periods prior to September 1, 2013 are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

Sales taxes and certain intergovernmental revenues, such as the utilities franchise tax, 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 Southern Shores 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. Grant revenues which are unearned at year-end are recorded as unearned revenues. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the Town's policy to first apply cost-

**TOWN OF SOUTHERN SHORES**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

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reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

**D. Budgetary Data**

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund, Capital Reserve Fund and Cemetery Fund. All annual appropriations lapse at the fiscal-year end. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the department level for all annually budgeted funds. The Town Manager can reallocate departmental appropriations among objects of expenditure and is authorized to make inter-departmental transfers within the same fund not to exceed 10% of the appropriated monies for the department whose allocation is reduced. During the year, several amendments to the original budget were necessary. The primary changes to the adopted budget were increases of \$ 350,000 from fund balance for Hurricane Matthew and \$ 605,000 for beach nourishment. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

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

**1. Deposits and Investments**

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

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

The Town's investments are reported at fair value. Non-participating interest earning contracts are accounted for at costs. The NCCMT – Government Portfolio, a SEC-registered (2a-7) external investment pool, is measured at amortized cost, which is the NCCMT's share price. The NCCMT-Term Portfolio's securities are valued at fair value.

**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 Fund is classified as restricted assets because its use is restricted to the Capital Reserve Fund per G.S. 159-18. Powell Bill funds are also classified as restricted cash because it can be expended only for the purposes of maintaining, repairing, constructing, or reconstructing or widening of streets per G.S. 136-41.1 through 136-41.4. Additionally, drug

**TOWN OF SOUTHERN SHORES**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

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forfeiture funds are classified as restricted cash because its use is restricted for purposes that enhance law enforcement activities.

Town of Southern Shores Restricted Cash:

Governmental Activities:

General Fund:

Capital reserve fund	\$ 166,815
Public Safety	<u>6,762</u>
Total General Fund	<u>173,577</u>

Total Restricted Cash \$ 173,577

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, 2016.

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. Prepaid Items

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

7. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than \$ 10,000. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. General infrastructure assets acquired prior to July 1, 2003, consist of the road network, which is not capitalized as the town has not opted to do retroactive reporting for infrastructure.

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.

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

Asset Class	Estimated Useful Lives
Infrastructure	20 years
Buildings	40 years
Vehicles	4-7 years
Furniture and equipment	7 years

**TOWN OF SOUTHERN SHORES**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

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8. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town has one item that meets this criterion, contributions made to the pension plan in the 2017 fiscal year. In addition to liabilities, the statements of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Town has several items that meet the criterion for this category – property taxes receivable and pension deferrals.

9. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

10. Compensated Absences

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

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

11. Net Position/Fund Balances

Net Position

Net position in government-wide financial statements are classified as net position 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.

Fund Balances

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 balance as follows:

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

**TOWN OF SOUTHERN SHORES**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

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

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

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

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

Restricted for Capital Reserve Fund – portion of fund balance that is restricted for the legally adopted Capital Reserve Fund.

Restricted for Public Safety – portion of fund balance that is restricted by revenue source for drug enforcement.

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

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

Assigned Fund Balance – portion of fund balance that Town of Southern Shores intends to use for specific purposes.

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

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

The Town of Southern Shores has also adopted a fund balance policy which endeavors to establish, maintain, and grow the Town's unreserved fund balance but in no circumstances shall it be allowed to decrease to less than \$ 1,750,000.

**12. Pensions**

For purposes of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pension, 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 Southern Shores' employer contributions are recognized when due and the Town of Southern Shores 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.

**TOWN OF SOUTHERN SHORES**  
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**II. Stewardship, Compliance, and Accountability**

A. Material Violations of Finance-Related Legal and Contractual Provisions

No items to report.

B. Deficit Fund Balance or Retained Earnings of Individual Funds

No items to report.

C. Excess of Expenditures over Appropriations

No items to report.

**III. Detail Notes on All Funds**

A. Assets

1. Deposits

All the deposits of the Town are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Town's agents in these units' names. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town of Southern Shores, these deposits are considered to be held by the Town's agents in their names. 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.

At June 30, 2017, the Town's deposits had a carrying amount of \$ 756,774 and a bank balance of \$ 813,393. Of the bank balance, \$ 640,441 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. At June 30, 2017, the Town's petty cash fund totaled \$ 700.

2. Investments

At June 30, 2017, the Town's investments were as follows:

	<u>Valuation</u> <u>Measurement Method</u>	<u>Book Value</u> <u>At 6/30/17</u>	<u>Maturity</u>	<u>Rating</u>
NC Capital Management Trust:				
Government Portfolio	Amortized Cost	\$ 2,140,807	N/A	AAAm
Term Portfolio	Fair Value			
	Level 1	<u>1,771,631</u>	.09 years	Unrated
Total Investments		<u>\$ 3,912,438</u>		

**TOWN OF SOUTHERN SHORES**  
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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.

Level of fair value hierarchy: Level 1: Debt securities valued using directly observable, quoted prices (unadjusted) in active markets for identical assets.

*Interest Rate Risk.* The Town's cash management policy does not address interest rate risk.

*Credit Risk.* The Town's cash management policy does not address credit risk. The Town's investment in the NC Capital Management Trust Government Portfolio carried a credit rating of AAAM by Standard & Poor's as of June 30, 2017. The Town's investment in the NC Capital Management Trust Term Portfolio is unrated. The Term Portfolio is authorized to invest in obligations of the U.S. government and agencies, and in high grade money market instruments as permitted under North Carolina General Statutes 159-30 as amended.

*Custodial Risk.* The Town has no policy regarding custodial credit risk for deposits.

**3. Capital Assets**

**Primary Government**

Capital asset activity for the primary government for the year ended June 30, 2017 was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<b>Governmental Activities:</b>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 286,275	\$181,630	\$ -	\$ 467,905
Construction in process	14,173	77,462	4,374	87,261
	<u>300,448</u>	<u>259,092</u>	<u>4,374</u>	<u>555,166</u>
<b>Capital assets being depreciated:</b>				
Buildings	1,366,460	-	51,208	1,315,252
Equipment	201,982	20,074	10,793	211,263
Infrastructure	10,091,249	816,663	-	10,907,912
Vehicles	769,459	77,023	95,064	751,418
Total capital assets being depreciated	<u>12,429,150</u>	<u>913,760</u>	<u>157,065</u>	<u>13,185,845</u>
<b>Less accumulated depreciation for:</b>				
Buildings	576,136	34,359	1,707	608,788
Equipment	79,623	19,414	8,814	90,223
Infrastructure	1,883,029	474,762	-	2,357,791
Vehicles	546,819	90,189	95,064	541,944
Total accumulated depreciation	<u>3,085,607</u>	<u>\$ 618,724</u>	<u>\$ 105,585</u>	<u>3,598,746</u>
Total capital assets being depreciated (net)	<u>9,343,543</u>			<u>9,587,099</u>
<b>Governmental activity capital assets, net</b>	<u>\$ 9,643,991</u>			<u>\$10,142,265</u>

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

General Government	\$ 29,119
Public Safety	86,969
Public works and transportation	<u>502,636</u>
	<u>\$ 618,724</u>



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4. Construction Commitments

The Town has active construction projects as of June 30, 2017 as follows:

<u>Project</u>	<u>Spent-to-date</u>	<u>Remaining Commitment</u>
Beach nourishment engineering	\$ 850	\$ 33,108
Beach nourishment	\$ 0	\$ 1,000,000

Of the \$ 1,000,000 commitment for beach nourishment, the Town is responsible for \$ 500,000 (of which \$ 150,000 will come from a special assessment) and \$ 500,000 will be paid by Dare County.

B. Liabilities

1. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

*Plan Description*

The Town of Southern Shores is a participating employer in the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS membership is comprised of general employees and local law enforcement officers (LEOs) of participating local government entities. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 707-0500 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 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

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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 Southern Shores' 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 Southern Shores' contractually required contribution rate for the year ended June 30, 2017, was 7.86% of compensation for law enforcement officers and 7.257% 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 Southern Shores were \$ 117,138 for the year ended June 30, 2017.

*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, 2017, the Town reported a liability of \$597,650 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2015. The total pension liability was then rolled forward to the measurement date of June 30, 2016 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension asset was based on a projection of the Town's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2016, the Town's proportion was 0.02816%, which was an increase of 0.0109% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the Town recognized pension expense of \$164,913. At June 30, 2017, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 11,229	\$ 20,942
Changes of assumptions	40,934	-
Net difference between projected and actual earnings on pension plan investments	330,425	-
Changes in proportion and differences between Town Contributions and proportionate share of contributions	11,701	3,120
Town contributions subsequent to the measurement date	117,138	-
<b>Total</b>	<b>\$ 511,427</b>	<b>\$ 24,062</b>

\$117,138 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, 2018. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2018	\$ 59,916
2019	59,902
2020	156,035
2021	94,374
2022	-
Thereafter	-

*Actuarial Assumptions.* The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.50 to 7.75 percent, including inflation and productivity factor
Investment rate of return	7.25 percent, net of pension plan investment expense, including inflation

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

The actuarial assumptions used in the December 31, 2015 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections

**TOWN OF SOUTHERN SHORES**  
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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, 2016 are summarized in the following table:

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

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

*Discount rate.* The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the Town's proportionate share of the net pension asset to changes in the discount rate.* The following presents the Town's proportionate share of the net pension asset calculated using the discount rate of 7.25 percent, as well as what the Town's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25 percent) or one percentage point higher (8.25 percent) than the current rate:

	<u>1% Decrease (6.25%)</u>	<u>Discount Rate (7.25%)</u>	<u>1% Increase (8.25%)</u>
Town's proportionate share of the net pension liability (asset)	\$ 1,418,501	\$ 597,650	(\$ 87,987)

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

**TOWN OF SOUTHERN SHORES**  
**Notes to the Financial Statements**  
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b. Law Enforcement Officers Special Separation Allowance

1. *Plan Description.*

The Town of Southern Shores 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.

All full-time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2015 (the valuation date), the Separation Allowance's membership consisted of:

Retirees receiving benefits	1
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	12
Total	13

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 terms of the plan.

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

3. *Actuarial Assumptions*

The entry age actuarial cost method was used in the December 31, 2015 valuation. The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.50 to 7.35 percent, including inflation and productivity factor
Discount rate	3.86 percent

The discount rate is the weekly average of the Bond Buyer General Obligation 20-year Municipal Bond Index determined at the end of each month.

Mortality rates are based on the RP-2014 Mortality table base rates projected to the valuation date using the MP-2015.

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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 in the General Fund operating budget. There were no contributions made by employees. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. The Town paid \$ 23,584 as benefits came due for the reporting period.

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

At June 30, 2017, the Town reported a total pension liability of \$ 332,069. The total pension liability was measured as of December 31, 2016 based on a December 31, 2015 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2016 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2017, The Town recognized pension expense of \$ 27,662.

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	7,504
Town benefit payments subsequent to the measurement date	11,212	-
<b>Total</b>	<b>\$ 11,212</b>	<b>\$ 7,504</b>

\$ 11,212 reported as deferred outflows of resources related to pension resulting from benefits payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ended June 30, 2018. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2018	\$ 1,392
2019	1,392
2020	1,392
2021	1,392
2022	1,392
Thereafter	544

*Sensitivity of the Town's total pension liability to changes in the discount rate.* The following presents the Town's total pension liability calculated using the discount rate of 3.86 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 (2.86 percent) or one percentage point higher (4.86 percent) than the current rate:

	<b>1% Decrease (2.86%)</b>	<b>Discount Rate (3.86%)</b>	<b>1% Increase (4.86%)</b>
Town's pension liability	\$ 363,618	\$ 332,069	\$ 302,960

**TOWN OF SOUTHERN SHORES**  
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**Schedule of Changes in Total Pension Liability**  
**Law Enforcement Officers' Special Separation Allowance**

Total pension liability December 31, 2015	\$ 333,992
Changes for the year:	
Service cost at end of year	17,349
Interest	11,532
Change in benefit terms	0
Differences between expected and actuarial experience	0
Changes of assumptions and other inputs	(8,896)
Benefit payments	(21,908)
Other changes	0
Net changes	<u>\$ (1,923)</u>
Total Pension liability December 31, 2016	<u>\$ 332,069</u>

c. Supplemental Retirement Income Plan for Law Enforcement Officers

*Plan Description.* The Town contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to law enforcement officers employed by the Town. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Supplemental Retirement Income Plan for Law Enforcement Officers is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes the pension trust fund financial statements for the Internal Revenue Code Section 401 (k) plan that includes the Supplementary 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, 2017, were \$ 48,001, which consisted of \$ 39,637 from the Town and \$ 8,364 from law enforcement officers.

d. Supplemental Retirement Income Plan for Non-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 non-law enforcement officers employed by the Town. The Town has no requirement or obligation under State statutes to contribute to the plan.

*Funding Policy.* Beginning July 1, 2002, the Town began making a contribution of five percent for non-law enforcement officers and all amounts are vested immediately. These employees may make voluntary contributions to the plan. Contributions for the year ended June 30, 2016, were \$ 47,638, which consisted of \$ 37,813 from the Town and \$ 9,825 from employees.

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e. 457 Deferred Compensation

*Plan description.* The Town adopted a Supplemental Retirement Income Plan, a defined contribution plan, for all employees beginning January 2011.

*Funding policy.* The Town does not match contributions to the 457 deferred compensation plan. Total contributions for the year ended June 30, 2017 were \$ 13,205 which consisted of \$ 11,705 from regular employees and \$ 1,500 for law enforcement employees.

f. Other Postemployment Benefit - Healthcare Benefits

*Plan Description.* Under the terms of a Town policy, the Town administers a single-employer defined Healthcare Benefits Plan (the HCB Plan). Employees hired prior to November 1, 2007 who retire from the Town with 10 years of service and unreduced retirement benefits, are eligible for continued healthcare until age 65 or Medicare eligible (whichever comes first) when they become eligible for a Medicare Supplement and prescription plan only. Employees hired on or after November 1, 2007 who retire from the Town with 25 years of service and unreduced benefits, are eligible for continued healthcare until age 65 or Medicare eligible (whichever comes first) when they are no longer eligible for any continued healthcare benefit. The Town pays the full cost of coverage for these benefits through private insurers. Also, the Town's retirees can purchase coverage for their dependents at the Town group rates. A separate report was not issued for the plan.

Membership of the HCB Plan consisted of the following at December 31, 2015, the date of the latest actuarial valuation:

	General Employees	Law Enforcement Employees
Retirees and dependents receiving benefits	3	1
Terminated plan members entitled to but not yet receiving benefits	0	0
Active plan members	<u>11</u>	<u>12</u>
Total	<u>13</u>	<u>14</u>

*Funding Policy.* The Town pays the full cost of coverage for the healthcare benefits paid to qualified retirees under a Town policy that can be amended by the Town Council. The Town has chosen to fund the healthcare benefits on a pay as you go basis.

The current ARC rate is 5.4% of annual covered payroll. For the current year, the Town contributed \$ 23,516 or 1.79% of annual covered payroll. The Town obtains healthcare coverage through private insurers. There were no contributions made by employees. The Town's obligation to contribute to the HCB Plan is established and may be amended by Town Council.

*Summary of Significant Accounting Policies.* Postemployment expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they become due.

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



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for the year, the amount actually contributed to the plan, and changes in the Town's net OPEB obligation for the healthcare benefits:

Employer annual required contribution	\$ 71,453
Valuation Discount Rate	4.00%
Interest on net OPEB obligation	7,223
Amortization Factor	26.1695
Adjustment to annual required contribution	<u>(6,900)</u>
Annual OPEB cost (expense)	71,776
Employer contributions made for fiscal year ended 6/30/17	<u>(23,516)</u>
Increase in net OPEB obligation	48,260
Net OPEB obligation beginning of fiscal year	<u>180,574</u>
Net OPEB obligation end of fiscal year	<u>\$ 228,834</u>

3-Year Trend Information

For Year Ended June 30	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Obligation
2015	\$ 25,504	71.29%	\$ 129,179
2016	\$ 71,684	28.30%	\$ 180,574
2017	\$ 71,776	32.76%	\$ 228,834

*Funding Status and Funding Progress.* As of December 31, 2015, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and, thus, the unfunded actuarial accrued liability (UAAL) was \$ 948,405. The covered payroll (annual payroll of active employees covered by the plan) was \$ 1,313,860, and the ratio of the UAAL to the covered payroll was 72.2%. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

In the December 31, 2015 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.00% investment rate of return (net of administrative expenses), which is the expected long-term investment returns on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual medical cost trend increase of 7.75% to 5.00% annually. The investment rate included a 3.00% inflation assumption. The actuarial value of assets, if any, was determined using techniques that spread the effects of short-term volatility in the market value of investments over a 5-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2015, was 30 years.

**TOWN OF SOUTHERN SHORES**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

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2. Other Employment Benefit

The Town has also elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months salary in a row during the 24 months prior to the employee's death. Effective July 1, 2004, the death benefit payments to beneficiaries must be between \$25,000 and \$50,000. 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, 2017 the Town made contributions to the State for death benefits of \$ 1,488. The Town's required contributions for employees not engaged in law enforcement and for law enforcement officers represented 0.05% and 0.14% of covered payroll respectively.

3. Deferred Outflows and Inflows of Resources

The Town has several deferred outflows of resources. Deferred outflows of resources is comprised of the following:

	<u>Amount</u>
Contributions to pension plan in the current fiscal year LGERS	\$ 117,138
Benefit payment made for LEOSSA subsequent to measurement date	\$ 11,212
Pension deferrals	\$ 394,289

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

Taxes receivable (General Fund)	\$ 18,425
Pension deferrals	\$ 31,566

4. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in two 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 \$1 million per occurrence and property coverage up to the total insurance values of the property policy, and workers' compensation coverage up to statutory limits. 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. Specific information on the limits of the reinsurance, excess and stop loss policies purchased by the Board of Trustees can be obtained by contacting the 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.

**TOWN OF SOUTHERN SHORES**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

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

The Town carries flood insurance only on its public works building which is located in a flood zone with coverage amounts of \$ 400,600 for the building and \$ 140,500 for contents.

The Town carries a bond on its finance officer for \$ 50,000 and on its tax collector for \$ 50,000 and a \$ 20,000 general employee dishonesty bond.

**5. Long-Term Obligations**

At June 30, 2017 the Town had a legal debt margin of \$ 107,611,418.

**Changes in Long-Term Liabilities**

	<u>Balance July 1, 2016</u>	<u>Increase</u>	<u>Decreases</u>	<u>Balance June 30, 2017</u>	<u>Current Portion of Balance</u>
Governmental activities:					
Compensated absences	\$ 84,777	\$ 10,195	\$ -	\$ 94,972	\$ 25,000
Net pension obligation (LGERS)	121,489	476,161	-	597,650	-
Total pension obligation (LEO)	333,992	-	1,923	332,069	-
OPEB obligation	180,574	71,776	23,516	228,834	-
Governmental Activity Long-Term Liabilities	\$720,832	\$ 558,132	\$ 25,439	\$ 1,253,525	\$ 25,000

**C. Inter-fund Balances and Activity**

Transfers to/from other funds at June 30, 2017, consist of the following:

From the General Fund to the Capital Reserve Fund (for capital projects)	\$ 105,506
From the Capital Reserve Fund to the General Fund (for building demolition)	\$ 11,000
From the Capital Project Fund to the General Fund (to close capital project fund)	\$ 64,714

**TOWN OF SOUTHERN SHORES**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

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**D. 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		\$ 5,526,508
Less:		
Prepaid expenses	\$ 3,100	
Stabilization by State Statute	1,667,644	
Drug enforcement	6,762	
Capital reserve fund	166,815	
LEO Special Separation Allowance	221,116	
Working capital/fund balance policy	<u>1,750,000</u>	
 Total Reductions	 <u>\$ 3,815,437</u>	
 Remaining Fund Balance		 <u>\$ 1,711,071</u>

The Town Council has adopted a fund balance policy which endeavors to establish, maintain and grow the Town’s unreserved fund balance, but in no circumstances shall it be allowed to decrease to an amount less than \$ 1,750,000 unless it is to be used for an unforeseen emergency use.

Outstanding encumbrances are amounts needed to pay any commitments related to purchase orders and contracts that remain unperformed at year-end. Those amounts at year-end are:

General Fund	\$ 604,515 (includes the Town’s \$ 500,000 share for beach nourishment)
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**IV. Southern Shores Cemetery Perpetual Care Fund**

In December 2005, the Town contributed \$ 5,000 to the Outer Banks Community Foundation, Inc. to establish a fund to provide ongoing maintenance as needed for the Southern Shores Cemetery. The Foundation has full authority over management of the fund.

**V. Change in Accounting Principles/Restatement**

The Town implemented Governmental Accounting Standards Board (GASB) Statement 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, in the fiscal year ended June 30, 2017. The implementation of the Statement required the Town to record beginning total pension liability and the effects on net position of benefit payments paid by the Town to the Law Enforcement Officers’ Special Separation Allowance during the measurement period (fiscal year ending December 31, 2016). As a result, net position for the governmental activities decreased \$ 322,563.

**TOWN OF SOUTHERN SHORES**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

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**VI. Summary Disclosure of Contingencies**

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 monies.

Subsequent Events

Management has evaluated subsequent events through September 25, 2017, the date on which the financial statements were available to be issued.

# TOWN OF SOUTHERN SHORES, NORTH CAROLINA

Other Postemployment Benefits  
 Required Supplementary Information  
 Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued		Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll c	UAAL as a % of Covered Payroll ((b-a)/c)
		Liability (AAL) -Projected Unit Credit (b)					
12/31/09	-	588,902		588,902	0.00%	1,240,837	47.46%
12/31/12	-	332,248		332,248	0.00%	1,257,522	26.42%
12/31/15	-	948,405		948,405	0.00%	1,313,860	72.18%

# TOWN OF SOUTHERN SHORES, NORTH CAROLINA

## Other Postemployment Benefits Required Supplementary Information Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2010	\$ 38,199	29.13%
2011	\$ 38,199	31.64%
2012	\$ 38,199	26.77%
2013	\$ 25,276	18.27%
2014	\$ 25,276	23.17%
2015	\$ 25,276	71.93%
2016	\$ 71,453	28.39%
2017	\$ 71,453	32.76%

### Notes to the Required Schedules:

The information presented in the required supplementary schedules was determined as part of an actuarial valuation as follows:

Valuation date	December 31, 2015
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay, Open
Remaining amortization period	30 Years
Amortization Factor	26.1695
Asset valuation method	Market Value of Assets
Actuarial assumptions:	
Investment rate of return*	4.00%
Medical Trend Assumptions	
Pre-Medicare Trend Rate	7.75% - 5.00%
Year of Ultimate Trend Rate	2022
*Includes inflation at	3.00%

**TOWN OF SOUTHERN SHORES, NORTH CAROLINA**  
**Town of Southern Shores' Proportionate Share of Net Pension Liability (Asset)**  
**Required Supplementary Information**  
**Last Four Fiscal Years \***  
**Local Government Employees' Retirement System**

	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Town of Southern Shores' proportion of the net pension liability (asset) (%)	0.02816%	0.02707%	0.02669%	0.02410%
Town of Southern Shores' proportion of the net pension liability (asset) (\$)	\$ 597,650	\$ 121,489	\$ (157,403)	\$ 290,498
Town of Southern Shores' covered-employee payroll	\$ 1,539,393	\$ 1,467,530	\$ 1,442,114	\$ 1,260,591
Town of Southern Shores' proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	38.82%	8.28%	-10.91%	23.04%
Plan fiduciary net position as a percentage of the total pension liability **	91.47%	98.09%	102.64%	94.35%

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

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



# TOWN OF SOUTHERN SHORES, NORTH CAROLINA

## Town of Southern Shores' Contributions

### Required Supplementary Information

#### Last Four Fiscal Years

#### Local Government Employees' Retirement System

	2017	2016	2015	2014
Contractually required contribution	\$ 117,138	\$ 105,378	\$ 106,245	\$ 103,484
Contributions in relation to the contractually required contribution	117,138	105,378	106,245	103,484
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Town of Southern Shores' covered-employee payroll	\$ 1,548,998	\$ 1,539,393	\$ 1,467,530	\$ 1,442,114
Contributions as a percentage of covered-employee payroll	7.56%	6.85%	7.24%	7.18%

# TOWN OF SOUTHERN SHORES, NORTH CAROLINA

## Schedule of Changes in Total Pension Liability Law Enforcement Officers' Special Separation Allowance June 30, 2017

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	<u>2017</u>
Beginning Balance	\$ 333,992
Service Cost	17,349
Interest on the total pension liability	11,532
Changes of benefit terms	-
Differences between expected and actual experience in the measurement of the total pension liability	-
Changes of assumptions or other inputs	(8,896)
Benefit payments	(21,908)
Other changes	-
Ending balance of the total pension liability	<u>\$ 332,069</u>

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

**TOWN OF SOUTHERN SHORES, NORTH CAROLINA**  
**Schedule of Total Pension Liability as a Percentage of Covered Payroll**  
**Law Enforcement Officers' Special Separation Allowance**  
**June 30, 2017**

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	<u>2017</u>
Total pension liability	\$ 332,069
Covered payroll	\$ 829,465
Total pension liability as a percentage of covered payroll	40.03%

Notes to the schedules:

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

# TOWN OF SOUTHERN SHORES, NORTH CAROLINA

## GENERAL FUND

### STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

For the Year Ended June 30, 2017

With Comparative Actual Amounts for the Year Ended June 30, 2016

	2017		Variance Favorable (Unfavorable)	2016
	Budget	Actual		Actual
<b><u>REVENUES</u></b>				
<b><u>AD VALOREM TAXES:</u></b>				
Current year	\$ 2,907,865	\$ 2,947,364	39,499	\$ 2,922,931
Prior year	7,500	2,426	(5,074)	9,592
Penalties and interest	3,000	1,950	(1,050)	3,407
	<u>2,918,365</u>	<u>2,951,740</u>	<u>33,375</u>	<u>2,935,930</u>
<b><u>OTHER TAXES AND LICENSES:</u></b>				
Local option sales tax	871,763	923,481	51,718	894,212
Occupancy tax	885,791	926,873	41,082	948,488
Land transfer tax	213,868	222,408	8,540	236,759
	<u>1,971,422</u>	<u>2,072,762</u>	<u>101,340</u>	<u>2,079,459</u>
<b><u>UNRESTRICTED INTERGOVERNMENTAL REVENUES:</u></b>				
ABC Revenue	58,000	55,571	(2,429)	59,175
Utilities franchise/telecommunications tax	282,000	287,008	5,008	309,054
Video programming tax	67,000	70,180	3,180	69,122
Peg Channel Revenue	28,500	27,683	(817)	28,071
Solid waste disposal tax	1,800	1,951	151	1,396
Beer and wine tax	13,000	13,198	198	12,599
	<u>450,300</u>	<u>455,591</u>	<u>5,291</u>	<u>479,417</u>
<b><u>RESTRICTED INTERGOVERNMENTAL REVENUES:</u></b>				
Federal:				
NCDOJ-COPS Grant	41,667	47,126	5,459	41,173
Byrne Justice Assistance Grant	-	-	-	13,693
NCDOT - Tall Pine	-	(10,404)	(10,404)	798,204
US Dept. of Homeland Security-FEMA	-	373,776	373,776	-
State:				
Powell Bill allocation	118,000	119,047	1,047	119,567
Public safety grants	45,750	-	(45,750)	-
Controlled substance tax	-	75	75	406
NCDOT Grant - Dogwood	150,000	228,529	78,529	-
NC Dept. Public Safety-DEM-FEMA	-	84,456	84,456	-
Other:				
Government Access Channel grant	10,000	4,200	(5,800)	10,000
Contribution from Dare Cty - Sand Fencing	24,000	24,000	-	24,000
	<u>389,417</u>	<u>870,805</u>	<u>481,388</u>	<u>1,007,043</u>

# TOWN OF SOUTHERN SHORES, NORTH CAROLINA

## GENERAL FUND

### STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

For the Year Ended June 30, 2017

With Comparative Actual Amounts for the Year Ended June 30, 2016

	2017		Variance Favorable (Unfavorable)	2016
	Budget	Actual		Actual
<b><u>PERMITS AND FEES:</u></b>				
Building permits and plan review	95,000	118,288	23,288	111,622
CAMA permits	2,200	2,740	540	3,380
Planning fees	6,700	3,350	(3,350)	2,450
Parking fines	7,500	6,900	(600)	4,300
Court costs and fees	1,000	974	(26)	1,017
	<u>112,400</u>	<u>132,252</u>	<u>19,852</u>	<u>122,769</u>
<b><u>SALES AND SERVICES:</u></b>				
Cable franchise fees	-	1,587	1,587	18,324
	<u>-</u>	<u>1,587</u>	<u>1,587</u>	<u>18,324</u>
<b><u>INVESTMENT EARNINGS</u></b>	<u>7,500</u>	<u>26,230</u>	<u>18,730</u>	<u>10,801</u>
<b><u>OTHER REVENUES:</u></b>				
Rents	2,400	1,700	(700)	9,900
Sale of fixed assets	3,300	20,722	17,422	10,222
Insurance claims	-	9,444	9,444	22,313
Outer Banks Community Foundation	-	1,000	1,000	1,500
Body armor grant	-	1,065	1,065	1,951
Miscellaneous	2,300	5,945	3,645	2,138
	<u>8,000</u>	<u>39,876</u>	<u>31,876</u>	<u>48,024</u>
<b><u>TOTAL REVENUES</u></b>	<u>\$ 5,857,404</u>	<u>\$ 6,550,843</u>	<u>\$ 693,439</u>	<u>\$ 6,701,767</u>

# TOWN OF SOUTHERN SHORES, NORTH CAROLINA

## GENERAL FUND

### STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

For the Year Ended June 30, 2017

With Comparative Actual Amounts for the Year Ended June 30, 2016

	2017		Variance Favorable (Unfavorable)	2016
	Budget	Actual		Actual
<b><u>EXPENDITURES</u></b>				
<b><u>GENERAL GOVERNMENT:</u></b>				
Administration:				
Salaries		362,528		355,769
Council compensation		18,600		15,554
Payroll taxes		25,951		25,490
Retirement		44,580		42,208
Health insurance		42,424		44,968
Training		4,269		7,792
Utilities		20,151		20,275
Travel		7,390		8,964
Legal service		48,555		52,480
Audit services		16,000		16,069
Payroll services		6,410		7,861
Equipment lease and maintance		8,931		22,605
Telephone		30,914		28,631
Postage		1,512		1,572
Supplies		8,669		9,847
Vehicle operations		140		171
Municipal elections		-		3,570
Advertising		770		823
Dues and subscriptions		6,903		7,564
Insurance and bonds		67,818		84,036
Contracted services		2,635		1,068
Computer service		72,970		58,384
Town code update		2,896		2,835
Dare County and NCVTS tax collection fees		46,662		46,838
Government Access Channel membership		1,000		1,000
Government Access Channel PEG revenues to Dare County		27,683		28,071
Employee recognition and appreciation		7,020		7,290
Wellness initiative		2,692		868
Cleaning		17,390		16,430
Technology upgrade - Pitts Center		4,200		10,276
Recording of meetings		5,350		5,242
Unemployment		-		519
Miscellaneous		3,067		-
C/O-vehicle		-		19,293
	967,553	916,080	51,473	954,363
Planning and Inspections:				
Salaries		127,206		125,029
Payroll taxes		10,116		10,008
Retirement		16,622		15,517
Health insurance		21,484		22,110
Training		200		-
Printing		475		202
Travel		147		-
Supplies		634		404
Advertising		834		528
Dues and subscriptions		120		170
Contracted Services		19,290		21,095
Vehicles operations		652		788
Miscellaneous		100		14

# TOWN OF SOUTHERN SHORES, NORTH CAROLINA

## GENERAL FUND

### STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

For the Year Ended June 30, 2017

With Comparative Actual Amounts for the Year Ended June 30, 2016

	2017		Variance Favorable (Unfavorable)	2016
	Budget	Actual		Actual
Homeowner recovery fund		585		477
Town Code Update		22,633		12,529
Flood zone map mailing		1,505		1,810
	<u>276,560</u>	<u>222,603</u>	<u>53,957</u>	<u>210,681</u>
<b>TOTAL GENERAL GOVERNMENT</b>	<u>1,244,113</u>	<u>1,138,683</u>	<u>105,430</u>	<u>1,165,044</u>
<b><u>PUBLIC SAFETY:</u></b>				
<b>Police:</b>				
Salaries		860,413		867,282
Payroll taxes		64,986		65,767
Retirement		110,685		104,238
Health insurance		104,519		113,446
Training		12,199		5,697
Travel		7,162		10,730
Equipment lease and maintenance		4,250		3,050
Supplies		33,138		32,146
Advertising		603		-
Dues and subscriptions		1,045		1,899
Computer service		2,830		6,646
Contracted services		13,718		9,105
Vehicle maintenance		17,884		19,849
Vehicle operations		25,566		25,057
Uniforms		14,070		15,428
Medical testing		714		-
Miscellaneous		-		109
Career development		1,000		1,000
Separation allowance		23,584		22,677
Capital outlay		162,502		134,724
	<u>1,602,802</u>	<u>1,460,868</u>	<u>141,934</u>	<u>1,438,850</u>
<b>Fire:</b>				
Contracted services	<u>476,880</u>	<u>476,880</u>	<u>-</u>	<u>475,505</u>
	476,880	476,880	-	475,505
<b>Ocean Rescue:</b>				
Contracted services	<u>161,550</u>	<u>161,550</u>	<u>-</u>	<u>158,126</u>
	161,550	161,550	-	158,126
<b>TOTAL PUBLIC SAFETY</b>	<u>2,241,232</u>	<u>2,099,298</u>	<u>141,934</u>	<u>2,072,481</u>
<b><u>PUBLIC WORKS AND TRANSPORTATION</u></b>				
<b>Public Works:</b>				
Salaries		206,910		209,340
Payroll taxes		14,774		15,092
Retirement		24,248		23,442
Health insurance		32,706		38,373
Medical testing		294		131
Printing		225		-
Training		1,300		4,410
Travel		-		2,417
Equipment lease and maintenance		5,633		5,167
Advertising		723		1,096
Supplies		36,226		3,204
Dues & Subscriptions		753		489

# TOWN OF SOUTHERN SHORES, NORTH CAROLINA

## GENERAL FUND

### STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

For the Year Ended June 30, 2017

With Comparative Actual Amounts for the Year Ended June 30, 2016

	2017		Variance Favorable (Unfavorable)	2016
	Budget	Actual		Actual
Vehicles maintenance		1,264		1,977
Vehicles operations		4,987		5,434
Uniforms		3,582		3,779
Beautification		5,028		11,499
Town buildings maintenance and repairs		30,276		25,948
Safety compliance		819		586
Parking lot maintenance		113		2,153
Miscellaneous		950		593
Sand fencing and grass planting		31,254		24,000
Capital outlay-equipment		4,499		27,609
	<u>421,632</u>	<u>406,564</u>	<u>15,068</u>	<u>406,739</u>
Streets, bridges and canals:				
Street sign maintenance		6,414		4,974
Miscellaneous engineering services		3,351		1,794
Street maintenance		19,251		54,278
Waterway maintenance		400		400
Brush trimming		11,900		7,650
Bridge maintenance		2,125		915
Bulkhead maintenance & repair		79,110		62,490
Storm debris clean up-Tropical storm Hermine		67,299		-
Storm debris clean up - Hurricane Matthew		414,049		-
Street construction - Gravey Pond		-		19
Juniper/Trinitie Tr. Bridge		7,223		-
Bridge construction - Tall Pine Bridge		(12,923)		997,755
Dogwood Trail survey options		30,000		-
Land acquisition-Dogwood		181,630		-
Street construction/improvements-NC 12/Dogwood		231,244		-
Street construction-Scuppernong		-		38
Street construction-Fairway Dr.		-		131
Street construction-N. Dogwood Trail		-		59,397
Street construction-Yaupon		6,660		1,163
Street construction-Dogwood interesection		3,563		75
Street construction-Pintail		-		4,918
Street construction-Beech Tree		56		166,532
Street construction-Bear Track Lane		-		71,563
Street construction-Wild Swan Lane		131,085		19
Street construction-Fox Grape Lane		75		249,751
Street construction-Hollow Beach Court		-		70,714
Street construction-Osprey Lane		154,082		-
Street construction-Juniper Trail		186,768		-
Beach nourishment		70,802		-
	<u>2,222,358</u>	<u>1,594,164</u>	<u>628,194</u>	<u>1,754,576</u>
TOTAL PUBLIC WORKS AND TRANSPORTATION	2,643,990	2,000,728	643,262	2,161,315

## ENVIRONMENTAL PROTECTION

### Solid Waste:

Residential collection	177,113	216,755
Commercial collection	43,890	44,284
Recycling collection	134,594	136,294
Chipping	111,317	110,000
Miscellaneous	360	300



**TOWN OF SOUTHERN SHORES, NORTH CAROLINA**

**GENERAL FUND**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**

**FUND BALANCE - BUDGET AND ACTUAL**

For the Year Ended June 30, 2017

With Comparative Actual Amounts for the Year Ended June 30, 2016

	2017		Variance Favorable (Unfavorable)	2016
	Budget	Actual		Actual
Tipping fees		163,266		166,987
	<u>645,150</u>	<u>630,540</u>	<u>14,610</u>	<u>674,620</u>
TOTAL ENVIRONMENTAL PROTECTION	<u>645,150</u>	<u>630,540</u>	<u>14,610</u>	<u>674,620</u>
<b>TOTAL EXPENDITURES</b>	<u>6,774,485</u>	<u>5,869,249</u>	<u>905,236</u>	<u>6,073,460</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(917,081)</u>	<u>681,594</u>	<u>1,598,675</u>	<u>628,307</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Fund balance appropriated	946,873	-	(946,873)	-
Transfer (to) from capital reserve fund	(94,506)	(94,506)	-	(20,000)
Transfer from capital project fund	64,714	64,714	-	-
	<u>917,081</u>	<u>(29,792)</u>	<u>(946,873)</u>	<u>(20,000)</u>
<b>REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	<u>\$ -</u>	651,802	651,802	608,307
<b>FUND BALANCE:</b>				
Beginning of year, July 1		4,707,891		3,887,361
Restatement		-		<u>212,223</u>
End of year, June 30		<u>\$ 5,359,693</u>		<u>\$ 4,707,891</u>

# TOWN OF SOUTHERN SHORES, NORTH CAROLINA

## CAPITAL RESERVE FUND

### STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

For the year ended June 30, 2017

With Comparative Actual Amounts for the Year Ended June 30, 2016

	2017		Variance Favorable (Unfavorable)	2016
	Budget	Actual		Actual
<b>REVENUES:</b>				
Interest income	\$ -	\$ 1,092	\$ 1,092	\$ 450
	-	1,092	1,092	450
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfer from general fund	20,000	105,506	85,506	20,000
Future capital projects	(20,000)	-	20,000	-
Transfer to general fund	-	(11,000)	(11,000)	-
	-	94,506	94,506	20,000
<b>REVENUES OVER (UNDER) OTHER FINANCING SOURCES (USES)</b>				
	\$ -	95,598	\$ 95,598	20,450
<b>FUND BALANCE:</b>				
Beginning of year, July 1		71,217		50,767
End of year, June 30		\$ 166,815		\$ 71,217

# TOWN OF SOUTHERN SHORES, NORTH CAROLINA

## CANAL DREDGING PHASE II CAPITAL PROJECT FUND

### SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

From Inception and For the Year Ended June 30, 2017

	Project Authorization	Prior Years	Actual Current Year	Total to Date
<b>REVENUES:</b>				
Investment income	\$ -	\$ 2,453	\$ 8	\$ 2,461
	<u>-</u>	<u>2,453</u>	<u>8</u>	<u>2,461</u>
<b>EXPENDITURES:</b>				
Canal dredging, removal, disposal	1,212,880	1,212,880	-	1,212,880
Dredging performance surveys	50,000	37,700	-	37,700
Sub aquatic vegetation survey	10,000	4,500	-	4,500
Engineering for dredging	28,500	33,483	-	33,483
Town Hall Complex Improvements	236,500	227,226	-	227,226
Project contingency	50,000	9,838	-	9,838
	<u>1,587,880</u>	<u>1,525,627</u>	<u>-</u>	<u>1,525,627</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(1,587,880)</u>	<u>(1,523,174)</u>	<u>8</u>	<u>(1,523,166)</u>
<b>OTHER FINANCIAL SOURCES (USES)</b>				
Fund balance appropriated	64,714	-	-	-
Transfer to general fund	(64,714)	-	(64,714)	(64,714)
Transfer from capital reserve fund	40,000	40,000	-	40,000
Installment purchase loan	1,547,880	1,547,880	-	1,547,880
	<u>1,587,880</u>	<u>1,587,880</u>	<u>(64,714)</u>	<u>1,523,166</u>
<b>REVENUES AND OTHER FINANCIAL SOURCES OVER EXPENDITURES</b>	<u>\$ -</u>	<u>\$ 64,706</u>	<u>(64,706)</u>	<u>\$ -</u>
<b>FUND BALANCE</b>				
Beginning of year, July 1			<u>64,706</u>	
End of year, June 30			<u>\$ -</u>	

# TOWN OF SOUTHERN SHORES, NORTH CAROLINA

## CEMETERY FUND

### STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

For the Year ended June 30, 2017

With Comparative Actual Amounts for the Year Ended June 30, 2016

	2017		Variance Favorable (Unfavorable)	2016
	Budget	Actual		Actual
<b>REVENUES:</b>				
Cemetery revenues	\$ 2,000	\$ 14,030	\$ 12,030	\$ 7,000
	<u>\$ 2,000</u>	<u>\$ 14,030</u>	<u>\$ 12,030</u>	<u>\$ 7,000</u>
<b>EXPENDITURES:</b>				
Cemetery operations	11,180	8,209	\$ 2,971	-
	<u>11,180</u>	<u>8,209</u>	<u>2,971</u>	<u>2,966</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>				
	<u>(9,180)</u>	<u>5,821</u>	<u>15,001</u>	<u>4,034</u>
<b>OTHER FINANCING SOURCES:</b>				
Fund Balance Appropriated	9,180	-	(9,180)	-
	<u>9,180</u>	<u>-</u>	<u>(9,180)</u>	<u>-</u>
<b>REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES</b>				
	<u>\$ -</u>	<u>5,821</u>	<u>5,821</u>	<u>4,034</u>
<b>FUND BALANCE:</b>				
Beginning of year, July 1		<u>50,942</u>		<u>46,908</u>
End of year, June 30		<u>\$ 56,763</u>		<u>\$ 50,942</u>

**TOWN OF SOUTHERN SHORES, NORTH CAROLINA**  
**SCHEDULE OF AD VALOREM TAXES RECEIVABLE**  
**June 30, 2017**

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2016</u>	<u>Additions</u>	<u>Releases/ Adjustments</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2017</u>
2016-2017	\$ -	\$2,960,179	\$ (178)	\$ 2,947,364	\$ 12,637
2015-2016	2,511	-	(2)	1,482	1,027
2014-2015	1,304	-	-	618	686
2013-2014	2,242	-	-	317	1,925
2012-2013	609	-	-	-	609
2011-2012	455	-	-	3	452
2010-2011	256	-	-	6	250
2009-2010	339	-	-	-	339
2008-2009	316	-	-	-	316
2007-2008	184	-	-	-	184
2006-2007	265	-	(265)	-	-
	<u>\$ 8,481</u>	<u>\$2,960,179</u>	<u>\$ (445)</u>	<u>\$ 2,949,790</u>	<u>\$ 18,425</u>

Reconciliation of collections and credits to revenues:

Ad valorem taxes - Schedule 1	\$ 2,951,740
Write offs and adjustments	-
Penalties and interest	(1,950)
	<u>\$ 2,949,790</u>

**TOWN OF SOUTHERN SHORES, NORTH CAROLINA**  
**ANALYSIS OF CURRENT TAX LEVY**  
**June 30, 2017**

	<u>Property Valuation</u>	<u>Rate</u>	<u>Total Levy</u>	<u>Property Excluding Registered Motor Vehicles</u>	<u>Registered Motor Vehicles</u>
Original levy:					
Property taxed at current year's rate	\$ 1,345,086,364	0.2200	\$ 2,959,190	\$ 2,862,361	\$ 96,829
Discoveries/Abatements	\$ 56,364	0.2200	124	124	-
Late list penalties			865	865	-
Total property valuation	<u><u>\$ 1,345,142,727</u></u>				
Net levy			<u>2,960,179</u>	<u>2,863,350</u>	<u>96,829</u>
Uncollected taxes at June 30, 2017			<u>(12,637)</u>	<u>(12,637)</u>	<u>-</u>
Current year's taxes collected			<u><u>\$ 2,947,542</u></u>	<u><u>\$ 2,850,713</u></u>	<u><u>\$ 96,829</u></u>
Current levy collection percentage			<u><u>99.57%</u></u>	<u><u>99.56%</u></u>	<u><u>100.00%</u></u>

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

To the Mayor and Members of the Town Council  
Town of Southern Shores, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregated remaining fund information of the Town of Southern Shores, North Carolina, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town of Southern Shores' basic financial statements, and have issued our report thereon dated September 25, 2017.

Internal Control Over Financial Reporting

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

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

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

### Compliance and Other Matters

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

### Purpose of this Report

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

### ***Dowdy & Osborne, LLP***

Dowdy & Osborne, LLP  
Certified Public Accountants

Nags Head, North Carolina

September 25, 2017



### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated September 25, 2017.

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Town of Southern Shores' financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Town of Southern Shores' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### Other Matters

We applied certain limited procedures to the Management's Discussion and Analysis, the Other Postemployment Benefits' Schedules of Funding Progress and Employer Contributions, the Schedules of Proportionate Share of Net Pension Liability (Asset) and Contributions, and the Schedules of Changes in Total Pension Liability and Total Pension Liability as a Percentage of Covered Payroll which are supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the individual fund statements, budgetary schedules and other schedules, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

### Restriction on Use

This information is intended solely for the use of the Town Council and management of Town of Southern Shores is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

***Dowdy & Osborne, LLP***

Dowdy & Osborne, LLP  
Certified Public Accountants

Nags Head, North Carolina