

Town of Southern Shores
North Carolina

Financial Statements

June 30, 2022

Elizabeth Morey, Mayor
Matt Neal, Mayor Pro-Tem
Mark Batenic, Council Member
Leo Holland, Council Member
Paula Sherlock, Council Member

Cliff Ogburn, Town Manager
Bonnie Swain, Finance Officer
Phillip Hornthal, Town Attorney

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Jeff Dowdy, CPA • Teresa Osborne, CPA

INDEPENDENT AUDITOR'S REPORT

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

Opinions

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, 2022, and the related notes to the financial statements, which collectively comprise the Town of Southern Shores' basic financial statements as listed in the table of contents.

In our opinion, based upon our audit, the accompanying 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, as of June 30, 2022, and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Town of Southern Shores, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Town of Southern Shores' ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards* we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Town of Southern Shores' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Town of Southern Shores' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Southern Shores' basic financial statements. The combining and individual fund financial statements, budgetary schedules and other schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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. In our opinion, based on our audit, the combining and individual fund financial statements, budgetary schedules and other schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2022, on our consideration of the Town of Southern Shores' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that 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 the effectiveness of Town of Southern Shores' 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 Town of Southern Shores' internal control over financial reporting and compliance.

Dowdy & Osborne, LLP

Dowdy & Osborne, LLP
Certified Public Accountants

Nags Head, North Carolina

September 26, 2022

Management Discussion and Analysis

Town of Southern Shores

Management's Discussion and Analysis

As management of the Town of Southern Shores, we offer readers of the Town of Southern Shores' financial statements this narrative overview and analysis of the financial activities of the Town of Southern Shores for the fiscal year ended June 30, 2022. 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 \$ 19,284,803 (*net position*).
- The government's total net position increased by \$ 2,161,521, due to a combination of factors. The major factors for this increase are revenues exceeded expenses and the Town implemented a municipal service tax and town-wide tax restricted for beach nourishment and \$ 1,707,928 after expenses was transferred to the beach nourishment capital reserve fund. Lastly, the Town received an unbudgeted American Rescue Plan grant of \$ 471,354 which was used to offset police salaries and benefits.
- As of the close of the current fiscal year, the Town of Southern Shores governmental funds reported combined ending fund balances of \$ 15,721,488, an increase of \$7,391,012 over the prior year. The largest part of this increase is unspent bond proceeds for beach nourishment of \$ 5,150,178 plus the items discussed in the previous bullet point. Approximately 58% of the total combined ending governmental fund balance (\$ 9,164,367) is non-spendable, restricted, committed or assigned.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$ 6,557,121 or 110% of total general fund expenditures for the fiscal year.
- Total property valuation increased \$ 11,945,467 (less than 1%) from \$ 1,638,141,471 in fiscal year 2021 to \$ 1,650,086,938 in fiscal year 2022.
- The general fund budget for the year was adopted with a tax rate of 23.58 cents per \$ 100 of assessed valuation. This 4-cent town-wide tax increase is restricted for beach nourishment. The town also implemented 2 municipal service districts with the taxes restricted for beach nourishment. MSD1 with a tax rate of 7.15 cents includes most all properties that abut the Atlantic Ocean. MSD2 with a tax rate of 3 cents includes all properties in MSD1 plus the remaining properties East of Ocean Boulevard/NC 12 and Duck Road/NC 12 plus all properties west of and abutting Ocean Boulevard/NC 12 and Duck Road/NC 12.

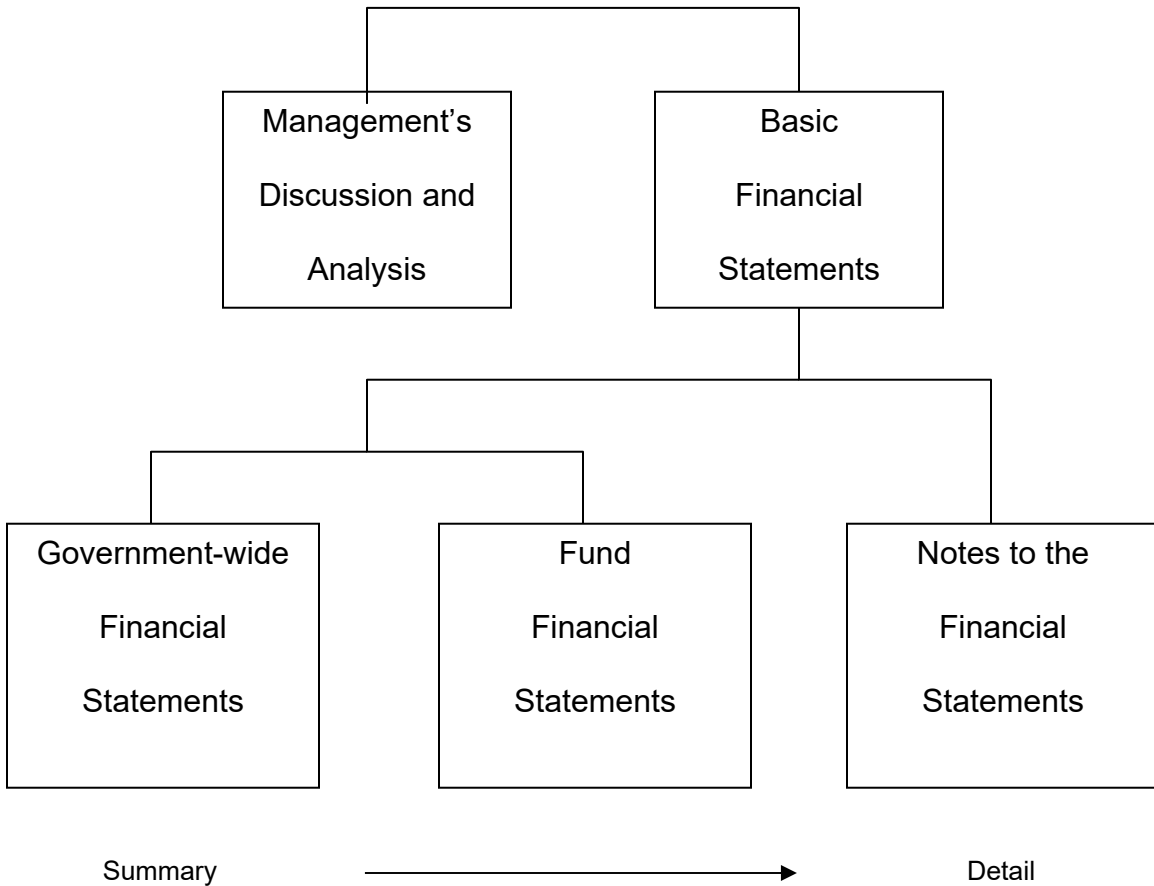
Overview of the Financial Statements

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

Management Discussion and Analysis Town of Southern Shores

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

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

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

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

Management Discussion and Analysis

Town of Southern Shores

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

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

Management Discussion and Analysis

Town of Southern Shores

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.

The Town adopts project ordinances for its capital project fund and American Rescue Plan fund.

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 17-41 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 42-46 of this report.

Government-Wide Financial Analysis

The Town of Southern Shores' Net Position

Figure 2

	<u>June 30, 2022</u>	<u>June 30, 2021</u>
Current and other assets	\$ 18,459,994	\$ 9,246,774
Capital assets	11,731,612	11,236,412
Deferred outflows of resources	<u>1,460,324</u>	<u>1,046,031</u>
Total assets and deferred outflows of resources	31,651,930	21,529,217
Long-term liabilities outstanding	7,700,320	3,224,420
Other liabilities	2,454,961	548,386
Deferred inflows of resources	<u>2,211,846</u>	<u>633,129</u>
	12,367,127	4,405,935
Net position:		
Net investment in capital assets	10,250,586	11,236,412
Restricted for Public Safety	9,491	9,492
Restricted for Capital Reserve Fund	2,186,119	457,450
Restricted for Stabilization by State Statute	2,067,392	1,082,331
Restricted for Streets	131,134	-
Unrestricted	<u>4,640,081</u>	<u>4,337,597</u>
Total net position	<u>\$ 19,284,803</u>	<u>\$ 17,123,282</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 \$ 19,284,803 as of June 30, 2022. The town's net position increased by \$ 2,161,521 for the fiscal year ended June 30, 2022. Net investment in capital assets (53% of total net position) reflects the town's investment in capital assets (e.g. land, buildings, infrastructure, machinery, and equipment), less any related debt still outstanding that was issued to acquire those items. This amount decreased by \$ 985,826, the amount by which current year acquisitions and disposals exceeded current year depreciation (\$ 495,201) netted by the amount by which debt exceeds unexpended debt proceeds (\$ 1,481,027). 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

Management Discussion and Analysis

Town of Southern Shores

investment in capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town's net position, \$ 4,394,136 represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$ 4,640,081 is unrestricted.

Town of Southern Shores Changes in Net Position
Figure 3

	<u>June 30, 2022</u>	<u>June 30, 2021</u>
Revenues:		
Program Revenues:		
Charges for services	\$ 201,405	\$ 194,665
Operating grants and contributions	507,933	134,662
Capital grants and contributions	143,450	360,484
General Revenues:		
Property taxes	4,266,933	3,211,364
Other taxes	3,851,234	3,541,786
Investment earnings	19,013	1,462
Other	<u>21,293</u>	<u>9,746</u>
Total Revenues	<u>9,011,261</u>	<u>7,454,169</u>
Expenses:		
General government	1,421,579	1,338,954
Public safety	2,980,354	2,896,468
Public works and transportation	1,568,962	1,535,489
Environmental protection	826,717	787,762
Interest	<u>52,128</u>	-
Total Expenses	<u>6,849,740</u>	<u>6,558,673</u>
Increase in net position	2,161,521	895,496
Net position, July 1	<u>17,123,282</u>	<u>16,227,786</u>
Net position, June 30	<u>\$19,284,803</u>	<u>\$17,123,282</u>

Operating grants and contributions increased by \$ 373,271 due primarily to an American Rescue Plan grant of \$ 471,354 used for police salaries and benefits. Capital grants and contributions decreased \$ 217,034 primarily due to a contribution of \$ 250,000 from Dare County for beach nourishment in the prior year. Property taxes increased due to a town-wide tax increase of 4 cents restricted for beach nourishment (\$ 653,864) and taxes from municipal service district 1 (\$ 175,025) and municipal service district 2 (\$ 196,549). Investment earnings increased \$ 17,551 due to increased investment earning rates.

Overall expenses increased 4.4%.

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 \$ 6,557,121 while total fund balance reached \$ 11,571,941. The Town Council has adopted a fund balance policy which

Management Discussion and Analysis

Town of Southern Shores

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 \$ 3,000,000 unless it is needed for an unforeseen emergency. The unassigned fund balance is \$ 6,557,121 more than the required minimum of \$ 3,000,000. The unassigned fund balance represents 110% of the current fiscal year general fund expenses.

At June 30, 2022, the governmental funds of Town of Southern Shores reported a combined fund balance of \$ 15,721,488; a 89 % (\$ 7,391,012) increase over last year. Unassigned fund balance increased \$ 1,368,005 due primarily to revenues exceeding budget estimates and expenses less than budgeted. Occupancy, sales and land transfer taxes exceeded budget estimates by \$ 917,729 and the Town used \$ 233,882 from beach nourishment bond funds to reimburse the general fund for beach nourishment expenses paid in prior years by the general fund.

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 included increases of \$ 346,165 for June 30, 2021, encumbrances carried forward to current fiscal year and \$ 36,943 for police salary adjustments to compete with other local agencies.

Capital Asset and Debt Administration

Capital assets. The Town of Southern Shores' investment in capital assets for its governmental activities as of June 30, 2022, totals \$ 11,731,612 (net of accumulated depreciation). These assets include buildings, land, vehicles and infrastructure.

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

- A tractor for public works \$ 39,642
- Message trailer \$ 16,500
- (4) police vehicles \$ 172,836
- Beach nourishment \$ 1,259,460

Town of Southern Shores' Governmental Activities Capital Assets

Figure 4

(net of depreciation)

	<u>June 30, 2022</u>	<u>June 30, 2021</u>
Land	\$ 467,905	467,905
Buildings	535,202	569,454
Equipment	104,651	73,105
Infrastructure	8,624,848	8,981,849
Vehicles	283,677	188,122
Construction in progress	1,715,329	955,977
Total	<u>\$ 11,731,612</u>	<u>\$ 11,236,412</u>

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

Management Discussion and Analysis

Town of Southern Shores

Long-Term Debt. The Town's long-term debt consist of bonded debt for beach nourishment, pension liabilities, OPEB obligations and vacation outlined in the long-term debt schedule on page 39 in the notes to the financial statements.

North Carolina General Statutes limit the amount of general obligation debt that a unit of government can issue to 8 % of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the Town of Southern Shores is \$ 126,461,414.

Economic Factors and Next Year's Budgets and Rates

The following economic indicators affect the town.

- Travel and tourism in Dare County were strong in fiscal year 2022. Overall County occupancy tax collections increased 7.52% and Southern Shores received \$ 95,523 or 7% more.
- Southern Shores' portion of sales tax increased \$ 171,403 or 15%.
- Property sales in Dare County were extremely strong with record prices being paid for properties that generated multiple sales offers. Overall land transfer tax collections increased 4.75% in Dare County and Southern Shores received \$ 10,458 or 2% more than the prior year.

Budget Highlights for the Fiscal Year Ending June 30, 2023

- The Town plans to complete its beach nourishment project with an estimated overall cost of \$ 11,325,189.
- The adopted budget includes an overall salary increase of 5% for all employees.
- The adopted budget includes \$ 1,000,000 for street repairs. Additionally, the town will complete street repairs started in prior fiscal year at \$ 1,053,400.
- The adopted budget includes an additional police officer position at \$ 75,000.
- The adopted budget includes \$ 80,000 for a land use plan update.
- The adopted budget includes the first principal plus interest debt payment on beach nourishment of \$ 1,202,938.
- The budget includes an appropriation from fund balance of \$ 365,309.

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, 2022

	Governmental Activities
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 8,718,583
Taxes receivable	9,406
Prepaid expenses	4,428
Miscellaneous receivables	953
Due from governmental units	841,455
Restricted cash and cash equivalents	8,885,169
Total current assets	<u>18,459,994</u>
Non-current assets:	
Capital assets:	
Land	467,905
Construction in progress	1,715,329
Other capital assets, net of depreciation	9,548,378
Total capital assets	<u>11,731,612</u>
Total assets	<u>30,191,606</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pension deferrals	979,797
OPEB deferrals	480,527
Total deferred outflows of resources	<u>1,460,324</u>
LIABILITIES	
Current liabilities:	
Accounts payable	105,381
Accounts payable from restricted assets	1,085,663
Salaries and benefits payable	129,809
Current portion of long-term liabilities	1,134,108
Total current liabilities	<u>2,454,961</u>
Long-term liabilities:	
Net pension liability - LGERS	401,495
Total pension liability - LEOSSA	817,743
Total OPEB liability	1,947,977
Due in more than one year	4,533,105
Total long-term liabilities	<u>7,700,320</u>
Total liabilities	<u>10,155,281</u>
DEFERRED INFLOWS OF RESOURCES	
Prepaid grant	1,408,247
Pension deferrals	676,830
OPEB deferrals	126,769
Total deferred inflows of resources	<u>2,211,846</u>
NET POSITION	
Net investment in capital assets	10,250,586
Restricted for Stabilization by State Statute	2,067,392
Restricted for Public Safety	9,491
Restricted for Streets	131,134
Restricted for Capital Reserve Fund	2,186,119
Unrestricted	4,640,081
Total net position	<u>\$ 19,284,803</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, 2022

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Total
Primary government:						
Governmental activities:						
General Government	\$ 1,421,579	\$ 191,963	\$ 5,000	\$ -	\$ (1,224,616)	\$ (1,224,616)
Public Safety	2,980,354	9,442	472,104	-	(2,498,808)	(2,498,808)
Public Works/Infrastructure	1,568,962	-	30,829	143,450	(1,394,683)	(1,394,683)
Environmental Protection	826,717	-	-	-	(826,717)	(826,717)
Interest	52,128	-	-	-	(52,128)	(52,128)
	<u>6,849,740</u>	<u>201,405</u>	<u>507,933</u>	<u>143,450</u>	<u>(5,996,952)</u>	<u>(5,996,952)</u>
Total primary government	\$ 6,849,740	\$ 201,405	\$ 507,933	\$ 143,450	\$ (5,996,952)	\$ (5,996,952)

General revenues:

Taxes:

Property taxes, levied for general purpose	3,895,168	3,895,168
Municipal service district taxes	371,765	371,765
Other taxes	3,851,234	3,851,234
Investment earnings, unrestricted	19,013	19,013
Miscellaneous, unrestricted	21,293	21,293
Total general revenues, special items, and transfers	8,158,473	8,158,473
Change in net position	2,161,521	2,161,521
Net position, beginning	17,123,282	17,123,282
Net position-ending	\$ 19,284,803	\$ 19,284,803

TOWN OF SOUTHERN SHORES, NORTH CAROLINA

Exhibit 3

BALANCE SHEET - GOVERNMENTAL FUNDS

For the Year Ended June 30, 2022

	Major Funds		Total Non-Major Fund	Total Governmental Funds
	General	Capital Project		
ASSETS				
Cash and cash equivalents	\$ 8,633,551	\$ 2,449	\$ 82,583	\$ 8,718,583
Restricted cash and cash equivalents	2,326,744	6,558,425	-	8,885,169
Taxes receivable	9,406	-	-	9,406
Miscellaneous receivables	953	-	-	953
Prepaid expenses	4,428	-	-	4,428
Due from governmental units	841,455	-	-	841,455
Total Assets	11,816,537	6,560,874	82,583	18,459,994
LIABILITIES				
Liabilities:				
Accounts payable	105,381	-	-	105,381
Accounts payable from restricted assets	-	1,085,663	-	1,085,663
Salaries and benefits payable	129,809	-	-	129,809
Total Liabilities	235,190	1,085,663	-	1,320,853
DEFERRED INFLOWS OF RESOURCES				
Prepaid grant	-	1,408,247	-	1,408,247
Property taxes receivable	9,406	-	-	9,406
Total Deferred Inflows of Resources	9,406	1,408,247	-	1,417,653
FUND BALANCES				
Non Spendable:				
Prepaid expenses	4,428	-	-	4,428
Restricted:				
Stabilization by State Statute	2,067,392	-	-	2,067,392
Public Safety	9,491	-	-	9,491
Capital Reserve Fund	2,186,119	-	-	2,186,119
Restricted for Streets-Powell Bill	131,134	-	-	131,134
Committed:				
LEO Special Separation Allowance	250,947	-	-	250,947
Beach nourishment capital project	-	4,066,964	-	4,066,964
Cemetery	-	-	82,583	82,583
Assigned:				
Subsequent year's expenditures	365,309	-	-	365,309
Unassigned	6,557,121	-	-	6,557,121
Total Fund Balances	11,571,941	4,066,964	82,583	15,721,488
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
	\$ 11,816,537	\$ 6,560,874	\$ 82,583	

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	11,731,612
Deferred outflows of resources related to pensions/OPEB are not reported in the funds	1,460,324
Earned revenues considered deferred inflows of resources in fund statements	9,406
Long term liabilities used on governmental activities are not financial uses and therefore are not reported in the funds	(8,834,428)
Deferred inflows of resources related to pensions/OPEB are not reported in the funds	(803,599)
Net position of governmental activities (Exhibit 1)	\$ 19,284,803

TOWN OF SOUTHERN SHORES, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2022

Exhibit 4

	Major Funds			Total Non-Major Fund	Total Governmental Funds
	General	Capital Project	Special Revenue		
REVENUES:					
Ad valorem taxes	\$ 4,298,377	\$ -	\$ -	\$ -	4,298,377
Other taxes and licenses	3,389,529	-	-	-	3,389,529
Unrestricted intergovernmental revenue	461,705	-	-	-	461,705
Restricted intergovernmental revenue	166,963	12,316	471,354	-	650,633
Permits and fees	180,405	-	-	-	180,405
Sales and services	-	-	-	18,120	18,120
Investment earnings	16,564	2,449	-	-	19,013
Other revenues	24,923	-	-	-	24,923
TOTAL REVENUES	8,538,466	14,765	471,354	18,120	9,042,705
EXPENDITURES:					
General government	1,366,319	-	-	600	1,366,919
Public safety	2,958,693	-	-	-	2,958,693
Public works and infrastructure	733,317	1,259,460	-	-	1,992,777
Environmental protection	826,717	-	-	-	826,717
Debt service interest	52,128	-	-	-	52,128
TOTAL EXPENDITURES	5,937,174	1,259,460	-	600	7,197,234
REVENUES OVER (UNDER) EXPENDITURES	2,601,292	(1,244,695)	471,354	17,520	1,845,471
OTHER FINANCING SOURCES (USES):					
Installment finance obligations issued	-	5,545,541	-	-	5,545,541
Transfer to general fund	705,236	(233,882)	(471,354)	-	-
TOTAL OTHER FINANCING SOURCES (USES)	705,236	5,311,659	(471,354)	-	5,545,541
NET CHANGE IN FUND BALANCE	3,306,528	4,066,964	-	17,520	7,391,012
FUND BALANCES:					
Beginning of year - July 1	8,265,413	-	-	65,063	8,330,476
End of year - June 30	\$ 11,571,941	\$ 4,066,964	\$ -	\$ 82,583	\$ 15,721,488

TOWN OF SOUTHERN SHORES, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2022

Exhibit 4
(continued)

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

Net changes in fund balances - total governmental funds \$ 7,391,012

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	1,504,398	
Depreciation expense for governmental assets	<u>(1,009,197)</u>	495,201

Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities (LGERS) 216,208

Benefit payments paid and administrative expense for the LEOSSA are not included on the Statements of Activities 49,145

OPEB benefit payments and administrative costs made in the current fiscal year are not included in the Statement of Activities 30,692

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:
Change in unavailable revenue for tax and special assessment revenues (31,444)

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 and related items:
Debt issued (5,545,541)

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	(15,932)	
Pension expense-LGERS	(176,896)	
Pension expense-LEOSSA	(119,308)	
OPEB Plan expense	<u>(131,616)</u>	<u>(443,752)</u>

Total changes in net position of governmental activities (Exhibit 2) \$ 2,161,521

TOWN OF SOUTHERN SHORES, NORTH CAROLINA

Exhibit 5

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - ANNUAL BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended June 30, 2022**

	General Fund			Variance with Final Budget- Positive (Negative)
	Original	Final	Actual Amounts	
REVENUES:				
Ad valorem taxes	\$ 4,286,228	\$ 4,286,228	\$ 4,298,377	\$ 12,149
Other taxes and licenses	2,430,000	2,471,800	3,389,529	917,729
Unrestricted intergovernmental revenues	452,243	467,943	461,705	(6,238)
Restricted intergovernmental revenues	203,000	233,260	166,963	(66,297)
Permits and fees	168,700	168,700	180,405	11,705
Investment earnings	2,000	2,000	15,822	13,822
Other revenue	8,600	18,085	24,923	6,838
Total Revenues	7,550,771	7,648,016	8,537,724	889,708
EXPENDITURES:				
General government	1,389,047	1,424,074	1,366,319	57,755
Public safety	2,989,154	3,207,303	2,958,693	248,610
Public works and infrastructure	1,792,561	2,149,986	785,445	1,364,541
Environmental protection	852,198	854,733	826,717	28,016
Total Expenditures	7,022,960	7,636,096	5,937,174	1,698,922
REVENUES OVER (UNDER) EXPENDITURES				
	527,811	11,920	2,600,550	2,588,630
OTHER FINANCING SOURCES (USES):				
Fund balance appropriated	1,270,519	1,734,282	-	(1,734,282)
Transfer from special revenue fund	-	-	471,354	471,354
Transfer from capital project fund	-	-	233,882	233,882
Transfer (to) from capital reserve fund	(1,798,330)	(1,746,202)	(1,727,927)	18,275
	(527,811)	(11,920)	(1,022,691)	(1,010,771)
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES				
	\$ -	\$ -	1,577,859	\$ 1,577,859
FUND BALANCES:				
Beginning			7,807,963	
Ending			\$ 9,385,822	
A legally adopted Capital Reserve Fund is consolidated into the General Fund for reporting purposes:				
Interest income			742	
Transfer from general fund			1,727,927	
Fund Balance, Beginning			457,450	
Fund Balance, Ending (Exhibit 4)			\$ 11,571,941	

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2022

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 Town has no fiduciary funds to report. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds.

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.

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2022

Capital Project Fund. This fund is used to account for the beach nourishment project.

ARPA Special Revenue Fund. This fund is used to account for funds received under the American Rescue Plan.

The Town reports the following non-major governmental fund:

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

Sales taxes and certain intergovernmental revenues, such as the utilities franchise tax, collected and held by the State at year-end on behalf of the Town are recognized as revenue. Sales taxes are considered shared revenue for the Town of Southern Shores because the tax is levied by Dare County and then remitted to and distributed by the State. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Grant revenues which are unearned at year-end are recorded as unearned revenues. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2022

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. 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. Project ordinances are adopted for the Beach Nourishment Capital Project Fund and American Rescue Plan Special Revenue Fund. The Town Manager can reallocate departmental appropriations among objects of expenditure and is authorized to make inter-departmental transfers within the same fund for effective budget performance. During the year, several amendments to the original budget were necessary. The primary changes to the adopted budget included increases of \$ 346,165 for encumbrances carried forward from prior year and \$ 36,943 for police salary adjustments to compete with other local agencies. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

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

1. Deposits and Investments

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

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

The Town's investments are reported at fair value. The NCCMT is a SEC-registered money market mutual fund allowable by G.S. 159-30(c)(8). The NCCMT Government Portfolio, which invests in treasuries and government agencies, is a 2a-7 money market mutual fund and maintains an AAAM rating from S&P and AAAMf by Moody's Investor Service. It is reported at fair value. Because the NCCMT Government Portfolio has a weighted average of less than 90 days, it is presented as an investment with a maturity of less than 6 months.

2. Cash and Cash Equivalents

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

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2022

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. Drug forfeiture funds are classified as restricted cash because its use is restricted for purposes that enhance law enforcement activities. Lastly, unexpected debt proceeds are restricted for beach nourishment; the purpose the debt was issued for and the unexpended grant from NC Department of Environmental Quality is restricted by the grantor for beach nourishment.

Town of Southern Shores Restricted Cash:

Governmental Activities:

General Fund:

Capital reserve fund	\$ 2,186,119
Powell Bill funds	131,134
Public Safety	<u>9,491</u>
Total General Fund	<u>2,326,744</u>

Capital Project Fund:

Unexpended debt proceeds	\$ 5,150,178
Unexpended NCDEQ grant	<u>1,408,247</u>
Total Capital Project Fund	<u>\$ 6,558,425</u>

Total Restricted Cash \$ 8,885,169

4. Ad-Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad-valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2021.

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

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2022

donation. General infrastructure assets acquired prior to July 1, 2003, consist of the road network, which is not capitalized as the town has not opted to do retroactive reporting for infrastructure.

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

Capital assets are depreciated using the straight-line method over the following estimated useful lives:Asset Class	Estimated Useful Lives
Infrastructure	20 years
Buildings	40 years
Vehicles	4-7 years
Furniture and equipment	7 years

8. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town has several items that meet this criterion, contributions made to the pension plans and OPEB plan in the 2021 fiscal year and other pension and OPEB deferrals. 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, prepaid grants and pension and OPEB deferrals.

9. Long-Term Obligations

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

10. Compensated Absences

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

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

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2022

11. Reimbursements for Pandemic-related Expenditures

In FY 2020/21, the American Rescue Plan Act (ARPA) established the Coronavirus State and Local Fiscal Recovery Funds to support urgent COVID-19 response efforts and replace lost revenue for eligible state, local, territorial, and tribal governments. The Town was allocated \$ 942,707 of fiscal recovery funds to be paid in two equal installments. The first installment of \$ 471,354 was received in July 2021. The second installment will be received in mid-2022. Town staff and the Town Council have elected to claim the standard allowance and use the full amount of the funding received to supplant law enforcement salaries and benefits for the period of July 1, 2021 through March 31, 2023. The first installment of \$ 471,354 was transferred to the General Fund from the ARPA Fund in the current fiscal year for law enforcement salaries and benefits.

12. 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.

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

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2022

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

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

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

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

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

Committed for beach nourishment projects – portion of fund balance that has been budgeted by the Town Council for a beach nourishment project. The governing body approves the capital project ordinance.

Committee for cemetery – portion of fund balance that has been set aside specifically for the Town cemetery.

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 \$ 3,000,000.

13. Pensions

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

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2022

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, 2022, the Town's deposits had a carrying amount of \$ 5,849,628 and a bank balance of \$ 5,821,346. Of the bank balance, \$ 250,000 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. At June 30, 2022, the Town's petty cash fund totaled \$ 700.

2. Investments

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

	<u>Valuation</u> <u>Measurement Method</u>	<u>Book Value</u> <u>At 6/30/22</u>	<u>Maturity</u>	<u>Rating</u>
NC Capital Management Trust:				
Government Portfolio	Fair Value Level 1	\$11,753,424	N/A	AAAm
Total Investments		\$11,753,424		

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

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

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

Credit Risk. The Town's cash management policy does not address credit risk but has internal management procedures that limits the Town's investments to the provisions of G.S. 159-30. The Town's investment in the NC Capital Management Trust Government Portfolio carried a credit rating of AAAM by Standard & Poor's and AAAM-mf by Moody's Investor Service as of June 30, 2022.

3. Capital Assets

Primary Government

Capital asset activity for the primary government for the year ended June 30, 2022 was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 467,905	\$ -	\$ -	\$ 467,905
Construction in process	955,977	1,268,523	509,171	1,715,329
	<u>1,423,882</u>	<u>1,268,523</u>	<u>509,171</u>	<u>2,183,234</u>
Capital assets being depreciated:				
Buildings	1,315,252	-	-	1,315,252
Equipment	270,501	56,142	-	326,643
Infrastructure	14,393,249	498,819	-	14,892,068
Vehicles	863,807	190,084	30,376	1,023,515
Total capital assets being depreciated	<u>16,842,809</u>	<u>745,045</u>	<u>30,376</u>	<u>17,557,478</u>
Less accumulated depreciation for:				
Buildings	745,798	34,252	-	780,050
Equipment	197,396	24,596	-	221,992
Infrastructure	5,411,400	855,820	-	6,267,220
Vehicles	675,685	94,529	30,376	739,838
Total accumulated depreciation	<u>7,030,279</u>	<u>\$1,009,197</u>	<u>30,376</u>	<u>8,009,100</u>
Total capital assets being depreciated (net)	<u>9,812,530</u>			<u>9,548,378</u>
Governmental activity capital assets, net	<u>\$11,236,412</u>			<u>\$11,731,612</u>

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

General Government	\$ 25,704
Public Safety	104,537
Public works and infrastructure	<u>878,956</u>
	<u>\$1,009,197</u>

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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 Annual Comprehensive Financial Report for the State of North Carolina. The State's Annual Comprehensive Financial Report 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.

Benefits Provided

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

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'

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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, 2022, was 11.9% of compensation for law enforcement officers and 11.35% 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 \$ 216,208 for the year ended June 30, 2022.

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

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

At June 30, 2022, the Town reported a liability of \$401,495 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2021. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2020. The total pension liability was then rolled forward to the measurement date of June 30, 2021, utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension 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, 2021, the Town's proportion was 0.02618%, which was an increase of 0.00407% from its proportion measured as of June 30, 2020.

For the year ended June 30, 2022, the Town recognized pension expense of \$176,896. At June 30, 2022, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 127,730	\$ -
Changes of assumptions	252,242	-
Net difference between projected and actual earnings on pension plan investments	-	573,616
Changes in proportion and differences between Town Contributions and proportionate share of contributions	61,532	24,704
Town contributions subsequent to the measurement date	216,208	-
Total	<u>\$ 657,712</u>	<u>\$ 598,320</u>

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\$216,208 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2023. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:		
2023	\$	43,681
2024		(1,967)
2025		(23,000)
2026		(175,530)
2027		-
Thereafter		-
	\$	(156,816)

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

Inflation	2.5 percent
Salary increases	3.25 to 8.25 percent, including inflation and productivity factor
Investment rate of return	6.50 percent, net of pension plan investment expense, including inflation

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

The actuarial assumptions used in the December 31, 2020 valuation were based on the results of an actuarial experience study for the period January 1, 2015, through December 31, 2019.

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, 2021 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	29.0%	1.4%
Global Equity	42.0%	5.3%
Real Estate	8.0%	4.3%
Alternatives	8.0%	8.9%
Credit	7.0%	6.0%
Inflation Protection	6.0%	4.0%
Total	100%	

The information above is based on 30-year expectations developed with the consulting actuary for the 2020 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 2.50%. All rates of return and inflation are annualized.

Discount rate. The discount rate used to measure the total pension liability was 6.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Town's proportionate share of the net pension asset to changes in the discount rate. The following presents the Town's proportionate share of the net pension asset calculated using the discount rate of 6.50 percent, as well as what the Town's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (5.50 percent) or one percentage point higher (7.50 percent) than the current rate:

	<u>1% Decrease (5.50%)</u>	<u>Discount Rate (6.50%)</u>	<u>1% Increase (7.50%)</u>
Town's proportionate share of the net pension liability (asset)	\$ 1,558,572	\$ 401,495	\$ (550,711)

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued Annual Comprehensive Financial Report 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

TOWN OF SOUTHERN SHORES
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the Town's qualified sworn law enforcement officers under the age of 62 who have completed at least 30 years of creditable service or have attained 55 years of age and have completed five or more years of creditable service. The Separation Allowance is equal to .85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

All full-time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2020 (the valuation date), the Separation Allowance's membership consisted of:

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

2. Summary of Significant Accounting Policies:

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

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

3. Actuarial Assumptions

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

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

The discount rate used to measure the total pension liability is based on the yield of the S&P Municipal Bond 20 Year High Grade Rate Index as of December 31, 2020.

Mortality rates use Pub-2010 amount-weighted tables.

4. Contributions.

The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned on a pay as you go basis through appropriations in the General Fund operating budget. There were no contributions made by employees. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. The Town paid \$ 33,045 as benefits came due for the reporting period.

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

At June 30, 2022, the Town reported a total pension liability of \$ 817,743. The total pension liability was measured as of December 31, 2021 based on a December 31, 2020 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2021 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2022, The Town recognized pension expense of \$ 119,308. At June 30, 2022, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 122,056	\$ 55,178
Changes of assumptions	166,984	23,332
Town benefit payments subsequent to the measurement date	33,045	-
Total	\$ 322,085	\$ 78,510

\$ 33,045 reported as deferred outflows of resources related to pension resulting from benefits payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ended June 30, 2023. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2023	\$ 70,216
2024	47,691
2025	44,494
2026	36,629
2027	11,500
Thereafter	0
Total	\$ 210,530

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Sensitivity of the Town's total pension liability to changes in the discount rate. The following presents the Town's total pension liability calculated using the discount rate of 2.25 percent, as well as what the Town's 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 (1.25 percent) or one percentage point higher (3.25 percent) than the current rate:

	1% Decrease (1.25%)	Discount Rate (2.25%)	1% Increase (3.25%)
Town's pension liability	\$ 883,770	\$ 817,743	\$ 756,752

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

Total pension liability December 31, 2020	\$ 713,229
Changes for the year:	
Service cost at end of year	36,226
Interest	13,514
Change in benefit terms	0
Differences between expected and actuarial experience	101,355
Changes of assumptions and other inputs	(20,570)
Benefit payments	(26,011)
Other changes	0
Net changes	<u>\$ 104,514</u>
Total Pension liability December 31, 2021	<u>\$ 817,743</u>

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

The actuarial assumptions used in the December 31, 2020 valuation were based on the results of an experience study completed by the Actuary for the Local Government Employees' Retirement System for the five-year period ended December 31, 2019.

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2022

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

	<u>LGERS</u>	<u>LEOSSA</u>	<u>TOTAL</u>
Pension expense	\$ 176,896	\$ 119,308	\$ 296,204
Pension liability	401,495	817,743	1,219,238
Proportionate share of pension liability	.02618%	N/A	

Deferred of Outflows of Resources

Differences between expected and actual experience	127,730	122,056	249,786
Change of assumptions	252,242	166,984	419,226
Net difference between projected and actual earnings on plan investments	-	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	61,532	-	61,532
Benefit payments and administrative costs paid subsequent to the measurement date	216,208	33,045	249,253

Deferred of Inflows of Resources

Differences between expected and actual experience	-	55,178	55,178
Change of assumptions	-	23,332	23,332
Net difference between projected and actual earnings on plan investments	573,616	-	573,616
Changes in proportion and differences between contributions and proportionate share of contributions	24,704	-	24,704

c. Supplemental Retirement Income Plan for Law Enforcement Officers

Plan Description. The Town contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to law enforcement officers employed by the Town. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Supplemental Retirement Income Plan for Law Enforcement Officers is included in the Annual Comprehensive Financial Report for the State of North Carolina. The State's Annual Comprehensive Financial Report includes the pension trust fund financial statements for the Internal Revenue Code Section 401 (k) plan that includes the Supplemental Retirement Income Plan for Law Enforcement Officers. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy. Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2022, were \$ 65,032, which consisted of \$ 44,872 from the Town and \$ 20,160 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.

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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, 2022, were \$ 81,246, which consisted of \$ 47,478 from the Town and \$ 33,768 from employees.

e. 457 Deferred Compensation

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

Funding policy. The Town does not match contributions to the 457 deferred compensation plan. Total contributions for the year ended June 30, 2022, were \$ 16,320 which consisted of \$ 15,720 from regular employees and \$ 600 for law enforcement employees.

f. Other Postemployment Benefit - Healthcare Benefits

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

Membership of the HCB Plan consisted of the following at June 30, 2021, the date of the latest actuarial valuation:

Inactive Members or Beneficiaries Currently Receiving Benefits	4
Inactive Members Entitled To, But Not Yet Receiving Benefits	0
Active Members	<u>25</u>
Total Membership	29

TOTAL OPEB LIABILITY

The Town's total OPEB liability of \$ 1,947,877 was measured as of June 30, 2021 and was determined by an actuarial valuation as of June 30, 2020.

TOWN OF SOUTHERN SHORES
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Actuarial assumptions and other inputs. The total OPEB liability in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Inflation	2.50%
Real wage growth	0.75%
Wage inflation	3.25%
Salary increases, including wage inflation:	
General Employees	3.25%-8.41%
Law Enforcement Officers	3.25%-7.90%
Municipal Bond Index Rate:	
Prior measurement date	2.21%
Measurement date	2.16%
Health Care Cost Trends:	
Pre-Medicare	7.00% for 2021 decreasing to an ultimate rate of 4.50% by 2031
Medicare	5.125% for 2021 decreasing to an ultimate rate of 4.50% by 2024

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

Changes in Total OPEB Liability

Total OPEB liability June 30, 2020	\$ 1,640,367
Changes for the year:	
Service cost at end of year	58,221
Interest on TOL and Cash Flows	37,219
Change in benefit terms	0
Differences between expected and actuarial experience	25,173
Changes of assumptions and other inputs	216,013
Benefit payments	(29,116)
Other changes	0
Net changes	<u>\$ 307,510</u>
Total OPEB liability June 30, 2021	<u>\$ 1,947,877</u>

Mortality rates were based on the Pub-210 mortality tables, with adjustments for LGERS experience and generational mortality improvements using Scale MP-2019.

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

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

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Sensitivity of the Town's total OPEB liability to changes in the discount rate. The following presents the Town's total OPEB liability calculated using the discount rate of 2.16 percent, as well as what the Town's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (1.16 percent) or one percentage point higher (3.16 percent) than the current rate:

	1% Decrease (1.16%)	Discount Rate (2.16%)	1% Increase (3.16%)
Town's total OPEB liability	\$ 2,325,413	\$ 1,947,877	\$ 1,651,032

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

	1% Decrease	Current	1% Increase
Town's total OPEB liability	\$ 1,621,079	\$ 1,947,877	\$ 2,368,842

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

For the year ended June 30, 2022, the Town recognized OPEB expense of \$131,616. At June 30, 2022, the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 22,261	\$ 44,711
Changes of assumptions	427,573	82,058
Benefit payments and administrative costs subsequent to the measurement date	30,693	-
Total	\$ 480,527	\$ 126,769

\$30,693 reported as deferred outflows of resources related to OPEB resulting from benefits payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ended June 30, 2023. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:		
2023	\$	36,176
2024		36,176
2025		36,176
2026		50,752
2027		59,659
Thereafter		104,126
Total	\$	323,065

TOWN OF SOUTHERN SHORES
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For the Fiscal Year Ended June 30, 2022

2. Other Employment Benefit

The Town has also elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months salary in a row during the 24 months prior to the employee's death but the benefit may not exceed \$ 50,000 or be less than \$ 25,000. Because all death benefit payments are made from the Death Benefit Plan and not by the Town, the Town does not determine the number of eligible participants. The Town has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. 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. For the fiscal year ended June 30, 2022, the Town made contributions to the State for death benefits of \$ 1,636. The Town's required contributions for employees not engaged in law enforcement and for law enforcement officers represented 0.04% and 0.14% of covered payroll respectively.

3. Deferred Outflows and Inflows of Resources

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

	<u>Statement of Net Position</u>
Contributions to pension plan in the current fiscal year LGERS	\$ 216,208
Benefit payments made for LEOSSA subsequent to measurement date	33,045
Benefit payments made for OPEB subsequent to measurement date	30,693
Differences between expected and actual experience	272,047
Changes of assumptions	846,799
Net difference between projected and actual earnings on plan investments	
Changes in proportion and difference between contributions and proportionate share of contributions	61,532
Total	\$ 1,460,324

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

	<u>Statement of Net Position</u>	<u>General Fund Balance Sheet</u>
Taxes receivable (General Fund)	\$ -	\$ 9,406
Prepaid grant	1,408,247	1,408,247
Differences between expected and actual experience	99,889	-
Changes of assumptions	105,390	-
Net difference between projected and actual earnings on plan investments	573,616	-
Changes in proportion and difference between contributions and proportionate share of contributions	24,704	-
Total	\$2,211,846	\$1,417,653

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2022

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 \$ 500,000 for the building and \$ 200,000 for contents.

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

5. Long-Term Obligations

In December 2021, the Town entered into a 5-year direct placement special obligation bond contract (Series 2021SOBs) for \$ 5,545,541 to finance beach nourishment maintenance. The interest rate is 1.88% per annum fixed. The contract requires annual principal installments plus accrued interest installments paid semi-annually beginning June 2022. The Town's occupancy tax revenue is pledged as collateral for the debt while the debt is outstanding.

Changes in Long-Term Liabilities

	<u>Balance July 1, 2021</u>	<u>Increase</u>	<u>Decreases</u>	<u>Balance June 30, 2022</u>	<u>Current Portion of Balance</u>
Governmental activities:					
Direct placement installment finance purchase	\$ -	\$ 5,545,541	\$ -	\$ 5,545,541	\$ 1,109,108
Compensated absences	105,740	15,932	-	121,672	25,000
Net pension liability (LGERS)	790,084	-	388,589	401,495	-
Total pension liability (LEOSSA)	713,229	104,514	-	817,743	-
Total OPEB liability	1,640,367	307,610	-	1,947,977	-
Governmental Activity Long-Term Liabilities	\$3,249,420	\$ 5,973,597	\$ 388,589	\$ 8,834,428	\$ 1,134,108

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2022

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

Year Ending June 30	Principal	Interest
2023	\$ 1,109,108	\$ 93,830
2024	1,109,108	72,979
2025	1,109,108	52,128
2026	1,109,108	31,277
2027	1,109,109	10,426
Total	\$ 5,545,541	\$ 260,640

At June 30, 2022 the Town had a legal debt margin of \$ 126,461,414

6. Claims and Judgments

Pending or Threatened Litigation, Claims and Assessments:

As part of the Town's beach nourishment project, the Town sought to obtain easements on oceanfront properties within the project area. Most of these property owners have given the Town voluntary easement to the extent that is necessary for the Town to perform nourishment on their properties. However, the Town did have to file six lawsuits to exercise the power of eminent domain with those owners with whom the Town could not reach voluntary agreements. As of the date of this report four of these were settled with voluntary easements and two of the claims are still ongoing. Neither of these claims is expected to have a material negative effect on the Town's finances.

C. Inter-fund Balances and Activity

Transfers to/from other funds at June 30, 2022, consist of the following:

From the General Fund to the Capital Reserve Fund (for canal maintenance)	\$ 20,000
From the General Fund to the Capital Reserve Fund (for beach nourishment)	\$ 1,707,927
From the ARPA Special Revenue Fund to the General Fund (for law enforcement salaries and benefits)	\$ 471,354
From the Capital Projects Fund to the Capital Reserve Fund (to reimburse capital reserve fund for beach nourishment expenses)	\$ 233,882

D. Net Investment in Capital Assets

Capital Assets	\$ 11,731,612
Less: Long-term debt	(5,545,541)
Less: Liabilities from restricted debt proceeds	(1,085,663)
Add: Unexpended debt proceeds	<u>5,150,178</u>
Net investment in Capital Assets	<u>\$ 10,250,586</u>

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2022

E. Fund Balance

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

Total fund balance – General Fund		\$ 11,571,941
Less:		
Prepaid expenses	\$ 4,428	
Stabilization by State Statute	2,067,392	
Drug enforcement	9,491	
Capital reserve fund	2,186,119	
Powell bill	131,134	
LEO Special Separation Allowance	250,947	
Appropriated in 2022-2023 budget	365,309	
Working capital/fund balance policy	<u>3,000,000</u>	
 Total Reductions	 <u>\$ 8,014,820</u>	
 Remaining Fund Balance		 <u>\$ 3,557,121</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 \$ 3,000,000 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	\$ 1,224,984
Capital project fund	\$ 9,831,847

F. Beach Nourishment

The Town began preliminary planning for a beach nourishment project in fiscal year 2020. As a part of an interlocal agreement the Town joined together with Dare County and other surrounding municipalities including Kitty Hawk, Kill Devil Hills and Duck to complete a large-scale beach nourishment project beginning in fiscal year 2022. The total project was bid by Dare County and each Town is responsible for paying its prorated portion of the project. The Town’s portion of the project is being financed with a special obligation bond in the amount of \$ 5,545,541, a NC Department of Environmental Quality grant of \$ 1,408,247 and a contribution from Dare County of \$ 4,371,401 for an estimated total project cost of \$ 11,325,189. Project expenses are budgeted in a capital project fund. The Town will repay the special obligation bond with a town-wide ad-valorem property tax of 4 cents dedicated to beach nourishment and two municipal service district taxes. These restricted revenues are transferred to a capital reserve fund where they are held for future debt payments and beach nourishment expenses. The amount transferred to the capital reserve fund in the current fiscal year for beach nourishment was:

Transfer from unassigned general fund balance		\$ 750,000
4-cent town-wide ad-valorem property tax		653,864
MSD ad-valorem property tax		371,574
Less tax collection fee		(15,383)
Less debt interest payment		<u>(52,128)</u>
 Total		 <u>\$ 1,707,927</u>

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2022

G. Capital Reserve Funds

Capital reserve funds are available for the following purposes at June 30, 2022:

Beach nourishment	\$ 1,958,669
Canal maintenance	138,000
Other projects	<u>89,450</u>
Total	<u>\$ 2,186,119</u>

IV. Southern Shores Cemetery Perpetual Care Fund

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

V. Summary Disclosure of Contingencies

Federal and State Assisted Programs

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

Subsequent Events

Management has evaluated subsequent events through September 26, 2022, the date on which the financial statements were available to be issued.

TOWN OF SOUTHERN SHORES, NORTH CAROLINA
Town of Southern Shores' Proportionate Share of Net Pension Liability (Asset)
Required Supplementary Information
Last Eight Fiscal Years *

	2021	2021	2020	2019	2018	2017	2016	2015
Town of Southern Shores' proportion of the net pension liability (asset) (%)	0.02618%	0.02211%	0.02434%	0.02577%	0.02781%	0.02816%	0.02707%	0.02669%
Town of Southern Shores' proportion of the net pension liability (asset) (\$)	\$ 401,495	\$ 790,084	\$ 664,706	\$ 611,353	\$ 424,860	\$ 597,650	\$ 121,489	\$ (157,403)
Town of Southern Shores' covered-employee payroll	\$ 1,733,085	\$ 1,542,621	\$ 1,665,533	\$ 1,600,258	\$ 1,548,998	\$ 1,539,393	\$ 1,467,530	\$ 1,442,114
Town of Southern Shores' proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	23.17%	51.22%	39.91%	38.20%	27.43%	38.82%	8.28%	-10.91%
Plan fiduciary net position as a percentage of the total pension liability **	95.51%	88.61%	90.86%	91.63%	94.18%	91.47%	98.09%	102.47%

* 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 Eight Fiscal Years

Local Government Employees' Retirement System

	2022	2021	2020	2019	2018	2017	2016	2015
Contractually required contribution	\$ 214,572	\$ 180,624	\$ 142,895	\$ 134,098	\$ 125,148	\$ 117,138	\$ 105,378	\$ 106,245
Contributions in relation to the contractually required contribution	214,572	180,624	142,895	134,098	125,148	117,138	105,378	106,245
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Town of Southern Shores' covered-employee payroll	\$ 1,847,010	\$ 1,733,085	\$ 1,542,621	\$ 1,665,533	\$ 1,600,258	\$ 1,548,998	\$ 1,539,393	\$ 1,467,530
Contributions as a percentage of covered-employee payroll	11.62%	10.42%	9.26%	8.05%	7.82%	7.56%	6.85%	7.24%

TOWN OF SOUTHERN SHORES, NORTH CAROLINA

Schedule of Changes in Total Pension Liability

Law Enforcement Officers' Special Separation Allowance

June 30, 2022

	2022	2021	2020	2019	2018	2017
Beginning Balance	\$ 713,229	\$ 550,207	\$ 484,544	\$ 480,837	\$ 332,069	\$ 333,992
Service Cost	36,226	16,663	18,478	19,927	16,907	17,349
Interest on the total pension liability	13,514	17,580	17,239	14,848	12,395	11,532
Changes of benefit terms	-	-	-	-	-	-
Differences between expected and actual experience in the measurement of the total pension liability	101,355	(83,548)	36,552	8,942	110,030	-
Changes of assumptions or other inputs	(20,570)	234,235	15,302	(18,102)	31,344	(8,896)
Benefit payments	(26,011)	(21,908)	(21,908)	(21,908)	(21,908)	(21,908)
Other changes	-	-	-	-	-	-
Ending balance of the total pension liability	\$ 817,743	\$ 713,229	\$ 550,207	\$ 484,544	\$ 480,837	\$ 332,069

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

TOWN OF SOUTHERN SHORES, NORTH CAROLINA

Schedule of Total Pension Liability as a Percentage of Covered Payroll

Law Enforcement Officers' Special Separation Allowance

June 30, 2022

	2022	2021	2020	2019	2018	2017
Total pension liability	\$ 817,743	\$ 713,229	\$ 550,207	\$ 484,544	\$ 480,837	\$ 332,069
Covered payroll	\$ 922,089	\$ 803,665	\$ 826,177	\$ 871,700	\$ 846,392	\$ 829,465
Total pension liability as a percentage of covered payroll	88.68%	88.75%	66.60%	55.59%	56.81%	40.03%

Notes to the schedules:

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

TOWN OF SOUTHERN SHORES, NORTH CAROLINA

Schedule of Changes in Total OPEB Liability and Related Ratios

June 30, 2022

Total OPEB Liability

	2022	2021	2020	2019	2018
Service Cost	\$ 58,221	\$ 39,763	\$ 38,709	\$ 40,623	\$ 45,130
Interest on the total OPEB liability	37,219	45,280	49,150	45,268	40,142
Changes of benefit terms	-	-	-	-	-
Differences between expected and actual experience in the measurement of the total pension liability	25,173	377	(68,623)	(1,087)	(905)
Changes of assumptions or other inputs	216,013	314,884	(2,271)	(67,870)	(122,633)
Benefit payments	(29,116)	(27,538)	(25,463)	(24,575)	(23,065)
Other changes	-	-	-	-	-
Net change in total OPEB liability	307,510	372,766	(8,498)	(7,641)	(61,331)
Total OPEB liability - beginning	1,640,367	1,267,601	1,276,099	1,283,740	1,345,071
Total OPEB liability - ending	\$ 1,947,877	\$ 1,640,367	\$ 1,267,601	\$ 1,276,099	\$ 1,283,740
Covered payroll	\$ 1,491,419	\$ 1,185,533	\$ 1,185,533	\$ 1,342,769	\$ 1,342,769
Total OPEB liability as a percentage of covered payroll	130.61%	138.37%	106.92%	95.03%	95.60%

Notes to Schedule

Changes of assumptions: Changes of assumptions and other inputs reflect the effects of changes in the discount rate each period:

Discount rates used in each period	2.16%	2.21%	3.50%	3.89%	3.56%
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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, 2022

With Comparative Actual Amounts for the Year Ended June 30, 2021

	2022		Variance	2021
	Budget	Actual	Favorable (Unfavorable)	Actual
<u>REVENUES</u>				
<u>AD VALOREM TAXES:</u>				
Current year townwide	\$ 3,871,306	\$ 3,887,132	15,826	\$ 3,202,228
Municipal service district	376,922	371,573	(5,349)	-
Prior year	5,000	6,449	1,449	6,233
Penalties and interest	3,000	4,671	1,671	4,127
Late list to Dare County Schools	-	(1,448)	(1,448)	(615)
Special assessments	30,000	30,000	-	30,000
	<u>4,286,228</u>	<u>4,298,377</u>	<u>12,149</u>	<u>3,241,973</u>
<u>OTHER TAXES AND LICENSES:</u>				
Local option sales tax	1,045,000	1,347,088	302,088	1,175,685
Occupancy tax	1,060,000	1,471,890	411,890	1,376,367
Land transfer tax	366,800	570,551	203,751	560,093
	<u>2,471,800</u>	<u>3,389,529</u>	<u>917,729</u>	<u>3,112,145</u>
<u>UNRESTRICTED INTERGOVERNMENTAL REVENUES:</u>				
ABC Revenue	75,700	84,416	8,716	55,568
Utilities franchise/telecommunications tax	288,163	275,486	(12,677)	271,301
Video programming tax	62,850	61,219	(1,631)	61,015
Peg Channel Revenue	26,000	25,975	(25)	26,717
Solid waste disposal tax	2,230	2,318	88	2,264
Beer and wine tax	13,000	12,291	(709)	12,776
	<u>467,943</u>	<u>461,705</u>	<u>(6,238)</u>	<u>429,641</u>
<u>RESTRICTED INTERGOVERNMENTAL REVENUES:</u>				
Federal:				
Public Safety grants	64,000	-	(64,000)	56,516
CARES Act	-	-	-	37,088
State:				
Powell Bill allocation	110,000	131,134	21,134	110,484
NC Department Environmental Quality	-	569	569	9,431
Other:				
Government Access Channel grant	5,000	5,000	-	5,000
Dare County Tourist Bureau	30,260	30,260	-	-
Dare County - beach nourishment	-	-	-	250,000
Dare County - sand fencing	24,000	-	(24,000)	24,000
	<u>233,260</u>	<u>166,963</u>	<u>(66,297)</u>	<u>492,519</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, 2022

With Comparative Actual Amounts for the Year Ended June 30, 2021

	2022		Variance Favorable (Unfavorable)	2021
	Budget	Actual		Actual
PERMITS AND FEES:				
Building permits and plan review	155,000	167,653	12,653	169,435
CAMA permits	2,500	1,825	(675)	2,230
Planning fees	2,500	1,485	(1,015)	2,000
Parking fines	7,500	8,495	995	10,500
Court costs and fees	1,200	947	(253)	1,395
	<u>168,700</u>	<u>180,405</u>	<u>11,705</u>	<u>185,560</u>
INVESTMENT EARNINGS	<u>2,000</u>	<u>15,822</u>	<u>13,822</u>	<u>1,405</u>
OTHER REVENUES:				
Sale of fixed assets	-	2,528	2,528	300
Insurance claims	9,485	9,485	-	6,655
Body armor reimbursement	1,200	750	(450)	1,177
SERCD grant - recycling	-	-	-	1,450
Miscellaneous	7,400	12,160	4,760	5,836
	<u>18,085</u>	<u>24,923</u>	<u>6,838</u>	<u>15,418</u>
TOTAL REVENUES	<u>\$ 7,648,016</u>	<u>\$ 8,537,724</u>	<u>\$ 889,708</u>	<u>\$ 7,478,661</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, 2022

With Comparative Actual Amounts for the Year Ended June 30, 2021

	2022		Variance Favorable (Unfavorable)	2021
	Budget	Actual		Actual
<u>EXPENDITURES</u>				
<u>GENERAL GOVERNMENT:</u>				
Administration:				
Salaries		387,676		370,279
Council compensation		17,769		18,600
Payroll taxes		29,003		27,123
Retirement		63,636		55,735
Health insurance		47,868		42,482
Unemployment		725		176
Training		3,990		1,975
Council travel and training		1,705		1,766
Utilities		24,039		23,010
Travel		4,271		662
Legal service		52,427		49,991
Audit services		20,200		19,000
Payroll services		8,736		7,623
Equipment rental and maintenance		9,479		9,300
Telephone		34,778		30,638
Postage		1,275		1,361
Supplies		14,629		15,017
Vehicle operations		387		230
Municipal elections		6,584		-
Advertising		617		852
Dues and subscriptions		8,983		10,427
Insurance and bonds		81,137		71,937
Contracted services		8,679		6,565
Computer service		74,588		74,532
Municipal code publishing		10,530		4,031
Dare County and NCVTS tax collection fees		67,533		51,276
Government Access Channel membership		1,000		1,000
Government Access Channel PEG revenues to Dare County		25,975		26,718
Employee recognition and appreciation		7,080		6,293
Wellness initiative		2,650		2,694
Cleaning		1,000		1,625
Technology upgrade - Pitts Center		4,789		4,226
Recording of meetings		6,506		5,977
Charging Station		2,321		9,432
COVID expenses		-		23,672
Miscellaneous		8,773		8,913
	<u>1,096,285</u>	<u>1,041,338</u>	<u>54,947</u>	<u>985,138</u>
Planning and Inspections:				
Salaries		217,892		189,905
Payroll taxes		16,316		15,805
Retirement		35,806		24,697
Health insurance		35,590		27,354
Training		2,253		1,109
Printing		445		249

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, 2022

With Comparative Actual Amounts for the Year Ended June 30, 2021

	2022		Variance Favorable (Unfavorable)	2021
	Budget	Actual		Actual
Travel		4,346		1,891
Supplies		672		1,202
Advertising		1,536		2,386
Dues and subscriptions		630		111
Contracted Services		3,600		3,600
Vehicles operations		1,613		608
Vehicle maintenance		1,178		834
Medical testing		-		262
Homeowner recovery fund		972		945
Town Code Update		-		4,000
Historic landmarks designation		-		200
Flood zone map mailing		2,132		-
	<u>327,789</u>	<u>324,981</u>	<u>2,808</u>	<u>275,158</u>
TOTAL GENERAL GOVERNMENT	<u>1,424,074</u>	<u>1,366,319</u>	<u>57,755</u>	<u>1,260,296</u>
<u>PUBLIC SAFETY:</u>				
Police:				
Salaries		991,697		936,292
Payroll taxes		73,297		69,179
Retirement		167,639		146,885
Health insurance		126,749		120,089
Training		4,424		10,548
Travel		8,085		1,929
Equipment rent and maintenance		4,301		4,200
Supplies		22,160		27,830
Advertising		1,934		1,866
Dues and subscriptions		590		569
Computer service		10		2,682
Contracted services		31,327		22,352
Vehicle maintenance		21,206		23,738
Vehicle operations		42,409		26,432
Uniforms		23,613		10,472
Medical testing		2,211		-
Separation allowance		35,573		23,584
Career development		728		
Capital outlay		260,362		185,801
	<u>2,066,925</u>	<u>1,818,315</u>	<u>248,610</u>	<u>1,614,448</u>
Fire:				
Contracted services		625,358		625,358
Debt service paid to Volunteer Fire Dept.		314,020		235,515
Fence		-		5,460
Radio appropriation		25,000		-
	<u>964,378</u>	<u>964,378</u>	<u>-</u>	<u>866,333</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, 2022

With Comparative Actual Amounts for the Year Ended June 30, 2021

	2022		Variance Favorable (Unfavorable)	2021
	Budget	Actual		Actual
Ocean Rescue:				
Contracted services		176,000		179,700
	176,000	176,000	-	179,700
TOTAL PUBLIC SAFETY	3,207,303	2,958,693	248,610	2,660,481
<u>PUBLIC WORKS AND INFRASTRUCTURE</u>				
Public Works:				
Salaries		306,860		277,020
Payroll taxes		22,670		20,112
Retirement		47,770		41,602
Health insurance		39,373		30,761
Training		1,340		372
Travel		80		14
Equipment lease and maintenance		6,143		7,850
Advertising		877		230
Supplies		10,749		9,931
Contracted services		24,900		22,500
Vehicles maintenance		1,340		893
Vehicles operations		13,985		7,503
Uniforms		1,228		3,236
Beautification		6,785		4,516
Town buildings maintenance and repairs		36,734		34,268
Safety compliance		1,576		790
Medical testing		132		-
Miscellaneous		908		-
Sand fencing and grass planting		-		24,000
Town building upgrades		-		16,830
Capital outlay-equipment		53,320		17,127
	645,625	576,770	68,855	519,555
Infrastructure:				
Street sign maintenance		4,030		11,751
Engineering services, various projects		27,910		4,833
Street maintenance		4,897		32,330
Supplies		13,657		-
Contracted services		4,000		-
Brush trimming		12,150		10,455
Bridge maintenance		1,980		1,118
Storm debris clean up		2,021		5,940
S Dogwood bike path		-		1,258
Infrastructure Project		-		30,850
Sassafras Lane Bulkhead		8,220		-
Street construction-Last Hunt Lane		-		20,762
Street construction-Wood Duck Court		-		18,636
Street construction-Hillcrest Drive		-		7,233
Street construction-Sea Oats Trail		18,888		447,588
Pavement repair plan		23,194		-
Street construction-Dewberry Lane		-		95,254
Street light data analysis project-DCTB grant		35,600		-

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, 2022

With Comparative Actual Amounts for the Year Ended June 30, 2021

	2022		Variance Favorable (Unfavorable)	2021
	Budget	Actual		Actual
Beach nourishment		-		446,806
Beach nourishment-debt service		52,128		-
	<u>1,504,361</u>	<u>208,675</u>	<u>1,295,686</u>	<u>1,134,814</u>
TOTAL PUBLIC WORKS AND TRANSPORTATION	2,149,986	785,445	1,364,541	1,654,369
<u>ENVIRONMENTAL PROTECTION</u>				
Solid Waste:				
Residential collection		181,408		188,921
Commercial collection		52,899		50,984
Recycling collection		199,479		189,711
Chipping		162,957		135,252
Miscellaneous		3,071		2,388
Tipping fees		226,903		220,506
	<u>854,733</u>	<u>826,717</u>	<u>28,016</u>	<u>787,762</u>
TOTAL ENVIRONMENTAL PROTECTION	854,733	826,717	28,016	787,762
TOTAL EXPENDITURES	<u>7,636,096</u>	<u>5,937,174</u>	<u>1,698,922</u>	<u>6,362,908</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>11,920</u>	<u>2,600,550</u>	<u>2,588,630</u>	<u>1,115,753</u>
OTHER FINANCING SOURCES (USES):				
Fund balance appropriated	1,734,282	-	(1,734,282)	-
Transfer from special revenue fund	-	471,354	471,354	-
Transfer from capital project fund	-	233,882	233,882	-
Transfer (to) from capital reserve fund	(1,746,202)	(1,727,927)	18,275	(270,000)
	<u>(11,920)</u>	<u>(1,022,691)</u>	<u>(1,010,771)</u>	<u>(270,000)</u>
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>\$ -</u>	1,577,859	1,577,859	845,753
FUND BALANCE:				
Beginning of year, July 1		<u>7,807,963</u>		<u>6,962,210</u>
End of year, June 30		<u>\$ 9,385,822</u>		<u>\$ 7,807,963</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, 2022

With Comparative Actual Amounts for the Year Ended June 30, 2021

	2022		Variance Favorable (Unfavorable)	2021
	Budget	Actual		Actual
REVENUES:				
Interest income	\$ -	\$ 742	\$ 742	\$ 57
	-	742	742	57
OTHER FINANCING SOURCES (USES):				
Transfer from general fund	1,746,202	1,727,927	(18,275)	270,000
Transfer to reserves	(1,746,202)	-	1,746,202	-
	-	1,727,927	1,727,927	270,000
REVENUES OVER (UNDER) OTHER FINANCING SOURCES (USES)				
	\$ -	1,728,669	\$ 1,728,669	270,057
FUND BALANCE:				
Beginning of year, July 1		457,450		187,393
End of year, June 30		\$2,186,119		\$ 457,450

TOWN OF SOUTHERN SHORES, NORTH CAROLINA

BEACH NOURISHMENT CAPITAL PROJECT FUND

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

From Inception and For the Year Ended June 30, 2022

	Project Authorization	Prior Years	Actual Current Year	Total to Date
<u>REVENUES:</u>				
Contribution from Dare County	\$ 4,371,401	\$ -	\$ 12,316	12,316
NCDEQ beach nourishment grant	1,408,247	-	-	-
Investment income	-	-	2,449	2,449
<u>TOTAL REVENUES</u>	<u>5,779,648</u>	<u>-</u>	<u>14,765</u>	<u>14,765</u>
<u>EXPENDITURES:</u>				
Engineering	415,047	-	65,651	65,651
Mobilization	1,700,345	-	1,070,963	1,070,963
Pumping	8,050,500	-	-	-
Benthic monitoring	40,000	-	-	-
Turtle monitoring	15,674	-	1,444	1,444
Sand fencing	183,600	-	-	-
Professional fees	151,013	-	121,402	121,402
Miscellaneous	535,128	-	-	-
<u>TOTAL EXPENDITURES</u>	<u>11,091,307</u>	<u>-</u>	<u>1,259,460</u>	<u>1,259,460</u>
<u>REVENUES OVER (UNDER) EXPENDITURES</u>	<u>(5,311,659)</u>	<u>-</u>	<u>(1,244,695)</u>	<u>(1,244,695)</u>
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfer to general fund	(233,882)	-	(233,882)	(233,882)
Installment purchase obligations issued	5,545,541	-	5,545,541	5,545,541
<u>TOTAL OTHER FINANCING SOURCES (USES)</u>	<u>5,311,659</u>	<u>-</u>	<u>5,311,659</u>	<u>5,311,659</u>
<u>REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,066,964</u>	<u>\$ 4,066,964</u>
<u>FUND BALANCE</u>				
Beginning of year, July 1			-	
End of year, June 30			<u>\$ 4,066,964</u>	

TOWN OF SOUTHERN SHORES, NORTH CAROLINA

AMERICAN RESCUE PLAN FUND

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

From Inception and For the Year Ended June 30, 2022

	Project Authorization	Prior Years	Actual Current Year	Total to Date
<u>REVENUES:</u>				
ARPA Funds	942,707	-	471,354	471,354
	<u>942,707</u>	<u>-</u>	<u>471,354</u>	<u>471,354</u>
<u>TOTAL REVENUES</u>	<u>942,707</u>	<u>-</u>	<u>471,354</u>	<u>471,354</u>
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfer to General Fund	(942,707)	-	(471,354)	(471,354)
	<u>(942,707)</u>	<u>-</u>	<u>(471,354)</u>	<u>(471,354)</u>
<u>TOTAL OTHER FINANCING SOURCES (USES)</u>	<u>(942,707)</u>	<u>-</u>	<u>(471,354)</u>	<u>(471,354)</u>
<u>REVENUES AND OTHER FINANCING SOURCES (USES) OVER EXPENDITURES</u>				
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>FUND BALANCE</u>				
Beginning of year, July 1			<u>-</u>	
End of year, June 30			<u>\$ -</u>	

TOWN OF SOUTHERN SHORES, NORTH CAROLINA

CEMETERY FUND

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

For the Year ended June 30, 2022

With Comparative Actual Amounts for the Year Ended June 30, 2021

	2022		Variance Favorable (Unfavorable)	2021
	Budget	Actual		Actual
<u>REVENUES:</u>				
Cemetery revenues	\$ 1,000	\$ 18,120	\$ 17,120	\$ 6,060
	\$ 1,000	\$ 18,120	\$ 17,120	\$ 6,060
<u>EXPENDITURES:</u>				
Cemetery operations	3,140	600	\$ 2,540	2,095
	3,140	600	2,540	2,095
<u>REVENUES OVER (UNDER) EXPENDITURES</u>	<u>(2,140)</u>	<u>17,520</u>	<u>19,660</u>	<u>3,965</u>
OTHER FINANCING SOURCES:				
Fund Balance Appropriated	2,140	-	(2,140)	-
	2,140	-	(2,140)	-
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	<u>\$ -</u>	17,520	17,520	3,965
<u>FUND BALANCE:</u>				
Beginning of year, July 1		65,063		61,098
End of year, June 30		<u>\$ 82,583</u>		<u>\$ 65,063</u>

TOWN OF SOUTHERN SHORES, NORTH CAROLINA
SCHEDULE OF AD VALOREM TAXES RECEIVABLE
June 30, 2022

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2021</u>	<u>Additions</u>	<u>Releases/ Adjustments</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2022</u>
2021-2022	\$ -	\$ 3,893,252	\$ (332)	\$ 3,887,132	\$ 5,788
2021-2022 MSD	-	371,767	(2)	371,574	191
2020-2021	5,887	-	(206)	4,817	864
2019-2020	1,901	-	(234)	1,120	547
2018-2019	326	-	-	99	227
2017-2018	300	-	-	116	184
2016-2017	324	-	(113)	138	73
2015-2016	183	-	-	158	25
2014-2015	9	-	-	-	9
2013-2014	901	-	-	-	901
2012-2013	597	-	-	-	597
2011-2012	422	-	-	422	-
	<u>\$ 10,850</u>	<u>\$ 4,265,019</u>	<u>\$ (887)</u>	<u>\$ 4,265,576</u>	<u>\$ 9,406</u>

Reconciliation of collections and credits to revenues:

Ad valorem taxes - Schedule 1	\$ 4,298,377
Special assessment	(30,000)
Write offs and adjustments	422
Penalties and interest	(3,223)
	<u>\$ 4,265,576</u>

TOWN OF SOUTHERN SHORES, NORTH CAROLINA
ANALYSIS OF CURRENT TAX LEVY
June 30, 2022

	<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	\$ 1,650,502,969	0.2358	\$ 3,891,886	\$ 3,767,755	\$ 124,131
Releases	\$ (416,031)	0.2358	(981)	(981)	-
Late list penalties			1,274	1,274	-
Adjustments			741	741	-
Total property valuation	<u>\$ 1,650,086,938</u>				
Net levy			<u>3,892,920</u>	<u>3,768,789</u>	<u>124,131</u>
Uncollected taxes at June 30, 2022			<u>(5,788)</u>	<u>(5,788)</u>	<u>-</u>
Current year's taxes collected			<u>\$ 3,887,132</u>	<u>\$ 3,763,001</u>	<u>\$ 124,131</u>
Current levy collection percentage			<u>99.85%</u>	<u>99.85%</u>	<u>100.00%</u>

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

To the Honorable 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, 2022, and the related notes to the financial statements, which collectively comprise the Town of Southern Shores' basic financial statements, and have issued our report thereon dated September 26, 2022.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Dowdy & Osborne, LLP

Dowdy & Osborne, LLP
Certified Public Accountants

Nags Head, North Carolina

September 26, 2022