

Town of Southern Shores  
North Carolina

Financial Statements

June 30, 2015

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, 2015, 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, 2015, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3-10, the Law Enforcement Officers' Special Separation Allowance and the Other Postemployment Benefits' Schedules of Funding Progress and Employer Contributions on pages 40-43, the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Asset and Contributions, on pages 44-45 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Town of Southern Shores, North Carolina. The individual fund statements, budgetary schedules 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 25, 2015 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 25, 2015

# Management Discussion and Analysis

## Town of Southern Shores

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### Management's Discussion and Analysis

As management of the Town of Southern Shores, we offer readers of the Town of Southern Shores' financial statements this narrative overview and analysis of the financial activities of the Town of Southern Shores for the fiscal year ended June 30, 2015. 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 \$ 12,170,628 (*net position*).
- The government's total net position increased by \$ 1,009,779, due primarily to capitalization of assets (net of depreciation) in the current year amount of \$ 541,218 and revenues over budget and expenses under budget in the current year.
- As of the close of the current fiscal year, the Town of Southern Shores' governmental funds reported combined ending fund balances of \$ 4,053,523, a decrease of \$ 1,109,935 over the prior year (largely due to paying off all town debt including canal dredging loan and police vehicle loans). Approximately 15 % of this total amount or \$ 618,196 is non-spendable, restricted, committed or assigned.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$ 3,366,840 or 48.5 % of total general fund expenditures (excluding loan proceeds) for the fiscal year.
- Total property valuation increased \$ 2,676,726 (.20%) from \$ 1,312,305,547 in fiscal year 2014 to \$ 1,314,982,273 in fiscal year 2015.
- The general fund budget for the year was adopted with a tax rate of 22 cents per \$ 100 of assessed valuation; which represented the same tax rate as the prior year.

#### Overview of the Financial Statements

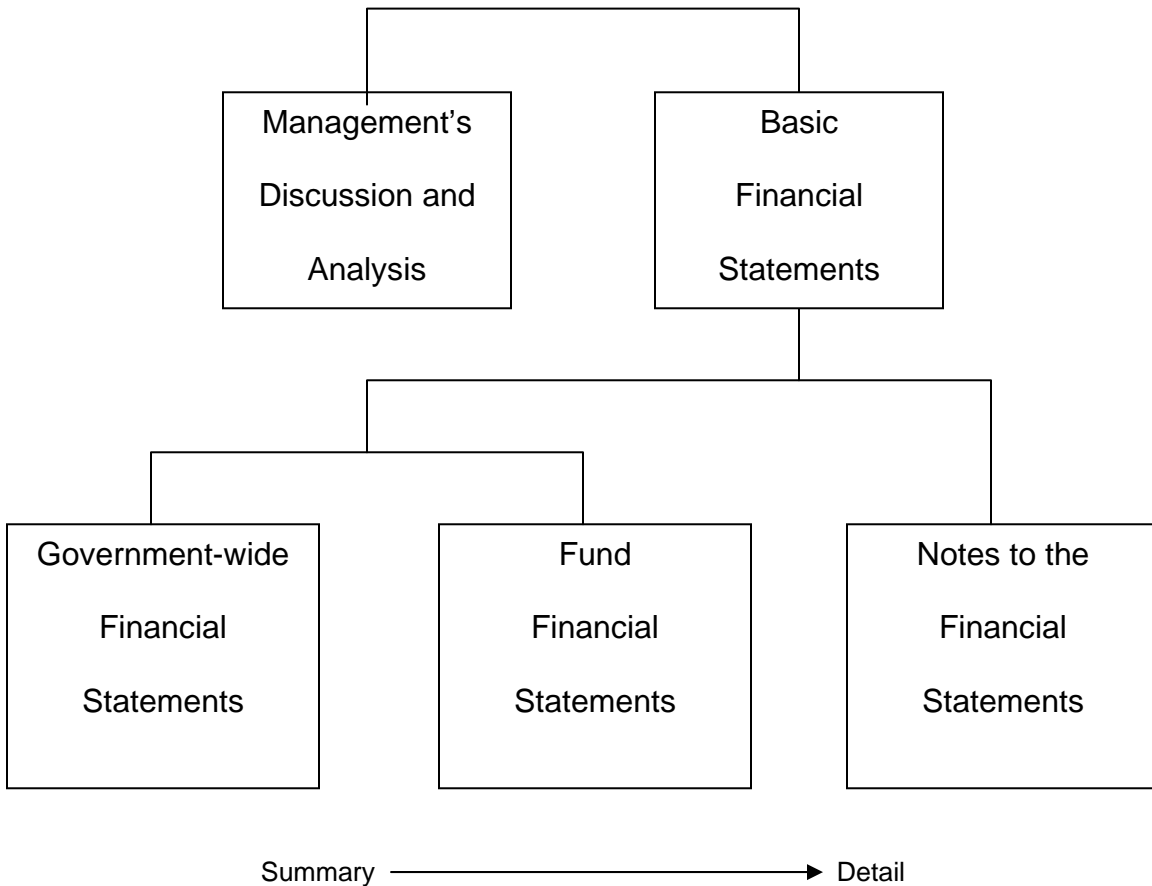
This discussion and analysis is intended to serve as an introduction to the Town of Southern Shores' basic financial statements. The town's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the town through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the Town of Southern Shores.

# Management Discussion and Analysis Town of Southern Shores

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## Required Components of Annual Financial Report

Figure 1



### Basic Financial Statements

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

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

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

# Management Discussion and Analysis

## Town of Southern Shores

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### Government-wide Financial Statements

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

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

The government-wide statements are divided into three categories: 1) governmental activities; 2) business-type activities; and 3) component units. The governmental activities include most of the town's basic services such as public safety, parks and recreation, and general administration. Property taxes and state and federal grant funds finance most of these activities. The town does not have any business-type activities or component units.

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

### Fund Financial Statements

The fund financial statements (see Figure 2) provide a more detailed look at the town's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The town, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the town budget ordinance. All of the funds of the Town of Southern Shores can be divided into two categories: governmental funds and proprietary funds. The town has only governmental funds.

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

The Town of Southern Shores adopts an annual budget for its General Fund and Capital Reserve Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the town, the management of the town, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the town to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the town complied with the budget ordinance and whether or not the town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the board; 2) the final budget as amended by the board; 3) the actual resources, charges to



## Management Discussion and Analysis

### Town of Southern Shores

appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges. To account for the difference between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reported activities is shown at the end of the budgetary statement.

**Notes to the Financial Statements** – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 20-39 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 40-45 of this report.

#### Government-Wide Financial Analysis

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

Figure 2

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Current and other assets	\$ 4,449,038	\$ 5,364,060
Capital assets	8,411,262	7,870,044
Deferred outflows of resources	<u>106,245</u>	<u>-</u>
Total assets and deferred outflows of resources	12,966,545	13,234,104
Long-term liabilities outstanding	213,518	1,700,368
Other liabilities	222,233	185,873
Deferred inflows of resources	<u>360,166</u>	<u>-</u>
Total liabilities and deferred inflows of resources	795,917	1,886,241
Net position:		
Net investment in capital assets	8,411,262	6,462,509
Restricted for Public Safety	6,281	5,927
Restricted for Capital Reserve Fund	50,767	60,494
Restricted for Stabilization by State Statute	512,232	476,392
Unrestricted	<u>3,190,086</u>	<u>4,342,541</u>
Total net position	<u>\$ 12,170,628</u>	<u>\$ 11,347,863</u>

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of the Town of Southern Shores exceeded liabilities and deferred inflows by \$ 12,170,628 as of June 30, 2015. The town's net position increased by \$ 1,009,779 for the fiscal year ended June 30, 2015. Net investment in capital assets (69% 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 \$ 1,948,753; the amount by which current year capital acquisitions and payments on related debt exceeded current year depreciation, new debt used for capital acquisitions and prior year unexpended loan proceeds. 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

## Management Discussion and Analysis

### Town of Southern Shores

debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town's net position, \$ 569,280 represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$ 3,190,086 is unrestricted.

Also, the Town of Southern Shores implemented GASB Statement 68 this year. With the new reporting change, the Town is allocated its proportionate share of the Local Government Employees' Retirement System's net pension asset, deferred outflows of resources, deferred inflows of resources, and pension expense. A restatement to record the effects of the new reporting guidance decreased beginning net position by \$ 187,014. Decisions regarding the allocations are made by the administrators of the pension plan, not by the Town of Southern Shores' management. The 2014 comparative statement of net pension and changes in net position have not been restated to reflect this change due to the unavailability of the information needed for the restatement.

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

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Revenues:		
Program Revenues:		
Charges for services	\$ 146,281	\$ 134,716
Operating grants and contributions	72,536	151,238
Capital grants and contributions	205,611	163,147
General Revenues:		
Property taxes	2,896,424	2,887,100
Other taxes	2,485,989	2,384,719
Investment earnings	2,926	4,180
Other	<u>24,890</u>	<u>21,371</u>
Total Revenues	<u>5,834,657</u>	<u>5,746,471</u>
Expenses:		
General government	1,121,461	1,122,985
Public safety	2,020,431	2,007,358
Public works and transportation	1,043,484	979,349
Environmental protection	<u>639,502</u>	<u>646,945</u>
Total Expenses	<u>4,824,878</u>	<u>4,756,637</u>
Increase in net position	<u>1,009,779</u>	<u>989,834</u>
Net position, July 1 (previously reported)	11,347,863	10,358,029
Restatement due to GASB Statement 68 implementation	<u>(187,014)</u>	<u>-</u>
Net position July 1 (restated)	<u>11,160,849</u>	<u>10,358,029</u>
Net position, June 30	<u>\$12,170,628</u>	<u>\$ 11,347,863</u>

The decrease in operating grants and contributions is due to a reduction in the contribution from Dare County for sand fencing (\$ 65,218); decreased funding from the Government Access Channel (\$ 17,050); decreased funding for storm damage assistance (\$ 8,899) and increased police grants (\$ 18,285). The increase in capital grants and contributions is primarily a result of increased grant funding from NCDOT for Tall Pine (\$ 41,233). The increase in other taxes are a result of overall increased collections in land transfer tax, occupancy and sales taxes offset by a decrease in the Town's proportionate share due to changes in tax rates throughout Dare County. Additionally, the allocation method for utilities franchise tax was changed resulting in additional revenues from this source.

General government and public safety expenses remained consistent with prior year. Public works and transportation increased \$ 64,000. There was a reduction in street maintenance (street repairs not capitalized) which was offset by a legal settlement related to the canal dredging project. Additionally, there was an increase in depreciation of infrastructure assets.

# Management Discussion and Analysis

## Town of Southern Shores

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### 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 \$ 3,366,840 while total fund balance reached \$ 3,938,128. 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 48.5% of the current fiscal year general fund expenses (excluding loan proceeds).

At June 30, 2015, the governmental funds of Town of Southern Shores reported a combined fund balance of \$ 4,053,523 a 21.5 % (\$ 1,109,935) decrease over last year. The largest decrease is the result of the full payment of all town debt including the canal dredging loan of \$ 1,326,754 and police vehicle debt of \$ 219,525.

**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 pay-off the debt referenced above. The public works and transportation budget was increased \$ 1,216,192 to pay off the canal dredging loan and the public safety budget was increased \$ 147,425 to pay off police vehicle loans. The general government budget was increased \$ 205,000 for the purchase of property.

### Capital Asset and Debt Administration

**Capital assets.** The Town of Southern Shores' investment in capital assets for its governmental activities as of June 30, 2015, totals \$ 8,411,262 (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 \$ 674,000
- Tall Pine bridge improvements costing \$ 107,000
- Purchase of land and building costing \$ 205,000
- Purchase of two police vehicles costing \$ 72,000
- Purchase of a public works vehicle costing \$ 26,000
- Purchase of public works equipment costing \$ 42,500

# Management Discussion and Analysis

## Town of Southern Shores

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

Figure 4  
(net of depreciation)

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Land	\$ 183,858	\$ 132,650
Buildings	928,274	809,222
Equipment	142,567	118,264
Infrastructure	6,690,791	6,431,878
Vehicles	199,446	201,515
Construction in progress	<u>266,326</u>	<u>176,515</u>
Total	<u>\$ 8,411,262</u>	<u>\$ 7,870,044</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 including canal debt and police vehicle debt was paid off in full during the June 30, 2015 fiscal year.

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 \$ 105,198,582.

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

The following economic indicators affect the town.

- Overall land transfer tax collections increased 21% indicating an increase in real estate sales. The Town's portion of land transfer tax revenues increased \$ 30,453 or 14%.
- Travel and tourism has remained constant in Dare County and overall sales and occupancy taxes increased in the County. The Town had a \$ 14,167 increase in sales taxes and a decrease of \$ 31,760 in occupancy taxes due to a combination of overall growth and a reduction due to the changes in the proportionate tax levies among the other local governments in Dare County.
- Building related revenues increased \$ 9,714 or 9.2% over the prior year.

### Budget Highlights for the Fiscal Year Ending June 30, 2016

- The adopted budget includes a tax rate of 22 cents per \$ 100 of assessed valuation which represents no tax increase.
- The budget includes \$ 516,000 for street construction.
- The budget includes \$ 1,314,731 for the Tall Pine NCDOT bridge project with an offset of \$ 1,051,785 from NCDOT.

# **Management Discussion and Analysis**

## **Town of Southern Shores**

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### **Requests for Information**

This report is designed to provide an overview of the town's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Finance Officer, Town of Southern Shores, 5375 N. Virginia Dare Trail, Southern Shores, North Carolina 27949.

**TOWN OF SOUTHERN SHORES, NORTH CAROLINA**

Exhibit 1

**STATEMENT OF NET POSITION**

June 30, 2015

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 3,716,677
Taxes receivable	14,939
Other receivables	4,305
Prepaid expenses	2,008
Due from governmental units	495,718
Restricted cash and cash equivalents	<u>57,048</u>
Total current assets	4,290,695
Non-current assets:	
Net pension asset	158,343
Capital assets:	
Land	183,858
Construction in progress	266,326
Other capital assets, net of depreciation	<u>7,961,078</u>
Total capital assets	<u>8,411,262</u>
Total assets	<u>12,860,300</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Contributions to pension plan in current fiscal year	<u>106,245</u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	170,054
Salaries and benefits payable	52,179
Current portion of long-term liabilities	<u>25,000</u>
Total current liabilities	247,233
Long-term liabilities:	
Due in more than one year	<u>188,518</u>
Total liabilities	<u>435,751</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Pension deferrals	<u>360,166</u>
<b>NET POSITION</b>	
Net investment in capital assets	8,411,262
Restricted for Stabilization by State Statute	512,232
Restricted for Public Safety	6,281
Restricted for Capital Reserve Fund	50,767
Unrestricted	<u>3,190,086</u>
Total net position	<u><u>\$ 12,170,628</u></u>

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

**TOWN OF SOUTHERN SHORES, NORTH CAROLINA**

Exhibit 2

**STATEMENT OF ACTIVITIES**

For the Year Ended June 30, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Total
<b>Primary government:</b>						
Governmental activities:						
General Government	\$ 1,121,461	\$ 138,096	\$ 17,276	\$ -	\$ (966,089)	\$ (966,089)
Public Safety	2,017,920	8,185	31,260	-	(1,978,475)	(1,978,475)
Public Works/Transportation	1,030,097	-	24,000	205,611	(800,486)	(800,486)
Environmental Protection	639,502	-	-	-	(639,502)	(639,502)
Interest on long-term debt	15,898	-	-	-	(15,898)	(15,898)
	<u>4,824,878</u>	<u>146,281</u>	<u>72,536</u>	<u>205,611</u>	<u>(4,400,450)</u>	<u>(4,400,450)</u>
Total primary government	\$ <u>4,824,878</u>	\$ <u>146,281</u>	\$ <u>72,536</u>	\$ <u>205,611</u>	\$ <u>(4,400,450)</u>	\$ <u>(4,400,450)</u>

General revenues:

Taxes:

Property taxes, levied for general purpose	2,896,424	2,896,424
Other taxes	2,485,989	2,485,989
Investment earnings, unrestricted	2,926	2,926
Miscellaneous, unrestricted	24,890	24,890
Total general revenues, special items, and transfers	<u>5,410,229</u>	<u>5,410,229</u>
Change in net position	<u>1,009,779</u>	<u>1,009,779</u>
Net position, beginning, previously reported	11,347,863	11,347,863
Restatement	(187,014)	(187,014)
Net position, beginning, restated	<u>11,160,849</u>	<u>11,160,849</u>
Net position-ending	<u>\$ 12,170,628</u>	<u>\$ 12,170,628</u>

**TOWN OF SOUTHERN SHORES, NORTH CAROLINA**

**Exhibit 3**

**BALANCE SHEET - GOVERNMENTAL FUNDS**

**For the Year Ended June 30, 2015**

	Major Funds		Total Non-Major Fund	Total Governmental Funds
	General	Canal Capital Project Fund		
<b>ASSETS</b>				
Cash and cash equivalents	\$ 3,601,282	\$ 68,487	\$ 46,908	\$ 3,716,677
Restricted cash and cash equivalents	57,048	-	-	57,048
Taxes receivable	14,939	-	-	14,939
Other receivables	4,305	-	-	4,305
Prepaid expenses	2,008	-	-	2,008
Due from governmental units	495,718	-	-	495,718
<b>Total Assets</b>	<b>4,175,300</b>	<b>68,487</b>	<b>46,908</b>	<b>4,290,695</b>
<b>LIABILITIES</b>				
Liabilities:				
Accounts payable	170,054	-	-	170,054
Salaries and benefits payable	52,179	-	-	52,179
<b>Total Liabilities</b>	<b>222,233</b>	<b>-</b>	<b>-</b>	<b>222,233</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Property taxes receivable	14,939	-	-	14,939
<b>Total Deferred Inflows of Resources</b>	<b>14,939</b>	<b>-</b>	<b>-</b>	<b>14,939</b>
<b>FUND BALANCES</b>				
Non Spendable:				
Prepaid expenses	2,008	-	-	2,008
Restricted:				
Stabilization by State Statute	512,232	-	-	512,232
Public Safety	6,281	-	-	6,281
Capital Reserve Fund	50,767	-	-	50,767
Assigned:				
Cemetery	-	-	46,908	46,908
Unassigned	3,366,840	68,487	-	3,435,327
<b>Total Fund Balances</b>	<b>3,938,128</b>	<b>68,487</b>	<b>46,908</b>	<b>4,053,523</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>				
	<b>\$ 4,175,300</b>	<b>\$ 68,487</b>	<b>\$ 46,908</b>	

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

8,411,262

Net pension asset

158,343

Contributions to the pension plan in the current fiscal year are deferred outflows of resources on the Statement of Net Position

106,245

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

14,939

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

(213,518)

Pension related deferrals

(360,166)

Net position of governmental activities (Exhibit 1)

**\$ 12,170,628**



**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, 2015**

	Major Funds			
	General	Canal Capital Project Fund	Total Non- Major Fund	Total Governmental Funds
<b>REVENUES:</b>				
Ad valorem taxes	\$ 2,896,214	\$ -	\$ -	2,896,214
Other taxes and licenses	2,057,117	-	-	2,057,117
Unrestricted intergovernmental revenue	428,872	-	-	428,872
Restricted intergovernmental revenue	278,147	-	-	278,147
Permits and fees	126,049	-	-	126,049
Sales and services	16,889	-	3,343	20,232
Investment earnings	2,904	22	-	2,926
Other revenues	24,898	-	-	24,898
<b>TOTAL REVENUES</b>	<b>5,831,090</b>	<b>22</b>	<b>3,343</b>	<b>5,834,455</b>
<b>EXPENDITURES:</b>				
General government	1,320,501	-	3,999	1,324,500
Public safety	2,049,797	-	-	2,049,797
Public works and transportation	1,441,106	-	-	1,441,106
Environmental protection	639,502	-	-	639,502
Debt Service				-
Principal	1,546,279	-	-	1,546,279
Interest	15,898	-	-	15,898
<b>TOTAL EXPENDITURES</b>	<b>7,013,083</b>	<b>-</b>	<b>3,999</b>	<b>7,017,082</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(1,181,993)</b>	<b>22</b>	<b>(656)</b>	<b>(1,182,627)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Installment purchase loan proceeds	72,692	-	-	72,692
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>72,692</b>	<b>-</b>	<b>-</b>	<b>72,692</b>
<b>REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	<b>(1,109,301)</b>	<b>22</b>	<b>(656)</b>	<b>(1,109,935)</b>
<b>FUND BALANCES:</b>				
Beginning of year - July 1	5,047,429	68,465	47,564	5,163,458
End of year - June 30	\$ 3,938,128	\$ 68,487	\$ 46,908	\$ 4,053,523

**TOWN OF SOUTHERN SHORES, NORTH CAROLINA**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - GOVERNMENTAL FUNDS**  
**For the Year Ended June 30, 2015**

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

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

Net changes in fund balances - total governmental funds \$ (1,109,935)

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

Capital outlay expenditures which were capitalized	1,086,289	
Depreciation expense for governmental assets	<u>(545,071)</u>	541,218

Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities 106,245

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 201

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	(72,692)	
Principal payments on long-term debt	<u>1,546,279</u>	1,473,587

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

Increase in compensated absences	(6,875)	
Pension expense	(15,748)	
Increase in OPEB obligation	(7,313)	
Decrease in net pension obligation	<u>28,399</u>	<u>(1,537)</u>

Total changes in net position of governmental activities (Exhibit 2) \$ 1,009,779

**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, 2015**

Exhibit 5

	General Fund			Variance with Final Budget- Positive (Negative)
	Original	Final	Actual Amounts	
<b>REVENUES:</b>				
Ad valorem taxes	\$ 2,850,099	\$ 2,850,099	\$ 2,896,214	\$ 46,115
Other taxes and licenses	1,855,320	1,855,320	2,057,117	201,797
Unrestricted intergovernmental revenues	334,300	334,300	428,872	94,572
Restricted intergovernmental revenues	572,047	604,672	278,147	(326,525)
Permits and fees	97,000	97,000	126,049	29,049
Sales and services	12,000	12,000	16,889	4,889
Investment earnings	1,000	1,000	2,789	1,789
Other revenue	9,900	11,639	24,898	13,259
<u>Total Revenues</u>	<u>5,731,666</u>	<u>5,766,030</u>	<u>5,830,975</u>	<u>64,945</u>
<b>EXPENDITURES:</b>				
General government	1,123,075	1,355,956	1,320,501	35,455
Public safety	2,142,189	2,364,103	2,271,832	92,271
Public works and transportation	1,910,294	3,185,545	2,781,248	404,297
Environmental protection	639,950	657,750	639,502	18,248
<u>Total Expenditures</u>	<u>5,815,508</u>	<u>7,563,354</u>	<u>7,013,083</u>	<u>550,271</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>				
	<u>(83,842)</u>	<u>(1,797,324)</u>	<u>(1,182,108)</u>	<u>615,216</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Fund balance appropriated	-	1,713,482	-	(1,713,482)
Transfer to capital reserve fund	(20,000)	(20,000)	(20,000)	-
Transfer from capital reserve fund	29,842	29,842	29,842	-
Lease proceeds	74,000	74,000	72,692	(1,308)
	<u>83,842</u>	<u>1,797,324</u>	<u>82,534</u>	<u>(1,714,790)</u>
<b>REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>				
	<u>\$ -</u>	<u>\$ -</u>	<u>(1,099,574)</u>	<u>\$ (1,099,574)</u>
<b>FUND BALANCES:</b>				
Beginning			<u>4,986,935</u>	
Ending			<u>\$ 3,887,361</u>	
A legally adopted Capital Reserve Fund is consolidated into the General Fund for reporting purposes:				
Interest income			115	
Transfer from general fund			20,000	
Transfer to general fund			(29,842)	
Fund Balance, Beginning			60,494	
Fund Balance, Ending (Exhibit 4)			<u>\$ 3,938,128</u>	

# TOWN OF SOUTHERN SHORES, NORTH CAROLINA

Exhibit 6

## Statement of Fiduciary Net Position

### Fiduciary Funds

June 30, 2015

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	<u>Pension Trust</u>
<b>ASSETS</b>	
Cash and cash equivalents	<u>\$ 212,223</u>
Total Assets	<u>212,223</u>
<b>NET POSITION</b>	
Held in trust for pension benefits	<u>212,223</u>
Total Net Position	<u><u>\$ 212,223</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, 2015**

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	<b>Pension Trust</b>
<b>Additions</b>	
Employer contributions	\$ 54,000
Interest income	86
	<hr/>
Total additions	54,086
	<hr/>
<b>Deductions</b>	
Benefits	21,769
Administrative expenses	-
	<hr/>
Total deductions	21,769
	<hr/>
<b>Change in net position</b>	32,317
	<hr/>
<b>Net position - beginning of year</b>	179,906
	<hr/>
<b>Net position - end of year</b>	<u><u>\$ 212,223</u></u>

**TOWN OF SOUTHERN SHORES**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2015**

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**I. Summary of Significant Accounting Policies**

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

**A. Reporting Entity**

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

**B. Basis of Presentation**

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

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

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

The Town reports the following major governmental funds:

**General Fund.** The General Fund is the general operating fund of the Town. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund. The primary revenue sources are ad-valorem taxes, State grants, and various other taxes and licenses. The primary expenditures are for general government services, public safety and street and sanitation services. Additionally, the Town has legally adopted a **Capital Reserve Fund**. Under GASB 54 guidance the Capital Reserve Fund is consolidated in the General Fund. The budgetary comparison for the Capital Reserve Fund has been included in the supplemental information.

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

**TOWN OF SOUTHERN SHORES**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2015**

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in fiscal year 2014 and the debt was paid off in full in fiscal year 2015. The capital project fund will be closed out in fiscal year 2016 and the remaining \$ 68,487 will be transferred to the general fund.

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. Sales taxes are considered shared revenue for the Town of Southern Shores because the tax is levied by

**TOWN OF SOUTHERN SHORES**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2015**

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Dare County and then remitted to and distributed by the State. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Grant revenues which are unearned at year-end are recorded as unearned revenues. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the Town's policy to first apply cost-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 canal dredging loan which was paid off in full. 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.



**TOWN OF SOUTHERN SHORES**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2015**

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**2. Cash and Cash Equivalents**

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

**3. Restricted Assets**

Money in the Capital Reserve 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.

Town of Southern Shores Restricted Cash:

Governmental Activities:

General Fund:

Capital reserve fund	\$ 50,767
Public Safety	<u>6,281</u>
Total General Fund	<u>57,048</u>

Total Restricted Cash \$ 57,048

**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, 2014.

**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, 2015**

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

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

**8. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town has one item that meets this criterion, contributions made to the pension plan in the 2015 fiscal year. In addition to liabilities, the statements of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Town has several items that meet the criterion for this category – property taxes receivable and deferrals of pension expense that result from the implementation of GASB Statement 68.

**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, 2015**

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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.

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

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

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

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

12. Pensions

For purposes of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pension, and pension expense, information about the fiduciary net position of the Local Government Employees' Retirement System (LGERS) and additions to/deductions from LGERS' fiduciary net position have been determined on the same basis as they are reported by LGERS. For this purpose, plan member contributions are recognized in the period in which the contributions are due. The Town of Southern Shores' employer contributions are recognized when due and the Town of Southern Shores has a legal requirement to provide

**TOWN OF SOUTHERN SHORES**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2015**

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the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of LGERS. Investments are reported at fair value.

**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, 2015, the Town's deposits had a carrying amount of \$ 1,085,917 and a bank balance of \$ 1,110,504. Of the bank balance, \$ 939,838 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. At June 30, 2015, the Town's petty cash fund totaled \$ 700.

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**2. Investments**

At June 30, 2015, the Town's investments were as follows:

	<u>Fair Value</u>	<u>Maturity</u>	<u>Rating</u>
NC Capital Management Trust:			
Cash Portfolio	\$ 1,146,949	N/A	AAAm
Term Portfolio	<u>1,752,382</u>	.19 years	Unrated
Total Investments	<u>\$ 2,899,331</u>		

*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, 2015. The Town's investment in the NC Capital Management Trust Term Portfolio is unrated. The Term Portfolio is authorized to invest in obligations of the U.S. government and agencies, and in high grade money market instruments as permitted under North Carolina General Statutes 159-30 as amended.

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

**3. Capital Assets**

**Primary Government**

Capital asset activity for the primary government for the year ended June 30, 2015 was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<b>Governmental Activities:</b>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 132,650	\$ 51,208	\$ -	\$ 183,858
Construction in process	176,515	130,306	40,495	266,326
	<u>309,165</u>	<u>181,514</u>	<u>40,495</u>	<u>450,184</u>
<b>Capital assets being depreciated:</b>				
Buildings	1,315,252	153,625	-	1,468,877
Equipment	159,414	42,568	-	201,982
Infrastructure	7,503,838	650,956	-	8,154,794
Vehicles	685,000	98,121	108,591	674,530
Total capital assets being depreciated	<u>9,663,504</u>	<u>945,270</u>	<u>108,591</u>	<u>10,500,183</u>
<b>Less accumulated depreciation for:</b>				
Buildings	506,030	34,573	-	540,603
Equipment	41,150	18,264	-	59,414
Infrastructure	1,071,960	392,044	-	1,464,004
Vehicles	483,485	100,190	108,591	475,084
Total accumulated depreciation	<u>2,102,625</u>	<u>\$ 545,071</u>	<u>\$ 50,879</u>	<u>2,539,105</u>
Total capital assets being depreciated (net)	<u>7,560,885</u>			<u>7,961,078</u>
<b>Governmental activity capital assets, net</b>	<u>\$ 7,870,044</u>			<u>\$8,411,262</u>

**TOWN OF SOUTHERN SHORES**  
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Depreciation expense was charged to functions/programs of the primary government as follows:

General Government	\$ 27,076
Public Safety	109,259
Public works and transportation	<u>408,736</u>
	<u>\$ 545,071</u>

**B. Liabilities**

**1. Pension Plan Obligations**

**a. Local Governmental Employees' Retirement System**

*Plan Description*

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

*Benefits Provided*

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

LGERS plan members who are LEOs are eligible to retire with full retirement benefits at age 55 with five years of creditable service as an officer, or at any age with 30 years of creditable service. LEO plan members are eligible to retire with partial retirement benefits at age 50 with 15 years of creditable service as an officer. Survivor benefits are available to eligible beneficiaries of LEO members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed 15 years of service as a LEO and have reached age 50, or have completed five years

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of creditable service as a LEO and have reached age 55, or have completed 15 years of creditable service as a LEO if killed in the line of duty. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions.

*Contributions.* Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. The Town of Southern Shores' employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town of Southern Shores' contractually required contribution rate for the year ended June 30, 2015, was 7.41% of compensation for law enforcement officers and 7.07% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town of Southern Shores were \$ 106,245 for the year ended June 30, 2015.

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

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

At June 30, 2015, the Town reported an asset of \$157,403 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2014. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2013. The total pension liability was then rolled forward to the measurement date of June 30, 2014 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension asset was based on a projection of the Town's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2014, the Town's proportion was 0.027%, which was an increase of 0.003% from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the Town recognized pension expense of \$15,748. At June 30, 2015, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ -	\$ 17,199
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	366,431
Changes in proportion and differences between Town Contributions and proportionate share of contributions	23,465	-
Town contributions subsequent to the measurement date	106,245	-
<b>Total</b>	<b>\$ 129,710</b>	<b>\$ 383,630</b>

\$106,245 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as an increase of the net

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pension asset in the year ended June 30, 2016. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2016	\$ (90,037)
2017	(90,037)
2018	(90,037)
2019	(90,053)
2020	-
Thereafter	-

*Actuarial Assumptions.* The total pension liability in the December 31, 2013 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	4.25 to 8.55 percent, including inflation and productivity factor
Investment rate of return	7.25 percent, net of pension plan investment expense, including inflation

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

The actuarial assumptions used in the December 31, 2013 valuation were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2014 are summarized in the following table:



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<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	36.0%	2.5%
Global Equity	40.5%	6.1%
Real Estate	8.0%	5.7%
Alternatives	6.5%	10.5%
Credit	4.5%	6.8%
Inflation Protection	4.5%	3.7%
Total	<u>100%</u>	

The information above is based on 30 year expectations developed with the consulting actuary for the 2013 asset liability and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.19%. All rates of return and inflation are annualized.

A new asset allocation policy was finalized during the fiscal year ended June 30, 2014 to be effective July 1, 2014. The new asset allocation policy utilizes different asset classes, changes in the structure of certain asset classes, and adopts new benchmarks. Using the asset class categories in the preceding table, the new long-term expected arithmetic real rates of return are: Fixed Income 2.2%, Global Equity 5.8%, Real Estate 5.2%, Alternatives 9.8%, Credit 6.8% and Inflation Protection 3.4%.

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

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

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	1% Decrease (6.25%)	Discount Rate (7.25%)	1% Increase (8.25%)
Town's proportionate share of the net pension liability (asset)	\$ 534,295	\$ 157,403	(\$ 739,971)

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

**b. Law Enforcement Officers Special Separation Allowance**

*1. Plan Description.*

The Town of 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, 2014, the Separation Allowance's membership consisted of:

Retirees receiving benefits	1
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	10
Total	10

A separate report was not issued for the plan. The Separation Allowance is reported in the Town's report as a pension trust fund., however since this trust does not meet all of the following criteria outlined in GASB 67 and 68 it will be combined with the general fund in the subsequent year:

- Contributions to the pension plan and earnings on those contributions are irrevocable
- Pension plan assets are dedicated to providing benefits to plan members
- Pension plan assets are legally protected from the creditor or employers, non-employer contributing entities, the plan administrator, and plan members.

*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.

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**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, 2013 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 remaining amortization period at December 31, 2013 was 17 years.

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

Employer annual required contribution	\$ 26,548
Interest on net pension obligation	1,373
Adjustment to annual required contribution	<u>(2,320)</u>
Annual pension cost	25,601
Employer contributions made for fiscal year ended 6/30/15	<u>(54,000)</u>
Increase in net pension obligation	(28,399)
Net pension obligation beginning of fiscal year	27,459
Net pension asset end of fiscal year	<u><u>\$ (940)</u></u>

3-Year Trend Information

For Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
2013	22,284	67.31%	16,461
2014	25,998	57.70%	27,459
2015	25,601	210.93%	(940)

**4. Funded Status and Funding Progress.**

As of December 31, 2014, the most recent actuarial valuation date, the plan was 96.62% funded. The actuarial accrued liability for benefits was \$ 241,739, and the actuarial value of assets was \$ 233,571, resulting in an unfunded actuarial accrued liability (UAAL) of \$ 8,168. The covered payroll (annual payroll of active employees covered by the plan) was \$ 656,783 and the ratio of the UAAL to the covered payroll was 1.24%.

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.

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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, 2015, were \$ 50,609, which consisted of \$ 36,624 from the Town and \$ 13,985 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, 2015, were \$ 51,721, which consisted of \$ 36,752 from the Town and \$ 14,969 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 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:

	General <u>Employees</u>	Law Enforcement <u>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>

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*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	4,874
Amortization Factor	26.1695
Adjustment to annual required contribution	<u>(4,646)</u>
Annual OPEB cost (expense)	25,504
Employer contributions made for fiscal year ended 6/30/15	<u>(18,182)</u>
Increase in net OPEB obligation	7,322
Net OPEB obligation beginning of fiscal year	<u>121,857</u>
Net OPEB obligation end of fiscal year	<u>\$ 129,179</u>

3-Year Trend Information

For Year Ended June 30	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Obligation
2013	25,422	18.17%	102,254
2013	25,459	23.00%	121,857
2015	25,504	71.29%	129,179

*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

**TOWN OF SOUTHERN SHORES**  
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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 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, 2015 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**

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

<u>Source</u>	<u>Amount</u>
Contributions to pension plan in the current fiscal year	\$ 106,245

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

Taxes receivable (General Fund)	\$ 14,939
Pension deferrals	\$ 360,166

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 \$ 331,100 for the building and \$ 127,400 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

At June 30, 2015 the Town was a defendant in a lawsuit. In the opinion of the Town's management and Town attorney, the ultimate effect of these legal matters will not have a material adverse effect on the Town's financial position.

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 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.

**TOWN OF SOUTHERN SHORES**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2015**

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.

In October, 2014, 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 payments of \$ 24,230 plus interest at 1.34%. The debt is secured by equipment.

Each of these (5) installment purchase agreements were paid off in the June 30, 2015 fiscal year.

At June 30, 2015 the Town had a legal debt margin of \$ 105,198,582.

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

	<u>Balance</u> <u>July 1, 2014</u>	<u>Increase</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30,</u> <u>2015</u>	<u>Current</u> <u>Portion</u> <u>of Balance</u>
Governmental activities:					
Compensated absences	\$ 77,464	\$ 6,875	\$ -	\$ 84,339	\$ 25,000
Installment agreements	1,473,588	72,692	1,546,280	-	-
Net pension obligation (LGRS)	290,498	-	290,498	-	-
Net pension obligation (LEO)	27,459	25,601	53,060	-	-
OPEB obligation	121,857	25,504	18,182	129,179	-
Governmental Activity Long-Term Liabilities	\$1,990,866	\$ 130,672	\$ 1,908,020	\$ 213,518	\$ 25,000

The LEO and LGRS plans both had a net pension asset as of June 30, 2015 in the amounts of \$ 940 and \$ 157,403 respectively; however the plans had a net pension liability at the beginning of the fiscal year.

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

Transfers to/from other funds at June 30, 2015, consist of the following:

From the General Fund to the Capital Reserve Fund (for capital projects)	\$ 20,000
From the Capital Reserve Fund to the General Fund (for capital projects)	\$ 29,842
From General Fund to Pension Trust Fund (for law enforcement separation allowance)	\$ 54,000

**D. Fund Balance**

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



**TOWN OF SOUTHERN SHORES**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2015**

Total fund balance – General Fund		\$ 3,938,128
Less:		
Prepaid expenses	\$ 2,008	
Stabilization by State Statute	512,232	
Drug enforcement	6,281	
Capital reserve fund	50,767	
Working capital/fund balance policy	<u>1,750,000</u>	
Total Reductions	<u>\$ 2,321,288</u>	
Remaining Fund Balance		<u>\$ 1,616,840</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                   \$ 12,209

**IV. Southern Shores Cemetery Perpetual Care Fund**

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

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

The Town implemented Governmental Accounting Standards Board (GASB) Statement 68, *Accounting and Financial Reporting for Pensions* (an amendment of GASB Statement 27), in the fiscal year ending June 30, 2015. The implementation of the statement required the Town to record beginning net pension liability and the effects on net position of contributions made by the Town during the measurement period (fiscal year ending June 30, 2014). As a result, net position for the governmental activities decreased by \$ 187,014.

**VI. Summary Disclosure of Contingencies**

Federal and State Assisted Programs

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

Subsequent Events

Management has evaluated subsequent events through October 25, 2015, 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%
12/31/14	233,571	241,739		8,168	96.62%	656,783	1.24%

# 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%
2015	\$ 26,548	203.41%

#### 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, 2014
Actuarial cost method	Projected unit credit
Amortization method	Level dollar closed
Remaining amortization period	16 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

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Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)		Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll c	UAAL as a % of Covered Payroll ((b-a)/c)
		-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%
2015	\$ 25,276	71.93%

### 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

## Town of Southern Shores' Proportionate Share of Net Pension Liability (Asset)

### Required Supplementary Information

Last Two Fiscal Years \*

### Local Government Employees' Retirement System

	<u>2015</u>	<u>2014</u>
Town of Southern Shores' proportion of the net pension liability (asset) (%)	0.02669%	0.02410%
Town of Southern Shores' proportion of the net pension liability (asset) (\$)	\$ (157,403)	\$ 290,498
Town of Southern Shores' covered-employee payroll	\$ 1,442,114	\$ 1,260,591
Town of Southern Shores' proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	-10.91%	23.04%
Plan fiduciary net position as a percentage of the total pension liability**	102.64%	94.35%

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

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

# TOWN OF SOUTHERN SHORES, NORTH CAROLINA

## Town of Southern Shores' Contributions

### Required Supplementary Information

#### Last Two Fiscal Years

#### Local Government Employees' Retirement System

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	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 106,245	\$ 103,484
Contributions in relation to the contractually required contribution	<u>106,245</u>	<u>103,484</u>
Contribution deficiency (excess)	\$ -	\$ -
Town of Southern Shores' covered-employee payroll	\$ 1,467,530	\$ 1,442,114
Contributions as a percentage of covered-employee payroll	7.24%	7.18%

# 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, 2015

With Comparative Actual Amounts for the Year Ended June 30, 2014

	2015		Variance Favorable (Unfavorable)	2014
	Budget	Actual		Actual
<b><u>REVENUES</u></b>				
<b><u>AD VALOREM TAXES:</u></b>				
Current year	\$ 2,840,599	\$ 2,885,796	45,197	\$ 2,874,423
Prior year	7,500	7,033	(467)	13,252
Penalties and interest	2,000	3,385	1,385	3,437
	<u>2,850,099</u>	<u>2,896,214</u>	<u>46,115</u>	<u>2,891,112</u>
<b><u>OTHER TAXES AND LICENSES:</u></b>				
Local option sales tax	804,695	862,727	58,032	848,560
Occupancy tax	852,000	953,313	101,313	985,073
Land transfer tax	198,625	241,077	42,452	210,624
	<u>1,855,320</u>	<u>2,057,117</u>	<u>201,797</u>	<u>2,044,257</u>
<b><u>UNRESTRICTED INTERGOVERNMENTAL REVENUES:</u></b>				
ABC Revenue	50,000	53,299	3,299	48,800
Utilities franchise/telecommunications tax	163,000	259,260	96,260	175,521
Video programming tax	75,000	71,676	(3,324)	70,423
Peg Channel Revenue	32,000	29,226	(2,774)	31,784
Solid waste disposal tax	1,800	1,837	37	1,708
Beer and wine tax	12,500	13,574	1,074	12,226
	<u>334,300</u>	<u>428,872</u>	<u>94,572</u>	<u>340,462</u>
<b><u>RESTRICTED INTERGOVERNMENTAL REVENUES:</u></b>				
Powell Bill allocation	118,000	119,878	1,878	118,647
Storm damage assistance	-	-	-	8,899
Public safety grants	40,880	30,906	(9,974)	12,621
Controlled substance tax	-	354	354	1,758
NCDOT Grant-Tall Pine	400,000	85,733	(314,267)	44,500
NCDOT Grant - Bike Path Plan	11,792	11,792	-	16,208
Government Access Channel grant	10,000	5,484	(4,516)	22,534
Contribution from Dare Cty - Sand Fencing	24,000	24,000	-	89,218
	<u>604,672</u>	<u>278,147</u>	<u>(326,525)</u>	<u>314,385</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, 2015

With Comparative Actual Amounts for the Year Ended June 30, 2014

	2015		Variance Favorable (Unfavorable)	2014
	Budget	Actual		Actual
<b><u>PERMITS AND FEES:</u></b>				
Building permits and plan review	85,000	115,169	30,169	105,455
CAMA permits	2,000	1,945	(55)	1,975
Re-Inspection fees	500	-	(500)	-
Planning fees	1,000	650	(350)	300
Encroachment agreement	-	100	100	-
Parking fines	7,500	7,250	(250)	6,650
Court costs and fees	1,000	935	(65)	891
	<u>97,000</u>	<u>126,049</u>	<u>29,049</u>	<u>115,271</u>
<b><u>SALES AND SERVICES:</u></b>				
Cable franchise fees	12,000	16,889	4,889	12,806
Garbage carts	-	-	-	-
	<u>12,000</u>	<u>16,889</u>	<u>4,889</u>	<u>12,806</u>
<b><u>INVESTMENT EARNINGS</u></b>				
	<u>1,000</u>	<u>2,789</u>	<u>1,789</u>	<u>1,784</u>
<b><u>OTHER REVENUES:</u></b>				
Rents	2,400	2,400	-	1,500
Sale of fixed assets	1,739	11,272	9,533	5,551
Insurance claims	-	812	812	2,192
Miscellaneous	7,500	10,414	2,914	12,128
	<u>11,639</u>	<u>24,898</u>	<u>13,259</u>	<u>21,371</u>
<b><u>TOTAL REVENUES</u></b>	<b><u>\$ 5,766,030</u></b>	<b><u>\$ 5,830,975</u></b>	<b><u>\$ 64,945</u></b>	<b><u>\$ 5,741,448</u></b>

# 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, 2015

With Comparative Actual Amounts for the Year Ended June 30, 2014

	2015		Variance Favorable (Unfavorable)	2014
	Budget	Actual		Actual
<b><u>EXPENDITURES</u></b>				
<b><u>GENERAL GOVERNMENT:</u></b>				
Administration:				
Salaries		356,283		355,256
Council compensation		11,400		9,623
Payroll taxes		25,134		25,261
Retirement		43,343		42,900
Health insurance		38,759		32,970
Training		3,748		4,340
Utilities		21,502		20,038
Travel		3,399		3,475
Legal service		48,919		34,523
Audit services		16,273		15,250
Payroll services		7,244		7,449
Equipment lease and maintance		6,937		10,925
Telephone		29,157		20,039
Postage		1,477		2,085
Supplies		12,667		8,940
Vehicle operations		1,298		476
Municipal elections		-		2,897
Advertising		244		369
Dues and subscriptions		7,669		7,264
Insurance and bonds		78,158		81,647
Contracted services		14,983		2,900
Computer service		62,664		40,307
Town code update		2,382		3,447
Dare County and NCVTS tax collection fees		46,012		44,762
Government Access Channel membership		1,000		1,000
Government Access Channel PEG revenues		29,225		31,784
Employee recognition and appreciation		8,536		9,542
Wellness initiative		2,689		1,092
Cleaning		16,900		15,940
Technology upgrade - Pitts Center		6,381		26,080
Recording of meetings		4,775		9,450
Unemployment		10,982		3,811
Miscellaneous		999		-
C/O-property purchases		204,832		-
	1,141,846	1,125,971	15,875	875,842
Planning and Inspections:				
Salaries		115,109		115,878
Payroll taxes		8,709		8,766
Retirement		13,894		13,999
Health insurance		21,201		15,493
Training		376		1,225
Printing		942		-
Travel		749		71
Supplies		570		1,749
Advertising		163		743
Dues and subscriptions		130		477
Contracted Services		14,998		34,530
Vehicles maintenance		-		45
Vehicles operations		864		1,801

# 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, 2015

With Comparative Actual Amounts for the Year Ended June 30, 2014

	2015		Variance Favorable (Unfavorable)	2014
	Budget	Actual		Actual
Miscellaneous		-		1,945
Homeowner recovery fund		778		263
Flood zone map mailing		1,307		1,147
Pedestrian and bike path plan		14,740		20,260
	<u>214,110</u>	<u>194,530</u>	<u>19,580</u>	<u>218,392</u>
<b>TOTAL GENERAL GOVERNMENT</b>	<u>1,355,956</u>	<u>1,320,501</u>	<u>35,455</u>	<u>1,094,234</u>
<b><u>PUBLIC SAFETY:</u></b>				
<b>Police:</b>				
Salaries		802,517		795,223
Payroll taxes		60,529		60,041
Retirement		98,749		97,172
Health insurance		97,607		97,576
Training		4,703		4,882
Printing		791		289
Travel		8,079		3,116
Equipment lease and maintenance		3,343		-
Supplies		22,319		15,581
Advertising		819		20
Dues and subscriptions		1,668		974
Computer service		6,566		8,503
Contracted services		5,780		5,932
Vehicle maintenance		16,276		18,100
Vehicle operations		34,493		32,473
Uniforms		16,446		6,270
Medical testing		1,904		65
Miscellaneous		-		516
Career development		-		1,790
Separation allowance		54,000		15,000
Debt service		222,035		88,659
Capital outlay		129,703		116,422
	<u>1,680,598</u>	<u>1,588,327</u>	<u>92,271</u>	<u>1,368,604</u>
<b>Fire:</b>				
Contracted services	<u>525,505</u>	<u>525,505</u>	-	<u>525,505</u>
	<u>525,505</u>	<u>525,505</u>	-	<u>525,505</u>
<b>Ocean Rescue:</b>				
Contracted services	<u>158,000</u>	<u>158,000</u>	-	<u>156,854</u>
	<u>158,000</u>	<u>158,000</u>	-	<u>156,854</u>
<b>TOTAL PUBLIC SAFETY</b>	<u>2,364,103</u>	<u>2,271,832</u>	<u>92,271</u>	<u>2,050,963</u>
<b><u>PUBLIC WORKS AND TRANSPORTATION</u></b>				
<b>Public Works:</b>				
Salaries		206,448		189,219
Payroll taxes		15,651		14,352
Retirement		24,918		22,852
Health insurance		34,863		29,688
Medical testing		130		65
Training		1,725		2,086
Travel		406		1,197
Printing		-		159
Equipment lease and maintenance		2,355		5,929

# 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, 2015

With Comparative Actual Amounts for the Year Ended June 30, 2014

	2015		Variance Favorable (Unfavorable)	2014
	Budget	Actual		Actual
Advertising		107		178
Supplies		2,740		9,163
Dues & Subscriptions		320		75
Vehicles maintenance		3,817		3,194
Vehicles operations		7,963		12,469
Uniforms		2,765		2,788
Beautification		4,897		6,626
Town buildings maintenance and repairs		77,011		34,873
Green initiative		3,898		-
Safety compliance		1,481		411
Parking lot maintenance		1,370		2,108
Engineering		-		1,856
Miscellaneous		1,592		331
Sand fencing and grass planting		24,000		89,218
Capital outlay-equipment		84,761		1,515
	<u>524,787</u>	<u>503,218</u>	<u>21,569</u>	<u>430,352</u>
Streets, bridges and canals:				
Street sign maintenance		15,545		12,403
Miscellaneous engineering services		3,803		-
Street maintenance		27,358		140,938
Waterway maintenance		400		400
Brush trimming		10,750		10,350
Bridge maintenance		894		517
Storm debris clean up		1,564		-
Street construction - Honeysuckle		-		13,955
Street construction - Gravey Pond		319		75
Street construction - Deer Path		225		1,688
Juniper/Trinitie Tr. Bridge		12,760		106,806
Bridge construction - Tall Pine Bridge		107,167		55,625
Street construction-Duck Woods Dr.		71,161		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		106,941		1,563
Street construction-Fairway Dr.		207,013		2,950
Street construction-N. Dogwood Trail		822		34,982
Street construction - Yaupon		7,988		649
Street construction-Dogwood interesection		156,743		56
Street construction-Pintail		68,604		944
Street construction-Beech Tree		413		-
Street construction-Bear Track Lane		2,171		-
Street construction-Wild Swan Lane		4,355		-
Street construction-Fox Grape Lane		4,977		-
Street construction-Hollow Beach Court		2,415		-
Canal dredging legal settlement		123,500		-
Debt payment - canal dredging Phase 2		1,340,142		246,798
Debt payment to NCDOT-Juniper/Trinitie Tr.		-		361,806
	<u>2,660,758</u>	<u>2,278,030</u>	<u>382,728</u>	<u>1,485,493</u>
TOTAL PUBLIC WORKS AND TRANSPORTATION	3,185,545	2,781,248	404,297	1,915,845

# 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, 2015

With Comparative Actual Amounts for the Year Ended June 30, 2014

	2015		Variance Favorable (Unfavorable)	2014
	Budget	Actual		Actual
<b>ENVIRONMENTAL PROTECTION</b>				
Solid Waste:				
Residential collection		199,417		188,191
Commercial collection		39,869		41,281
Recycling collection		134,178		131,550
Chipping		108,203		130,000
Miscellaneous		200		250
Tipping fees		157,635		155,674
	<u>657,750</u>	<u>639,502</u>	<u>18,248</u>	<u>646,946</u>
<b>TOTAL ENVIRONMENTAL PROTECTION</b>	<u>657,750</u>	<u>639,502</u>	<u>18,248</u>	<u>646,946</u>
<b>TOTAL EXPENDITURES</b>	<u>7,563,354</u>	<u>7,013,083</u>	<u>550,271</u>	<u>5,707,988</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(1,797,324)</u>	<u>(1,182,108)</u>	<u>615,216</u>	<u>33,460</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Fund balance appropriated	1,713,482	-	(1,713,482)	-
Transfer (to) from capital reserve fund	9,842	9,842	-	110,204
NCDOT loan proceeds	-	-	-	106,806
Lease proceeds	74,000	72,692	(1,308)	73,500
	<u>1,797,324</u>	<u>82,534</u>	<u>(1,714,790)</u>	<u>290,510</u>
<b>REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	<u>\$ -</u>	<u>(1,099,574)</u>	<u>(1,099,574)</u>	<u>323,970</u>
<b>FUND BALANCE:</b>				
Beginning of year, July 1		<u>4,986,935</u>		<u>4,662,965</u>
End of year, June 30		<u>\$ 3,887,361</u>		<u>\$ 4,986,935</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, 2015

With Comparative Actual Amounts for the Year Ended June 30, 2014

	2015		Variance Favorable (Unfavorable)	2014
	Budget	Actual		Actual
<b>REVENUES:</b>				
Interest income	\$ -	\$ 115	\$ 115	\$ 100
	-	115	115	100
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfer from general fund	20,000	20,000	-	856,210
Fund balance appropriated	9,842	-	(9,842)	-
Transfer to capital project fund	-	-	-	(40,000)
Transfer to general fund	(29,842)	(29,842)	-	(966,414)
	-	(9,842)	(9,842)	(150,204)
<b>REVENUES OVER (UNDER) OTHER FINANCING SOURCES (USES)</b>				
	\$ -	(9,727)	\$ (9,727)	(150,104)
<b>FUND BALANCE:</b>				
Beginning of year, July 1		60,494		210,598
End of year, June 30		\$ 50,767		\$ 60,494

# 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, 2015

	Project Authorization	Prior Years	Actual Current Year	Total to Date
<b>REVENUES:</b>				
Investment income	\$ -	\$ 2,412	\$ 22	\$ 2,434
	<u>-</u>	<u>2,412</u>	<u>22</u>	<u>2,434</u>
<b>EXPENDITURES:</b>				
Canal dredging, removal, disposal	1,212,880	1,212,880	-	1,212,880
Dredging performance surveys	50,000	37,700	-	37,700
Sub aquatic vegetation survey	10,000	4,500	-	4,500
Engineering for dredging	28,500	33,483	-	33,483
Town Hall Complex Improvements	236,500	227,226	-	227,226
Project contingency	50,000	6,038	-	6,038
	<u>1,587,880</u>	<u>1,521,827</u>	<u>-</u>	<u>1,521,827</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(1,587,880)</u>	<u>(1,519,415)</u>	<u>22</u>	<u>(1,519,393)</u>
<b>OTHER FINANCIAL SOURCES (USES)</b>				
Transfer from capital reserve fund	40,000	40,000	-	40,000
Transfer to general fund	(29,842)	-	-	-
Installment purchase loan	1,547,880	1,547,880	-	1,547,880
	<u>1,558,038</u>	<u>1,587,880</u>	<u>-</u>	<u>1,587,880</u>
<b>REVENUES AND OTHER FINANCIAL SOURCES OVER EXPENDITURES</b>	<u>\$ (29,842)</u>	<u>\$ 68,465</u>	<u>22</u>	<u>\$ 68,487</u>
<b>FUND BALANCE</b>				
Beginning of year, July 1			<u>68,465</u>	
End of year, June 30			<u>\$ 68,487</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, 2015

With Comparative Actual Amounts for the Year Ended June 30, 2014

	2015		Variance Favorable (Unfavorable)	2014
	Budget	Actual		Actual
<b>REVENUES:</b>				
Miscellaneous revenues	\$ -	\$ 338	\$ 338	\$ -
Cemetery revenues	1,000	3,005	2,005	6,640
	<u>\$ 1,000</u>	<u>\$ 3,343</u>	<u>\$ 2,343</u>	<u>\$ 6,640</u>
<b>EXPENDITURES:</b>				
Cemetery operations	11,180	3,999	\$ 7,181	-
	<u>11,180</u>	<u>3,999</u>	<u>7,181</u>	<u>2,828</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>				
	<u>(10,180)</u>	<u>(656)</u>	<u>9,524</u>	<u>3,812</u>
<b>OTHER FINANCING SOURCES:</b>				
Fund Balance Appropriated	10,180	-	(10,180)	-
	<u>10,180</u>	<u>-</u>	<u>(10,180)</u>	<u>-</u>
<b>REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES</b>				
	<u>\$ -</u>	<u>(656)</u>	<u>(656)</u>	<u>3,812</u>
<b>FUND BALANCE:</b>				
Beginning of year, July 1		<u>47,564</u>		<u>43,752</u>
End of year, June 30		<u>\$ 46,908</u>		<u>\$ 47,564</u>



**TOWN OF SOUTHERN SHORES, NORTH CAROLINA**  
**SCHEDULE OF AD VALOREM TAXES RECEIVABLE**  
**June 30, 2015**

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2014</u>	<u>Additions</u>	<u>Releases/ Adjustments</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2015</u>
2014-2015	\$ -	\$2,894,855	\$ (1,409)	\$ 2,885,798	\$ 7,648
2013-2014	9,821	-	-	5,810	4,011
2012-2013	1,891	-	-	1,162	729
2011-2012	880	-	-	40	840
2010-2011	256	-	-	-	256
2009-2010	341	-	-	2	339
2008-2009	320	-	-	4	316
2007-2008	199	-	-	15	184
2006-2007	265	-	-	-	265
2005-2006	351	-	-	-	351
2004-2005	405	-	(405)	-	-
	<u>\$ 14,729</u>	<u>\$2,894,855</u>	<u>\$ (1,814)</u>	<u>\$ 2,892,831</u>	<u>\$ 14,939</u>

Reconciliation of collections and credits to revenues:

Ad valorem taxes - Schedule 1	\$ 2,896,214
Taxes written off	2
Penalties and interest	(3,385)
	<u>\$ 2,892,831</u>

**TOWN OF SOUTHERN SHORES, NORTH CAROLINA**  
**ANALYSIS OF CURRENT TAX LEVY**  
**June 30, 2015**

	<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	\$ 1,315,278,182	0.2200	\$ 2,893,612	\$ 2,811,418	\$ 82,194
Discoveries/Abatements	\$ (295,909)	0.2200	(651)	(651)	-
Late list penalties			485	485	-
Total property valuation	<u><u>\$ 1,314,982,273</u></u>				
Net levy			<u>2,893,446</u>	<u>2,811,252</u>	<u>82,194</u>
Uncollected taxes at June 30, 2015			<u>(7,648)</u>	<u>(7,614)</u>	<u>(34)</u>
Current year's taxes collected			<u><u>\$ 2,885,798</u></u>	<u><u>\$ 2,803,638</u></u>	<u><u>\$ 82,160</u></u>
Current levy collection percentage			<u><u>99.74%</u></u>	<u><u>99.73%</u></u>	<u><u>99.96%</u></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, 2015, 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 25, 2015.

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 25, 2015