

Town of Southern Shores
North Carolina

Financial Statements

June 30, 2014

Tom Bennett, Mayor
Jodi Hess, Mayor Pro-Tem
Leo Holland, Council Member
David Sanders, Council Member
Larry Lawhon, Council Member

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

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Dowdy & Osborne LLP

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, 2014, 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, 2014, 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 and the Law Enforcement Officers' Special Separation Allowance and the Other Postemployment Benefits' Schedules of Funding Progress and Employer Contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 and other schedules, are presented for the 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 October 24, 2014 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

October 24, 2014

Management Discussion and Analysis

Town of Southern Shores

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, 2014. 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 \$ 11,347,863 (*net position*).
- The government's total net position increased by \$ 989,834 (largely due to capitalized canal dredging improvements).
- As of the close of the current fiscal year, the Town of Southern Shores' governmental funds reported combined ending fund balances of \$ 5,163,458, a decrease of \$ 1,301,853 over the prior year (largely due to canal dredging improvements paid from the capital project fund). Approximately 13 % of this total amount or \$ 675,209 is non-spendable, restricted, committed or assigned.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$ 4,488,249 or 79 % of total general fund expenditures for the fiscal year.
- County wide property valuations occurred and the total property valuation decreased \$ 466,815,703 (26%) from \$ 1,779,121,250 in fiscal year 2013 to \$ 1,312,305,547 in fiscal year 2014.
- The general fund budget for the year was adopted with a tax rate of 22 cents per \$ 100 of assessed valuation (up from 16 cents in the prior year) due to county-wide property revaluations. This rate represents the "revenue neutral" tax rate for Southern Shores.

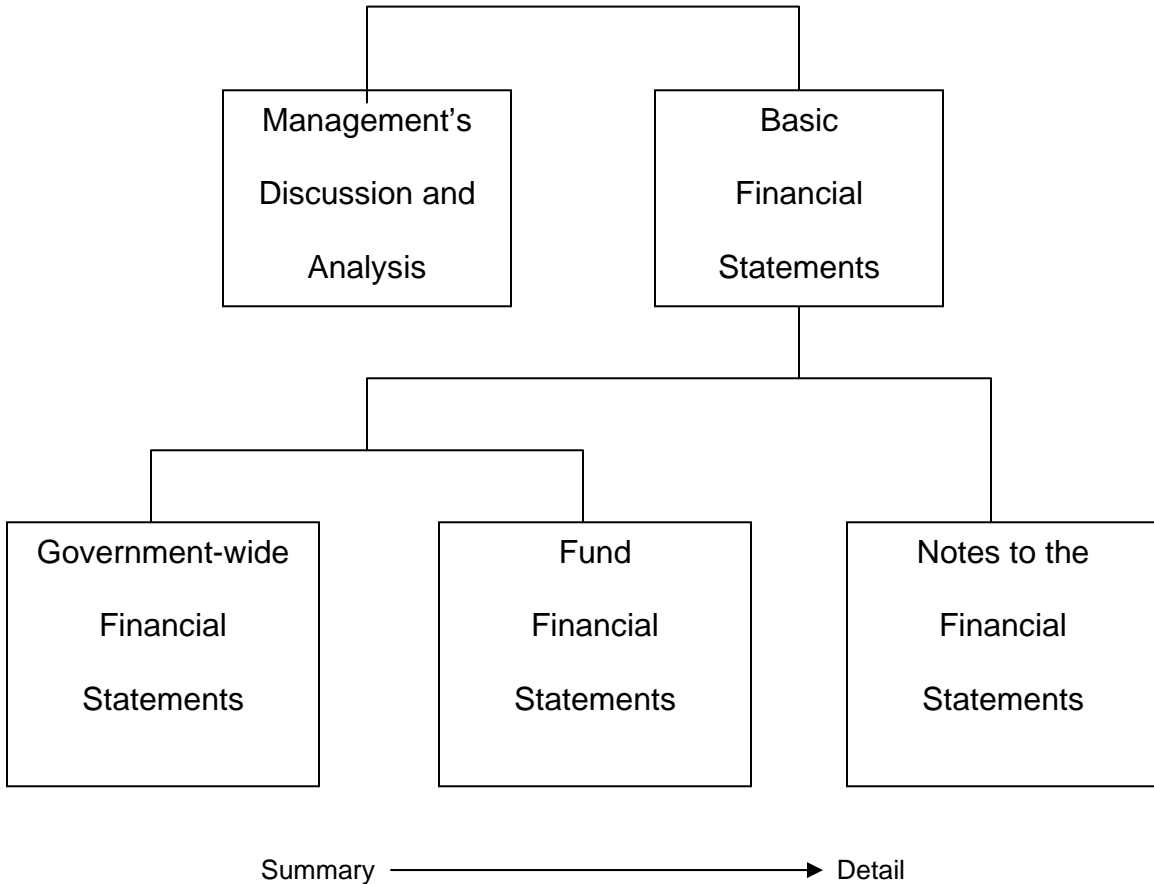
Overview of the Financial Statements

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

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

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 20-36 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 37-40 of this report.

Government-Wide Financial Analysis

The Town of Southern Shores' Net Position

Figure 2

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Current and other assets	\$ 5,364,060	\$ 6,718,880
Capital assets	<u>7,870,044</u>	<u>6,032,458</u>
Total assets	13,234,104	12,751,338
Long-term liabilities outstanding	1,700,368	2,158,481
Other liabilities	185,873	233,142
Deferred inflows of resources	-	<u>1,686</u>
Total liabilities and deferred inflows of resources	<u>1,886,241</u>	2,393,309
Net position:		
Net investment in capital assets	6,462,509	5,618,785
Restricted for Public Safety	5,927	6,584
Restricted for Capital Reserve Fund	60,494	210,598
Restricted for Stabilization by State Statute	476,392	694,697
Unrestricted	<u>4,342,541</u>	<u>3,827,365</u>
Total net position	<u>\$ 11,347,863</u>	<u>\$ 10,358,029</u>

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets of the Town of Southern Shores exceeded liabilities and deferred inflows by \$ 11,347,863 as of June 30, 2014. The town's net position increased by \$ 989,834 for the fiscal year ended June 30, 2014. Net investment in capital assets (57% 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 \$ 843,724; the amount by which current year capital acquisitions and payments on related debt exceeded current year depreciation and new debt used for capital acquisitions. 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

Management Discussion and Analysis

Town of Southern Shores

assets cannot be used to liquidate these liabilities. An additional portion of the Town's net position, \$ 542,813 represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$ 4,342,541 is unrestricted.

Town of Southern Shores Changes in Net Position
Figure 3

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Revenues:		
Program Revenues:		
Charges for services	\$ 134,716	\$ 128,309
Operating grants and contributions	151,238	17,000
Capital grants and contributions	163,147	180,033
General Revenues:		
Property taxes	2,887,100	2,847,672
Other taxes	2,384,719	2,143,477
Investment earnings	4,180	3,359
Other	<u>21,371</u>	<u>18,244</u>
Total Revenues	<u>5,746,471</u>	<u>5,338,094</u>
Expenses:		
General government	1,122,985	1,043,957
Public safety	2,007,358	1,847,342
Public works and transportation	979,349	588,433
Environmental protection	<u>646,945</u>	<u>637,313</u>
Total Expenses	<u>4,756,637</u>	<u>4,117,045</u>
Increase in net position	989,834	1,221,049
Net position, July 1 (restated)	<u>10,358,029</u>	<u>9,136,980</u>
Net position, June 30	<u>\$11,347,863</u>	<u>\$ 10,358,029</u>

The June 30, 2013 expenses have been restated (total is the same) to accurately compare to June 30, 2014, due to a change in presenting functional categories.

The increase in operating grants and contributions is due to a contribution from Dare County for sand fencing (\$ 89,218); a NCDOT grant for a pedestrian plan (\$16,208); increased funding from the Government Access Channel (\$ 5,534); police grants (\$ 14,379) and storm reimbursements (\$ 8,899). The increase in property taxes is due to a \$ 40,000 increase in motor vehicle taxes due to the new "Tag and Tax" system for motor vehicles taxes in North Carolina as well as the fact that motor vehicle tax values were not affected by property revaluation, yet are taxed at the new higher rate resulting from property revaluation. The increase in other taxes is a partial result of growth in sales and occupancy taxes and the result of the reallocation of shared revenues due to tax rate changes throughout Dare County municipalities.

General government expenses increased \$ 79,000 due in part to increased costs for insurance (\$ 27,000), increased salaries and related benefits (\$ 30,000), contracted building inspector services (\$ 16,000), pedestrian and bike plan (\$ 20,000), and legal services (\$ 17,252). Public safety increased \$ 160,000 due in part to increased salaries and related costs of one added position and vacancies filled by more experienced officers (\$ 132,000) and increased depreciation on capital purchases (\$ 12,000). Public works and transportation increased \$ 390,000 due in part to non-capitalized street pot hole patching (\$ 135,000); the addition of Public Works Director with salary and related benefit costs (\$ 75,000), sand fencing (\$ 89,000), non-capitalized repairs to existing buildings (\$ 60,000) and increased depreciation on infrastructure (\$ 59,000).

Management Discussion and Analysis

Town of Southern Shores

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.

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 \$ 4,488,249 while total fund balance reached \$ 5,047,429. 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 79% of the current fiscal year general fund expenses.

At June 30, 2014, the governmental funds of Town of Southern Shores reported a combined fund balance of \$ 5,163,458 a 20 % (\$ 1,301,853) decrease over last year. The largest decrease is the result of a decrease in the capital project fund of \$ 1,479,530 due to expenses related to Phase 2 of the canal dredging project, the police training facility and improvements to other town buildings. The general fund increased \$ 173,865 and cemetery fund increased \$ 3,812.

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 related to the additional cost (over NCDOT estimate) for Juniper/Trinitie Trail bridge and related payment of \$ 361,806.

Capital Asset and Debt Administration

Capital assets. The Town of Southern Shores' investment in capital assets for its governmental activities as of June 30, 2014, totals \$ 7,870,044 (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 \$ 548,000
- Tall Pine bridge improvements costing \$ 55,625
- Juniper/Trinitie Trail bridge improvements costing \$ 106,806
- Canal dredging related costs of \$ 1,294,601
- Purchase of two police vehicles costing \$ 73,183
- Purchase of radar equipment costing \$ 14,133
- Construction of police training building costing \$ 180,000

Management Discussion and Analysis Town of Southern Shores

Town of Southern Shores' Governmental Activities Capital Assets

Figure 4
(net of depreciation)

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Land	\$ 132,650	\$ 132,650
Buildings	809,222	660,849
Equipment	118,264	121,631
Infrastructure	6,431,878	4,678,447
Vehicles	201,515	221,991
Construction in progress	176,515	216,890
Total	<u>\$ 7,870,044</u>	<u>\$ 6,032,458</u>

Additional information on the town's capital assets can be found on page 27 in the notes to the financial statements.

Long-Term Debt. The Town's long-term debt consists of (3) lease purchase arrangements for vehicle purchases and debt related to Phase 2 of the canal dredging project. New debt during the fiscal year totaled \$ 180,306 and principal payments on debt totaled \$ 668,271 leaving a balance of \$ 1,473,588 at June 30, 2014.

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 \$ 103,510,856.

Economic Factors and Next Year's Budgets and Rates

The following economic indicators affect the town.

- Travel and tourism remain significant revenues for Dare County. County wide occupancy tax collections showed a 5% increase and land transfer tax collections showed a 9% increase.
- Building related revenues increased \$ 11,672 or 12.4% over the prior year.
- County wide property valuations occurred and the total property valuation decreased \$ 466,815,703 (26%) from \$ 1,779,121,250 in fiscal year 2013 to \$ 1,312,305,547 in the current fiscal year.

Budget Highlights for the Fiscal Year Ending June 30, 2015

- The adopted budget includes a tax rate of 22 cents per \$ 100 of assessed valuation which represents no tax increase.
- The budget includes \$ 547,000 for street construction.
- The budget includes \$ 500,000 for the Tall Pine NCDOT bridge project with an offset of \$ 400,000 from NCDOT.
- The adopted budget includes debt repayment for Phase 2 of the canal dredging project of \$ 243,000.

Management Discussion and Analysis Town of Southern Shores

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, 2014

	<u>Governmental Activities</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 4,854,252
Taxes receivable	14,729
Prepaid expenses	16,367
Due from governmental units	346,238
Restricted cash and cash equivalents	132,474
Total current assets	<u>5,364,060</u>
Capital assets:	
Land	132,650
Construction in progress	176,515
Other capital assets, net of depreciation	7,560,879
Total capital assets	<u>7,870,044</u>
Total assets	<u>\$ 13,234,104</u>
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 142,148
Salaries and benefits payable	43,725
Current portion of long-term liabilities	309,293
Total current liabilities	<u>495,166</u>
Long-term liabilities:	
Due in more than one year	1,391,075
Total liabilities	<u>1,886,241</u>
NET POSITION	
Net investment in capital assets	6,462,509
Restricted for Stabilization by State Statute	476,392
Restricted for Public Safety	5,927
Restricted for Capital Reserve Fund	60,494
Unrestricted	4,342,541
Total net position	<u>\$ 11,347,863</u>

TOWN OF SOUTHERN SHORES, NORTH CAROLINA

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General Government	\$ 1,122,985	\$ 127,175	\$ 127,960	\$ -
Public Safety	2,004,038	7,541	14,379	-
Public Works/Transportation	953,676	-	-	163,147
Environmental Protection	646,946	-	8,899	-
Interest on long-term debt	28,992	-	-	-
	<u>4,756,637</u>	<u>134,716</u>	<u>151,238</u>	<u>163,147</u>
Total primary government	\$ 4,756,637	\$ 134,716	\$ 151,238	\$ 163,147

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 (restated)

Net position-ending

Exhibit 2

Net (Expense) Revenue and Changes in Net Position	
Governmental Activities	Total
\$ (867,850)	\$ (867,850)
(1,982,118)	(1,982,118)
(790,529)	(790,529)
(638,047)	(638,047)
(28,992)	(28,992)
<u>(4,307,536)</u>	<u>(4,307,536)</u>
<u>\$ (4,307,536)</u>	<u>\$ (4,307,536)</u>

2,887,100	2,887,100
2,384,719	2,384,719
4,180	4,180
21,371	21,371
<u>5,297,370</u>	<u>5,297,370</u>
989,834	989,834
10,358,029	10,358,029
<u>\$ 11,347,863</u>	<u>\$ 11,347,863</u>

TOWN OF SOUTHERN SHORES, NORTH CAROLINA

Exhibit 3

BALANCE SHEET - GOVERNMENTAL FUNDS

For the Year Ended June 30, 2014

	Major Funds		Total Non-Major Fund	Total Governmental Funds
	General	Canal Capital Project Fund		
ASSETS				
Cash and cash equivalents	\$ 4,799,276	\$ 7,412	\$ 47,564	\$ 4,854,252
Restricted cash and cash equivalents	66,421	66,053	-	132,474
Taxes receivable	14,729	-	-	14,729
Prepaid expenses	16,367	-	-	16,367
Due from governmental units	346,238	-	-	346,238
Total Assets	5,243,031	73,465	47,564	5,364,060
LIABILITIES				
Liabilities:				
Accounts payable	137,148	5,000	-	142,148
Salaries and benefits payable	43,725	-	-	43,725
Total Liabilities	180,873	5,000	-	185,873
DEFERRED INFLOWS OF RESOURCES				
Property taxes receivable	14,729	-	-	14,729
Total Deferred Inflows of Resources	14,729	-	-	14,729
FUND BALANCES				
Non Spendable:				
Prepaid expenses	16,367	-	-	16,367
Restricted:				
Stabilization by State Statute	476,392	-	-	476,392
Public Safety	5,927	-	-	5,927
Capital Reserve Fund	60,494	-	-	60,494
Committed:				
Committed for capital projects	-	68,465	-	68,465
Assigned:				
Cemetery	-	-	47,564	47,564
Unassigned	4,488,249	-	-	4,488,249
Total Fund Balances	5,047,429	68,465	47,564	5,163,458
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 5,243,031	\$ 73,465	\$ 47,564	

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.

7,870,044

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

14,729

Long-term liabilities used in governmental activities are not financial uses and therefore are not reported in the funds

(1,700,368)

Net position of governmental activities (Exhibit 1)

\$ 11,347,863

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, 2014**

	Major Funds			
	General	Canal Capital Project Fund	Total Non- Major Fund	Total Governmental Funds
REVENUES:				
Ad valorem taxes	\$ 2,891,112	\$ -	\$ -	2,891,112
Other taxes and licenses	2,044,257	-	-	2,044,257
Unrestricted intergovernmental revenue	340,462	-	-	340,462
Restricted intergovernmental revenue	314,385	-	-	314,385
Permits and fees	115,271	-	-	115,271
Sales and services	12,806	-	6,640	19,446
Investment earnings	1,883	2,297	-	4,180
Other revenues	21,371	-	-	21,371
TOTAL REVENUES	5,741,547	2,297	6,640	5,750,484
EXPENDITURES:				
General government	1,094,234	-	2,828	1,097,062
Public safety	1,962,304	180,000	-	2,142,304
Public works and transportation	1,307,241	1,341,827	-	2,649,068
Environmental protection	646,946	-	-	646,946
Debt Service				-
Principal	668,271	-	-	668,271
Interest	28,992	-	-	28,992
TOTAL EXPENDITURES	5,707,988	1,521,827	2,828	7,232,643
REVENUES OVER (UNDER) EXPENDITURES	33,559	(1,519,530)	3,812	(1,482,159)
OTHER FINANCING SOURCES (USES)				
Transfer to capital project fund	(40,000)	40,000	-	-
NCDOT loan proceeds	106,806	-	-	106,806
Installment purchase loan proceeds	73,500	-	-	73,500
TOTAL OTHER FINANCING SOURCES (USES)	140,306	40,000	-	180,306
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	173,865	(1,479,530)	3,812	(1,301,853)
FUND BALANCES:				
Beginning of year - July 1	4,873,564	1,547,995	43,752	6,465,311
End of year - June 30	\$ 5,047,429	\$ 68,465	\$ 47,564	\$ 5,163,458

TOWN OF SOUTHERN SHORES, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2014

Exhibit 4
(continued)

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

Net changes in fund balances - total governmental funds \$ (1,301,853)

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	2,272,377	
Depreciation expense for governmental assets	<u>(434,791)</u>	1,837,586

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		(4,012)
--	--	---------

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt.

New long-term debt issued	(180,306)	
Principal payments on long-term debt	<u>668,271</u>	487,965

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:

Decrease in compensated absences	749	
Increase in OPEB obligation	(19,603)	
Increase in net pension obligation	<u>(10,998)</u>	<u>(29,852)</u>

Total changes in net position of governmental activities (Exhibit 2)		<u><u>\$ 989,834</u></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, 2014

Exhibit 5

	General Fund			Variance with Final Budget- Positive (Negative)
	Original	Final	Actual Amounts	
REVENUES:				
Ad valorem taxes	\$ 2,870,505	\$ 2,870,505	\$ 2,891,112	\$ 20,607
Other taxes and licenses	1,916,610	1,916,610	2,044,257	127,647
Unrestricted intergovernmental revenues	327,300	327,300	340,462	13,162
Restricted intergovernmental revenues	294,000	419,457	314,385	(105,072)
Permits and fees	92,000	92,000	115,271	23,271
Sales and services	12,000	12,000	12,806	806
Investment earnings	3,000	3,000	1,784	(1,216)
Other revenue	8,650	14,075	21,371	7,296
<u>Total Revenues</u>	<u>5,524,065</u>	<u>5,654,947</u>	<u>5,741,448</u>	<u>86,501</u>
EXPENDITURES:				
General government	1,160,030	1,208,390	1,094,234	114,156
Public safety	2,064,895	2,088,774	2,050,963	37,811
Public works and transportation	1,500,930	2,066,960	1,915,845	151,115
Environmental protection	646,000	651,000	646,946	4,054
<u>Total Expenditures</u>	<u>5,371,855</u>	<u>6,015,124</u>	<u>5,707,988</u>	<u>307,136</u>
REVENUES OVER (UNDER) EXPENDITURES				
	<u>152,210</u>	<u>(360,177)</u>	<u>33,460</u>	<u>393,637</u>
OTHER FINANCING SOURCES (USES):				
Fund balance appropriated	-	43,775	-	(43,775)
Transfer to capital reserve fund	(856,210)	(856,210)	(856,210)	-
Transfer from capital reserve fund	630,000	991,806	966,414	(25,392)
NCDOT loan proceeds	-	106,806	106,806	-
Lease proceeds	74,000	74,000	73,500	(500)
	<u>(152,210)</u>	<u>360,177</u>	<u>290,510</u>	<u>(69,667)</u>
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES				
	<u>\$ -</u>	<u>\$ -</u>	<u>323,970</u>	<u>\$ 323,970</u>
FUND BALANCES:				
Beginning			<u>4,662,965</u>	
Ending			<u>\$ 4,986,935</u>	

A legally adopted Capital Reserve Fund is consolidated into the General Fund for reporting purposes:

Interest income	99
Transfer from general fund	856,210
Transfer to general fund	(966,414)
Transfer to capital project fund	(40,000)
Fund Balance, Beginning	210,599
Fund Balance, Ending (Exhibit 4)	<u>\$ 5,047,429</u>

TOWN OF SOUTHERN SHORES, NORTH CAROLINA

Exhibit 6

Statement of Fiduciary Net Position

Fiduciary Funds

June 30, 2014

	<u>Pension Trust</u>
ASSETS	
Cash and cash equivalents	<u>\$ 179,906</u>
 Total Assets	 <u>179,906</u>
 NET ASSETS	
Held in trust for pension benefits	<u>179,906</u>
Total Net Position	<u><u>\$ 179,906</u></u>

TOWN OF SOUTHERN SHORES, NORTH CAROLINA

Exhibit 7

Statement of Changes in Fiduciary Net Position**Fiduciary Funds****For the Fiscal Year Ended June 30, 2014**

	<u>Pension Trust</u>
Additions	
Employer contributions	\$ 15,000
Interest income	<u>77</u>
Total additions	<u>15,077</u>
Deductions	
Benefits	-
Administrative expenses	<u>-</u>
Total deductions	<u>-</u>
Change in net position	15,077
Net position - beginning of year	<u>164,829</u>
Net position - end of year	<u><u>\$ 179,906</u></u>

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014

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.

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014

The Town reports the following non-major governmental funds:

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

The Town reports the following fiduciary fund types:

Pension Trust. This is a fiduciary fund for the Law Enforcement Officers Separation Allowance Retirement.

C. Measurement Focus and Basis of Accounting

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

Government-wide 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. 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

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014

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-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. A multi-year project ordinance has been adopted for the canal dredging project. 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 with the largest one associated with budgeting debt repayment on the Juniper/Trinitie Trail bridge. 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 with a maturity of more than one year at acquisition and non-money market investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT Cash Portfolio, a SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued at fair value. Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost. Non-participating interest earning investment contracts are reported at cost.

2. Cash and Cash Equivalents

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

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014

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 forfeiture funds are classified as restricted cash because its use is restricted for purposes that enhance law enforcement activities. The unexpended debt proceeds in the capital project fund are classified as restricted assets because their use is completely restricted to the purpose for which the debt was originally issued.

Town of Southern Shores Restricted Cash:

Governmental Activities:

General Fund:

Capital reserve fund	\$ 60,494
Public Safety	<u>5,927</u>
Total General Fund	66,421

Capital Project Fund:

Unexpended loan proceeds	<u>66,053</u>
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Total Restricted Cash	<u>\$ 132,474</u>
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4. Ad-Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad-valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2013.

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.

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014

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:

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

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 does not have any items that meet this criterion. 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 only one item that meets the criterion for this category – property taxes receivable.

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.

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014

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.

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 purposes imposed by a majority vote by quorum of Town of Southern Shores' governing body (highest level of decision making authority). Any changes or removal of specific purpose requires majority action by the governing body.

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

Assigned Fund Balance – portion of fund balance that 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.

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014

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, 2014, the Town's deposits had a carrying amount of \$ 1,125,080 and a bank balance of \$ 1,147,570. Of the bank balance, \$ 500,000 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. At June 30, 2014, the Town's petty cash fund totaled \$ 700.

2. Investments

At June 30, 2014, the Town's investments were as follows:

	<u>Fair Value</u>	<u>Maturity</u>	<u>Rating</u>
NC Capital Management Trust:			
Cash Portfolio	<u>\$ 4,040,852</u>	<u>N/A</u>	<u>AAAm</u>
Total Investments	<u>\$ 4,040,852</u>		

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014

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 Cash Portfolio carried a credit rating of AAAM by Standard & Poor's as of June 30, 2014.

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, 2014 was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 132,650	\$ -	\$ -	\$ 132,650
Construction in process	216,890	96,768	137,143	176,515
	<u>349,540</u>	<u>96,768</u>	<u>137,143</u>	<u>309,165</u>
Capital assets being depreciated:				
Buildings	1,135,253	180,000	-	1,315,253
Equipment	145,281	14,133	-	159,414
Infrastructure	5,458,404	2,045,436	-	7,503,840
Vehicles	664,919	73,183	53,101	685,001
Total capital assets being depreciated	<u>7,403,857</u>	<u>2,312,752</u>	<u>53,101</u>	<u>9,663,508</u>
Less accumulated depreciation for:				
Buildings	474,408	31,628	-	506,036
Equipment	23,650	17,500	-	41,150
Infrastructure	779,954	292,004	-	1,071,958
Vehicles	442,927	93,659	53,101	483,485
Total accumulated depreciation	<u>1,720,939</u>	<u>\$ 434,791</u>	<u>\$ 53,101</u>	<u>2,102,629</u>
Total capital assets being depreciated (net)	<u>5,682,918</u>			<u>7,560,879</u>
Governmental activity capital assets, net	<u>\$ 6,032,458</u>			<u>\$7,870,044</u>

Beginning governmental activity capital assets, net, has been increased by a prior period adjustment for previously unrecorded canal dredging improvements costing \$ 2,197,389 less accumulated depreciation of \$ 219,739 for a net of \$ 1,977,650 (see prior period adjustment note D).

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

General Government	\$ 41,430
Public Safety	102,137
Environmental protection and transportation	<u>291,224</u>
	<u>\$ 434,791</u>

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014

B. Liabilities

1. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

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

Funding Policy. Plan members are required to contribute six percent of their annual covered salary. The Town is required to contribute at an actuarially determined rate. For the Town, the current rate for employees not engaged in law enforcement and for law enforcement officers is 7.28% and 7.07%, respectively, of annual covered payroll. The contribution requirements of members and of the Town of Southern Shores is established and may be amended by the North Carolina General Assembly. The Town's contributions to LGERS for the years ended June 30, 2014, 2013 and 2012 were \$ 103,484, \$ 85,152 and \$ 88,539 respectively. The contributions made by the Town equaled the required contributions for each year.

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. 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, 2013, the Separation Allowance's membership consisted of:

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

A separate report was not issued for the plan.

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014

2. *Summary of Significant Accounting Policies:*

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

Method Used to Value Investments. Investments are reported at fair value. Short-term deposits and the North Carolina Cash Management Trust investments are reported at cost, which approximates fair value.

3. *Contributions.*

The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned by making contributions based on actuarial valuations. For the current year, the Town did not make any contributions to the plan because the plan was overfunded. 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 annual required contribution for the current year was determined as part of the December 31, 2012 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 5.00% investment rate of return (net of administrative expenses) and (b) projected salary increases of 4.25 – 7.85% per year. Both (a) and (b) included an inflation component of 3%. The assumptions did not include post-employment benefit increases. The actuarial value of assets was determined using the market value of investments. The unfunded actuarial accrued liabilities are being amortized as a level dollar amount on a closed basis.

Annual Pension Cost and Net Pension Obligation. The Town's annual pension cost and net pension obligation to the Separation Allowance for the current year were as follows:

Employer annual required contribution	\$ 26,516
Interest on net pension obligation	823
Adjustment to annual required contribution	<u>(1,341)</u>
Annual pension cost	25,998
Employer contributions made for fiscal year ended 6/30/14	<u>(15,000)</u>
Increase in net pension obligation	10,998
Net pension obligation beginning of fiscal year	<u>16,461</u>
Net pension obligation end of fiscal year	<u>\$ 27,459</u>

3-Year Trend Information

For Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2012	17,633	68.05%	9,177
2013	22,284	67.31%	16,461
2014	25,998	57.70%	27,459

4. *Funded Status and Funding Progress.*

As of December 31, 2013, the most recent actuarial valuation date, the plan was 60.20% funded. The actuarial accrued liability for benefits was \$ 298,279, and the actuarial value of assets was

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014

\$ 179,571, resulting in an unfunded actuarial accrued liability (UAAL) of \$ 118,708. The covered payroll (annual payroll of active employees covered by the plan) was \$ 736,323 and the ratio of the UAAL to the covered payroll was 16.124%.

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

c. Supplemental Retirement Income Plan for Law Enforcement Officers

Plan Description. The Town contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to law enforcement officers employed by the Town. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Supplemental Retirement Income Plan for Law Enforcement Officers is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes the pension trust fund financial statements for the Internal Revenue Code Section 401 (k) plan that includes the 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, 2014, were \$ 44,391, which consisted of \$ 35,751 from the Town and \$ 8,640 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, 2014, were \$ 54,434, which consisted of \$ 36,354 from the Town and \$ 18,080 from employees.

e. 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). As of November 1, 2007 this plan provides post-employment healthcare benefits to retirees of the Town, provided they participate in the Local Government Employees' Retirement System and have at least 25 years of creditable service with the Town and retire with unreduced benefits. Prior to November 1, 2007, employees qualified for similar level benefits after completing 10 years of creditable service. The Town pays the full cost of coverage for these benefits through private insurers. Also, the Town's retirees can

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014

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, 2012, the date of the latest actuarial valuation:

	<u>General Employees</u>	<u>Law Enforcement Employees</u>
Retirees and dependents receiving benefits	2	0
Terminated plan members entitled to but not yet receiving benefits	0	0
Active plan members	<u>10</u>	<u>10</u>
Total	<u>12</u>	<u>10</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 2.01% of annual covered payroll. For the current year, the Town contributed \$ 4,618 or .37% 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 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	\$ 25,276
Valuation Discount Rate	4.00%
Interest on net OPEB obligation	4,090
Amortization Factor	26.1695
Adjustment to annual required contribution	<u>(3,907)</u>
Annual OPEB cost (expense)	25,459
Employer contributions made for fiscal year ended 6/30/14	<u>(5,856)</u>
Increase in net OPEB obligation	19,603
Net OPEB obligation beginning of fiscal year	<u>102,254</u>
Net OPEB obligation end of fiscal year	<u>\$ 121,857</u>

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014

3-Year Trend Information

For Year Ended June 30	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Obligation
2012	38,491	26.56%	81,450
2013	25,422	18.17%	102,254
2014	25,459	23.00%	121,857

Funding Status and Funding Progress. As of December 31, 2012, 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 \$ 332,248. The covered payroll (annual payroll of active employees covered by the plan) was \$ 1,257,522, and the ratio of the UAAL to the covered payroll was 26.4%. 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, 2012 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 8.5% 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, 2012, was 30 years.

2. Other Employment Benefit

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

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014

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, 2014 the Town made contributions to the State for death benefits of \$ 0. The Town's required contributions for employees not engaged in law enforcement and for law enforcement officers represented 0.00% and 0.00% of covered payroll respectively. Due to a surplus in the death benefit, a decision was made by the State to temporarily stop employer contributions to the LGERS Death Benefit Plan beginning July 1, 2012. A temporary relief period based on the number of years the employer has contributed as of December 31, 2010 was established. The period of reprieve is determined separately for law enforcement officers. The Town will have a three year reprieve because it has been contributing more than 20 years. Contributions will resume in the fiscal year beginning July 1, 2015.

3. Deferred Outflows and Inflows of Resources

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

	Unavailable Revenues	Unearned Revenues	
Taxes Receivable	\$ 14,729	\$	-
Total	\$ 14,729	\$	-

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.

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 \$ 301,000 for the building and \$ 121,300 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. Claims, Judgments and Contingent Liabilities

As of June 30, 2014 the Town is involved in a contract dispute where the contractor is claiming \$ 730,870 in damages. An estimate of the possible loss cannot be made and the town's position is that no award is warranted to the contractor. If any award is made, it will most likely be significantly less than the claim.

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014

6. Long-Term Obligations

a. Installment Purchase Agreements

In July, 2011, the Town entered into a lease purchase agreement with a financial institution for the purchase of (2) police vehicles. The financing agreement requires three annual principal payments of \$ 24,000 plus interest at 2.25% beginning in July 2012. The debt is secured by the equipment.

In September, 2012, the Town entered into a lease purchase agreement with a financial institution for the purchase of (2) police vehicles. The financing agreement requires three annual principal payments of \$ 24,667 plus interest at 1.49% beginning in September 2013. The debt is secured by the equipment.

In June, 2013, the Town entered into an installment purchase agreement with a financial institution in the amount of \$ 1,547,880 for the dredging of canals and municipal building improvements. The financing agreement requires fourteen semi-annual principal payments of \$ 110,563 plus interest at 1.72%. The debt is secured by municipal buildings. At June 30, 2014 the unused loan proceeds of \$ 66,053 is reported as restricted cash and cash equivalents in the capital project fund.

In October, 2013, the Town entered into a lease purchase agreement with a financial institution for the purchase of (2) police vehicles. The financing agreement requires three annual principal payments of \$ 24,500 plus interest at 1.24% beginning in October 2014. The debt is secured by the equipment.

b. Note Payable – North Carolina Department of Transportation

In June, 2011, the Town entered into an agreement with the North Carolina Department of Transportation (NCDOT), to reimburse them for work related to the replacement of a culvert over the canal on Juniper Trail for an estimated cost of \$ 255,000. The financing agreement requires five annual payments of \$ 64,000 including principal and interest at 8%. There was a delay in receiving the actual bill from NCDOT and the actual reimbursable cost was an additional \$ 106,806. The full amount of \$ 361,806 was paid during the current fiscal year.

Annual debt service payments on the installment purchase agreements and note at June 30, 2014 are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 294,293	\$ 24,055
2016	270,292	19,042
2017	245,626	14,568
2018	221,126	10,459
2019	221,126	6,656
2020	221,125	2,853
	<hr/>	
Totals	\$ 1,473,588	\$ 77,633

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014

c. Changes in Long-Term Liabilities

	Balance July 1, 2013	Increase	Decreases	Balance June 30, 2014	Current Portion of Balance
Governmental activities:					
Compensated absences	\$ 78,213	\$ -	\$ 749	\$ 77,464	\$ 15,000
Installment agreements	1,706,553	73,500	306,465	1,473,588	294,293
NCDOT Loan	255,000	106,806	361,806	-	-
Pension obligation	16,461	25,998	15,000	27,459	
OPEB obligation	102,254	25,459	5,856	121,857	-
Governmental Activity Long-Term Liabilities	<u>\$2,158,481</u>	<u>\$ 231,763</u>	<u>\$ 689,876</u>	<u>\$ 1,700,368</u>	<u>\$ 309,293</u>

C. Inter-fund Balances and Activity

Transfers to/from other funds at June 30, 2014, consist of the following:

From the General Fund to the Capital Reserve Fund (for capital projects)	\$ 856,210
From the Capital Reserve Fund to the General Fund (for capital projects)	\$ 966,414
From the Capital Reserve Fund to the Capital Project Fund (for police building)	\$ 40,000
From General Fund to Pension Trust Fund (for law enforcement separation allowance)	\$ 15,000

D. Prior Period Adjustment-Government Wide Financial Statements

A prior period adjustment was made to the government-wide financial statements to restate beginning net position as a result of prior canal dredging improvements that were not previously capitalized and depreciated. When Phase 1 of the canal dredging maintenance was done it was considered maintenance and the cost was expensed in the year incurred. As the project has grown and additional phases are being completed the need to capitalize the improvements was reconsidered due to the benefit to future periods. The estimated total cost of previous canal dredging improvements was \$ 2,197,389 less accumulated depreciation of \$ 219,739 for a net adjustment of \$ 1,977,650:

Ending governmental net position – June 30, 2013	\$ 8,380,379
Prior period adjustment	<u>1,977,650</u>
Beginning governmental net position – July 1, 2013	<u>\$ 10,358,029</u>

E. Net Investment in Capital Assets

Capital Assets	\$ 7,870,044
Less long-term debt	(1,473,588)
Plus unexpended loan proceeds	<u>66,053</u>
Net investment in capital assets	<u>\$ 6,462,509</u>

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014

F. Fund Balance

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

Total fund balance – General Fund		\$ 5,047,429
Less:		
Prepaid expenses	\$ 16,367	
Stabilization by State Statute	476,392	
Drug enforcement	5,927	
Capital reserve fund	60,494	
Working capital/fund balance policy	<u>1,750,000</u>	
Total Reductions	<u>\$ 2,309,180</u>	
Remaining Fund Balance		<u>\$ 2,738,249</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	\$ 130,154
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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. 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 October 24, 2014, the date on which the financial statements were available to be issued.

TOWN OF SOUTHERN SHORES, NORTH CAROLINA

Law Enforcement Officers' Special Separation Allowance

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)					
12/31/00	-	48,874		48,874	0.00%	307,939	15.87%
12/31/01	-	44,858		44,858	0.00%	285,646	15.70%
12/31/02	-	74,294		74,294	0.00%	390,984	19.00%
12/31/03	-	89,639		89,639	0.00%	360,617	24.86%
12/31/04	-	105,192		105,192	0.00%	340,423	30.90%
12/31/05	-	80,896		80,896	0.00%	436,948	18.51%
12/31/06	77,390	86,251		8,861	89.73%	414,945	2.14%
12/31/07	107,640	88,407		(19,233)	121.76%	495,092	-3.88%
12/31/08	127,382	109,964		(17,418)	115.84%	517,820	-3.36%
12/31/09	129,495	180,484		50,989	71.75%	566,155	9.01%
12/31/10	137,571	196,891		59,320	69.87%	558,039	10.63%
12/31/11	149,571	247,873		98,302	60.34%	620,292	15.85%
12/31/12	164,571	297,319		132,748	55.35%	697,369	19.04%
12/31/13	179,571	298,279		118,708	60.20%	736,323	16.12%

TOWN OF SOUTHERN SHORES, NORTH CAROLINA

Law Enforcement Officers' Special Separation Allowance

Required Supplementary Information

Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2004	\$ 11,889	0.00%
2005	\$ 13,260	0.00%
2006	\$ 14,914	518.91%
2007	\$ 11,404	101.15%
2008	\$ 7,085	211.71%
2009	\$ 6,478	277.86%
2010	\$ 7,780	0.00%
2011	\$ 16,772	47.70%
2012	\$ 17,667	67.90%
2013	\$ 22,396	66.97%
2014	\$ 26,516	56.57%

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, 2013
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	17 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return*	5.00%
Projected salary increases*	4.25-7.85%
*Includes inflation at	3.00%
Cost of living adjustments	N/A

TOWN OF 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%

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%

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, 2012
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	8.50% - 5.00%
Year of Ultimate Trend Rate	2018
*Includes inflation at	3.00%

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, 2014

With Comparative Actual Amounts for the Year Ended June 30, 2013

	2014		Variance Favorable (Unfavorable)	2013
	Budget	Actual		Actual
<u>REVENUES</u>				
<u>AD VALOREM TAXES:</u>				
Current year	\$ 2,860,923	\$ 2,874,423	13,500	\$ 2,833,086
Prior year	7,582	13,252	5,670	5,105
Penalties and interest	2,000	3,437	1,437	1,320
	<u>2,870,505</u>	<u>2,891,112</u>	<u>20,607</u>	<u>2,839,511</u>
<u>OTHER TAXES AND LICENSES:</u>				
Local option sales tax	814,985	848,560	33,575	767,963
Occupancy tax	900,000	985,073	85,073	865,666
Land transfer tax	201,625	210,624	8,999	178,396
	<u>1,916,610</u>	<u>2,044,257</u>	<u>127,647</u>	<u>1,812,025</u>
<u>UNRESTRICTED INTERGOVERNMENTAL REVENUES:</u>				
ABC Revenue	50,000	48,800	(1,200)	46,457
Utilities franchise/telecommunications tax	153,000	175,521	22,521	168,920
Video programming tax	78,000	70,423	(7,577)	71,193
Peg Channel Revenue	32,000	31,784	(216)	31,836
Solid waste disposal tax	1,800	1,708	(92)	1,971
Beer and wine tax	12,500	12,226	(274)	11,075
	<u>327,300</u>	<u>340,462</u>	<u>13,162</u>	<u>331,452</u>
<u>RESTRICTED INTERGOVERNMENTAL REVENUES:</u>				
Powell Bill allocation	114,000	118,647	4,647	116,236
Storm damage assistance	-	8,899	8,899	-
Public safety grants	13,239	12,621	(618)	-
Controlled substance tax	-	1,758	1,758	-
NCDOT Grant-Tall Pine	152,000	44,500	(107,500)	63,797
NCDOT Grant - Bike Path Plan	28,000	16,208	(11,792)	-
Government Access Channel grant	23,000	22,534	(466)	17,000
Contribution from Dare Cty - Sand Fencing	89,218	89,218	-	-
	<u>419,457</u>	<u>314,385</u>	<u>(105,072)</u>	<u>197,033</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, 2014

With Comparative Actual Amounts for the Year Ended June 30, 2013

	2014		Variance Favorable (Unfavorable)	2013
	Budget	Actual		Actual
PERMITS AND FEES:				
Building permits and plan review	80,000	105,455	25,455	93,783
CAMA permits	1,500	1,975	475	2,480
Re-Inspection fees	1,000	-	(1,000)	400
Planning fees	1,000	300	(700)	1,522
Encroachment agreement	-	-	-	-
Parking fines	7,500	6,650	(850)	7,350
Court costs and fees	1,000	891	(109)	622
	<u>92,000</u>	<u>115,271</u>	<u>23,271</u>	<u>106,157</u>
SALES AND SERVICES:				
Cable franchise fees	12,000	12,806	806	11,888
Garbage carts	-	-	-	2,614
	<u>12,000</u>	<u>12,806</u>	<u>806</u>	<u>14,502</u>
INVESTMENT EARNINGS				
	<u>3,000</u>	<u>1,784</u>	<u>(1,216)</u>	<u>3,112</u>
OTHER REVENUES:				
Rents	2,400	1,500	(900)	2,100
Sale of fixed assets	-	5,551	5,551	11,617
Insurance claims	-	2,192	2,192	1,608
Miscellaneous	11,675	12,128	453	2,919
	<u>14,075</u>	<u>21,371</u>	<u>7,296</u>	<u>18,244</u>
TOTAL REVENUES	<u>\$ 5,654,947</u>	<u>\$ 5,741,448</u>	<u>\$ 86,501</u>	<u>\$ 5,322,036</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, 2014

With Comparative Actual Amounts for the Year Ended June 30, 2013

	2014		Variance Favorable (Unfavorable)	2013
	Budget	Actual		Actual
<u>EXPENDITURES</u>				
<u>GENERAL GOVERNMENT:</u>				
Administration:				
Salaries		355,256		332,828
Council compensation		9,623		7,200
Payroll taxes		25,261		23,325
Retirement		42,900		39,060
Health insurance		32,970		33,229
Training		4,340		2,776
Utilities		20,038		20,448
Travel		3,475		2,866
Legal service		34,523		17,271
Audit services		15,250		16,250
Payroll services		7,449		6,157
Equipment lease and maintance		10,925		12,118
Telephone		20,039		17,436
Postage		2,085		1,719
Supplies		8,940		10,576
Vehicle operations		476		737
Municipal elections		2,897		-
Advertising		369		38
Dues and subscriptions		7,264		6,183
Insurance and bonds		81,647		54,910
Contracted services		2,900		10,915
Computer service		40,307		50,068
Town code update		3,447		2,247
Dare County and NCVTS tax collection fees		44,762		42,454
Government Access Channel membership		1,000		1,000
Government Access Channel PEG revenues		31,784		31,836
Employee recognition and appreciation		9,542		5,910
Wellness initiative		1,092		223
Cleaning		15,940		15,200
Technology upgrade - Pitts Center		26,080		18,808
Recording of meetings		9,450		8,150
Storm management		-		152
Build the Bridge contribution		-		5,000
Unemployment		3,811		25,797
	965,610	875,842	89,768	822,887
Planning and Inspections:				
Salaries		115,878		115,497
Payroll taxes		8,766		8,715
Retirement		13,999		13,554
Health insurance		15,493		14,381
Training		1,225		670
Printing		-		350
Travel		71		1,471
Supplies		1,749		1,505
Advertising		743		765
Dues and subscriptions		477		175
Contracted Services		34,530		18,776
Vehicles maintenance		45		139
Vehicles operations		1,801		3,190

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, 2014

With Comparative Actual Amounts for the Year Ended June 30, 2013

	2014		Variance Favorable (Unfavorable)	2013
	Budget	Actual		Actual
Miscellaneous		1,945		-
Homeowner recovery fund		263		-
Flood zone map mailing		1,147		1,703
Pedestrian and bike path plan		20,260		-
Land Use Plan update		-		541
	<u>242,780</u>	<u>218,392</u>	<u>24,388</u>	<u>181,432</u>
TOTAL GENERAL GOVERNMENT	<u>1,208,390</u>	<u>1,094,234</u>	<u>114,156</u>	<u>1,004,319</u>
<u>PUBLIC SAFETY:</u>				
Police:				
Salaries		795,223		699,360
Payroll taxes		60,041		52,094
Retirement		97,172		80,366
Health insurance		97,576		83,937
Training		4,882		4,313
Printing		289		747
Travel		3,116		5,021
Equipment lease and maintenance		-		625
Supplies		15,581		15,713
Advertising		20		1,018
Dues and subscriptions		974		484
Computer service		8,503		5,079
Contracted services		5,932		3,659
Vehicle maintenance		18,100		15,758
Vehicle operations		32,473		37,404
Uniforms		6,270		14,196
Medical testing		65		2,009
Miscellaneous		516		1,800
Career development		1,790		-
Separation allowance		15,000		15,000
Debt service		88,659		64,319
Capital outlay		116,422		106,760
	<u>1,406,469</u>	<u>1,368,604</u>	<u>37,865</u>	<u>1,209,662</u>
Fire:				
Contracted services	<u>525,505</u>	<u>525,505</u>	<u>-</u>	<u>525,505</u>
	<u>525,505</u>	<u>525,505</u>	<u>-</u>	<u>525,505</u>
Ocean Rescue:				
Contracted services	<u>156,900</u>	<u>156,854</u>	<u>-</u>	<u>153,333</u>
	<u>156,800</u>	<u>156,854</u>	<u>(54)</u>	<u>153,333</u>
TOTAL PUBLIC SAFETY	<u>2,088,774</u>	<u>2,050,963</u>	<u>37,811</u>	<u>1,888,500</u>
<u>PUBLIC WORKS AND TRANSPORTATION</u>				
Public Works:				
Salaries		189,219		132,239
Payroll taxes		14,352		10,000
Retirement		22,852		15,353
Health insurance		29,688		23,216
Medical testing		65		85
Training		2,086		125
Travel		1,197		86
Printing		159		-

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, 2014

With Comparative Actual Amounts for the Year Ended June 30, 2013

	2014		Variance Favorable (Unfavorable)	2013
	Budget	Actual		Actual
Equipment lease and maintenance		5,929		2,382
Advertising		178		-
Supplies		9,163		6,712
Dues & Subscriptions		75		75
Vehicles maintenance		3,194		4,500
Vehicles operations		12,469		7,503
Uniforms		2,788		2,666
Beautification		6,626		3,419
Town buildings maintenance and repairs		34,873		21,892
Miscellaneous projects		-		14,477
Safety compliance		411		855
Parking lot maintenance		2,108		2,031
Engineering		1,856		-
Miscellaneous		331		-
Sand fencing and grass planting		89,218		-
Capital outlay-equipment		1,515		88,060
	<u>463,148</u>	<u>430,352</u>	<u>32,796</u>	<u>335,676</u>
Streets, bridges and canals:				
Street sign maintenance		12,403		6,712
Miscellaneous engineering services		-		5,077
Street maintenance		140,938		5,856
Waterway maintenance		400		-
Brush trimming		10,350		5,050
Bridge maintenance		517		1,047
Street construction - Chicahauk		-		268,685
Street construction - Honeysuckle		13,955		137,143
Street construction - Gravey Pond		75		271,022
Street construction - Deer Path		1,688		206,154
Street construction - Spindrift		-		70,431
Street construction - Fern Drive		-		31,881
Juniper/Trinitie Tr. Bridge		106,806		25,000
Street construction - Widgeon Ct.		-		48,619
Bridge construction - Tall Pine Bridge		55,625		79,747
Street construction-Duck Woods Dr.		123,147		-
Street construction-North Dune Loop		73,065		-
Street construction-N. Woodland Dr.		55,099		-
Street construction-Mistletoe Lane		91,843		-
Street construction-Ocean View Loop		74,969		-
Street construction-Hillcrest/Sea Oats		74,865		-
Street construction-Scuppernong		1,563		-
Street construction-Fairway Dr.		2,950		-
Street construction-N. Dogwood Trail		34,982		-
Street construction - Yaupon		649		-
Street construction-Dogwood interesection		56		-
Street construction-Pintail		944		-
Street construction - general		-		3,496
Canal dredging project		-		64,926
Debt payment - canal dredging Phase 2		246,798		-
Debt payment to NCDOT-Juniper/Trinitie Tr.		361,806		-
	<u>1,603,812</u>	<u>1,485,493</u>	<u>118,319</u>	<u>1,230,846</u>
TOTAL PUBLIC WORKS AND TRANSPORTATION	2,066,960	1,915,845	151,115	1,566,522

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, 2014

With Comparative Actual Amounts for the Year Ended June 30, 2013

	2014		Variance Favorable (Unfavorable)	2013
	Budget	Actual		Actual
ENVIRONMENTAL PROTECTION				
Solid Waste:				
Residential collection		188,191		171,456
Commercial collection		41,281		34,832
Recycling collection		131,550		139,023
Chipping		130,000		130,750
Miscellaneous		250		2,036
Tipping fees		155,674		149,488
	<u>651,000</u>	<u>646,946</u>	<u>4,054</u>	<u>627,585</u>
Storm Clean-Up:				
Storm debris clean-up	-	-		9,728
	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,728</u>
TOTAL ENVIRONMENTAL PROTECTION	<u>651,000</u>	<u>646,946</u>	<u>4,054</u>	<u>637,313</u>
TOTAL EXPENDITURES	<u>6,015,124</u>	<u>5,707,988</u>	<u>307,136</u>	<u>5,096,654</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(360,177)</u>	<u>33,460</u>	<u>393,637</u>	<u>225,382</u>
OTHER FINANCING SOURCES (USES):				
Fund balance appropriated	43,775	-	(43,775)	-
Transfer (to) from capital reserve fund	135,596	110,204	(25,392)	(183,395)
NCDOT loan proceeds	106,806	106,806	-	-
Lease proceeds	74,000	73,500	(500)	74,000
	<u>360,177</u>	<u>290,510</u>	<u>(69,667)</u>	<u>(109,395)</u>
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>\$ -</u>	<u>323,970</u>	<u>323,970</u>	<u>115,987</u>
FUND BALANCE:				
Beginning of year, July 1		<u>4,662,965</u>		<u>4,546,978</u>
End of year, June 30		<u>\$ 4,986,935</u>		<u>\$ 4,662,965</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, 2014

With Comparative Actual Amounts for the Year Ended June 30, 2013

	2014		Variance Favorable (Unfavorable)	2013
	Budget	Actual		Actual
<u>REVENUES:</u>				
Interest income	\$ -	\$ 100	\$ 100	\$ 132
Sale of fixed assets	-	-	-	-
	<u>-</u>	<u>100</u>	<u>100</u>	<u>132</u>
<u>OTHER FINANCING SOURCES (USES):</u>				
Transfer from general fund	856,210	856,210	-	183,395
Fund balance appropriated	175,596	-	(175,596)	-
Transfer to capital project fund	(40,000)	(40,000)		
Transfer to general fund	(991,806)	(966,414)	25,392	-
	<u>-</u>	<u>(150,204)</u>	<u>(150,204)</u>	<u>183,395</u>
<u>REVENUES OVER (UNDER) OTHER FINANCING SOURCES (USES)</u>				
	<u>\$ -</u>	<u>(150,104)</u>	<u>\$ (150,104)</u>	<u>183,527</u>
<u>FUND BALANCE:</u>				
Beginning of year, July 1		<u>210,598</u>		<u>27,071</u>
End of year, June 30		<u>\$ 60,494</u>		<u>\$ 210,598</u>

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, 2014

	Project Authorization	Prior Years	Actual Current Year	Total to Date
<u>REVENUES:</u>				
Investment income	\$ -	\$ 115	\$ 2,297	\$ 2,412
	<u>-</u>	<u>115</u>	<u>2,297</u>	<u>2,412</u>
<u>EXPENDITURES:</u>				
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	-	6,038	6,038
	<u>1,587,880</u>	<u>-</u>	<u>1,521,827</u>	<u>1,521,827</u>
<u>REVENUES OVER (UNDER) EXPENDITURES</u>	<u>(1,587,880)</u>	<u>115</u>	<u>(1,519,530)</u>	<u>(1,519,415)</u>
<u>OTHER FINANCIAL SOURCES (USES)</u>				
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>1,547,880</u>	<u>40,000</u>	<u>1,587,880</u>
<u>REVENUES AND OTHER FINANCIAL SOURCES OVER EXPENDITURES</u>	<u>\$ -</u>	<u>\$ 1,547,995</u>	<u>(1,479,530)</u>	<u>\$ 68,465</u>
<u>FUND BALANCE</u>				
Beginning of year, July 1			<u>1,547,995</u>	
End of year, June 30			<u>\$ 68,465</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, 2014

With Comparative Actual Amounts for the Year Ended June 30, 2013

	2014		Variance Favorable (Unfavorable)	2013
	Budget	Actual		Actual
REVENUES:				
Miscellaneous revenues	\$ -	\$ -	\$ -	\$ -
Cemetery revenues	1,000	6,640	5,640	7,650
	<u>\$ 1,000</u>	<u>\$ 6,640</u>	<u>\$ 5,640</u>	<u>\$ 7,650</u>
EXPENDITURES:				
Cemetery operations	11,180	2,828	\$ 8,352	-
	<u>11,180</u>	<u>2,828</u>	<u>8,352</u>	<u>6,455</u>
REVENUES OVER (UNDER) EXPENDITURES				
	<u>(10,180)</u>	<u>3,812</u>	<u>13,992</u>	<u>1,195</u>
OTHER FINANCING SOURCES:				
Fund Balance Appropriated	10,180	-	(10,180)	-
	<u>10,180</u>	<u>-</u>	<u>(10,180)</u>	<u>-</u>
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES				
	<u>\$ -</u>	<u>3,812</u>	<u>3,812</u>	<u>1,195</u>
FUND BALANCE:				
Beginning of year, July 1		<u>43,752</u>		<u>42,557</u>
End of year, June 30		<u>\$ 47,564</u>		<u>\$ 43,752</u>

TOWN OF SOUTHERN SHORES, NORTH CAROLINA
SCHEDULE OF AD VALOREM TAXES RECEIVABLE
June 30, 2014

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2013</u>	<u>Additions</u>	<u>Releases/ Adjustments</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2014</u>
2013-2014	\$ -	\$2,884,244	\$ -	\$ 2,874,423	\$ 9,821
2012-2013	13,954	-	(132)	11,931	1,891
2011-2012	1,575	-	(33)	662	880
2010-2011	857	-	-	601	256
2009-2010	395	-	-	54	341
2008-2009	321	-	-	1	320
2007-2008	199	-	-	-	199
2006-2007	268	-	-	3	265
2005-2006	351	-	-	-	351
2004-2005	405	-	-	-	405
2003-2004	415	-	(415)	-	-
	<u>\$ 18,740</u>	<u>\$2,884,244</u>	<u>\$ (580)</u>	<u>\$ 2,887,675</u>	<u>\$ 14,729</u>

Reconciliation of collections and credits to revenues:

Ad valorem taxes - Schedule 1	\$ 2,891,112
Penalties and interest	(3,437)
	<u>\$ 2,887,675</u>

TOWN OF SOUTHERN SHORES, NORTH CAROLINA
ANALYSIS OF CURRENT TAX LEVY
June 30, 2014

	<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	\$ 1,307,001,818	0.2200	\$ 2,875,404	\$ 2,787,985	\$ 87,419
Registered motor vehicles taxed at prior year's rate	\$ 5,549,638	0.1600	\$ 8,879	-	8,879
Discoveries/Abatements	\$ (245,909)	0.1600	(541)	(541)	-
Late list penalties			502	502	-
Total property valuation	<u>\$ 1,312,305,547</u>				
Net levy			<u>2,884,244</u>	<u>2,787,946</u>	<u>96,298</u>
Uncollected taxes at June 30, 2013			<u>(9,821)</u>	<u>(7,853)</u>	<u>(1,968)</u>
Current year's taxes collected			<u>\$ 2,874,423</u>	<u>\$ 2,780,093</u>	<u>\$ 94,330</u>
Current levy collection percentage			<u>99.66%</u>	<u>99.72%</u>	<u>97.96%</u>



CERTIFIED PUBLIC ACCOUNTANTS

Jeff Dowdy, CPA • Teresa Osborne, CPA

**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, 2014, 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 October 24, 2014.

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

October 24, 2014