

Town of Southern Shores
North Carolina

Financial Statements

June 30, 2016

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

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

TOWN OF SOUTHERN SHORES, NORTH CAROLINA
TABLE OF CONTENTS
June 30, 2016

<u>Exhibit</u>		<u>Page</u>
	Financial Section:	
	Independent Auditor's Report	1-2
	Management Discussion and Analysis	3-10
	Basic Financial Statements:	
	Government-wide Financial Statements:	
1	Statement of Net Position	11
2	Statement of Activities	12-13
	Fund Financial Statements:	
3	Balance Sheet-Governmental Funds	14
3	Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	14
4	Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds	15
4	Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	16
5	Statement of Revenues, Expenditures, and Changes in Fund Balances – Annual Budget and Actual – General Fund	17
	Notes to Financial Statements	18-36
	Required Supplemental Financial Data:	
	Law Enforcement Officers' Special Separation Allowance – Schedule of Funding Progress	37
	Other Postemployment Benefits – Schedule of Funding Progress	38
	Other Postemployment Benefits – Schedule of Employer Contributions	39
	Other Postemployment Benefits – Notes to the Required Schedules	39
	Schedule of Proportionate Share of the Net Pension Liability – Local Government Employees' Retirement System	40
	Schedule of Contributions – Local Government Employees' Retirement System	41
	Individual Fund Statements and Schedules:	
	Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund	42-47
	Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Capital Reserve Fund	48

TOWN OF SOUTHERN SHORES, NORTH CAROLINA
TABLE OF CONTENTS
June 30, 2016

Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Canal Dredging Phase II Capital Project Fund	49
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Cemetery Fund	50
Other Schedules:	
Schedule of Ad Valorem Taxes Receivable	51
Analysis of Current Tax Levy – Town-Wide Levy	52
Compliance Section:	
Report on Internal Control Over Financial Reporting and on Compliance And Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	53-54
Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance With OMB Uniform Guidance and the State Single Audit Implementation Act	55-56
Schedule of Findings and Questioned Costs	57
Summary Schedule of Prior Audit Findings	58
Schedule of Federal and State Awards	59

Dowdy & Osborne LLP

CERTIFIED PUBLIC ACCOUNTANTS

Jeff Dowdy, CPA • Teresa Osborne, CPA

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Southern Shores, North Carolina, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Southern Shores, North Carolina as of June 30, 2016, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3-10, the Law Enforcement Officers' Special Separation Allowance and the Other Postemployment Benefits' Schedules of Funding Progress and Employer Contributions on pages 37-39, the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Asset and Contributions, on pages 40-41 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Town of Southern Shores, North Carolina. The individual fund statements, budgetary schedules, other schedules, and Schedule of Expenditures of Federal and State Awards, as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and the State Single Audit Implementation Act, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The individual fund statements, budgetary schedules, other schedules, and the Schedule of Expenditures of Federal and State Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us. In our opinion, based on our audit, the procedures performed as described above, the individual fund statements, budgetary schedules, other schedules, and the Schedule of Expenditures of Federal and State Awards 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, 2016 on our consideration of the Town of Southern Shores' internal control over financial reporting and on our tests of its compliance with certain laws, regulations, contracts, and grant agreements, and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Southern Shores' internal control over financial reporting and compliance.

Dowdy & Osborne, LLP

Dowdy & Osborne, LLP
Certified Public Accountants

Nags Head, North Carolina

September 26, 2016

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, 2016. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town of Southern Shores' financial statements, which follow this narrative.

Financial Highlights

- The assets and deferred outflows of resources of the Town of Southern Shores exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$ 14,229,846 (*net position*).
- The government's total net position increased by \$ 1,846,995, due primarily to capitalization of assets (net of depreciation) in the current year amount of \$ 1,232,729 and revenues over budget and expenses under budget in the current year of \$ 603,972.
- As of the close of the current fiscal year, the Town of Southern Shores' governmental funds reported combined ending fund balances of \$ 4,894,756, an increase of \$ 629,010 over the prior year. . Approximately 23 % of this total amount or \$ 1,133,275 is non-spendable, restricted, committed or assigned.
- The Town implemented GASB Statement 73 this year. With the new reporting change, the Town is required to report the funds set aside for the Law Enforcement Officers Special Separation Allowance in the general fund because they are not in a trust fund meeting the criteria outlined in GASB Statement 67 and 68. This resulted in a restatement to beginning fund balance in the General Fund and net position of the governmental activities in the amount of \$ 212,223.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$ 3,761,481 or 62% of total general fund expenditures for the fiscal year.
- Total property valuation increased \$ 14,418,636 (1.10%) from \$ 1,314,982,273 in fiscal year 2015 to \$ 1,329,400,909 in fiscal year 2015.
- The general fund budget for the year was adopted with a tax rate of 22 cents per \$ 100 of assessed valuation; which represented the same tax rate as the prior year.

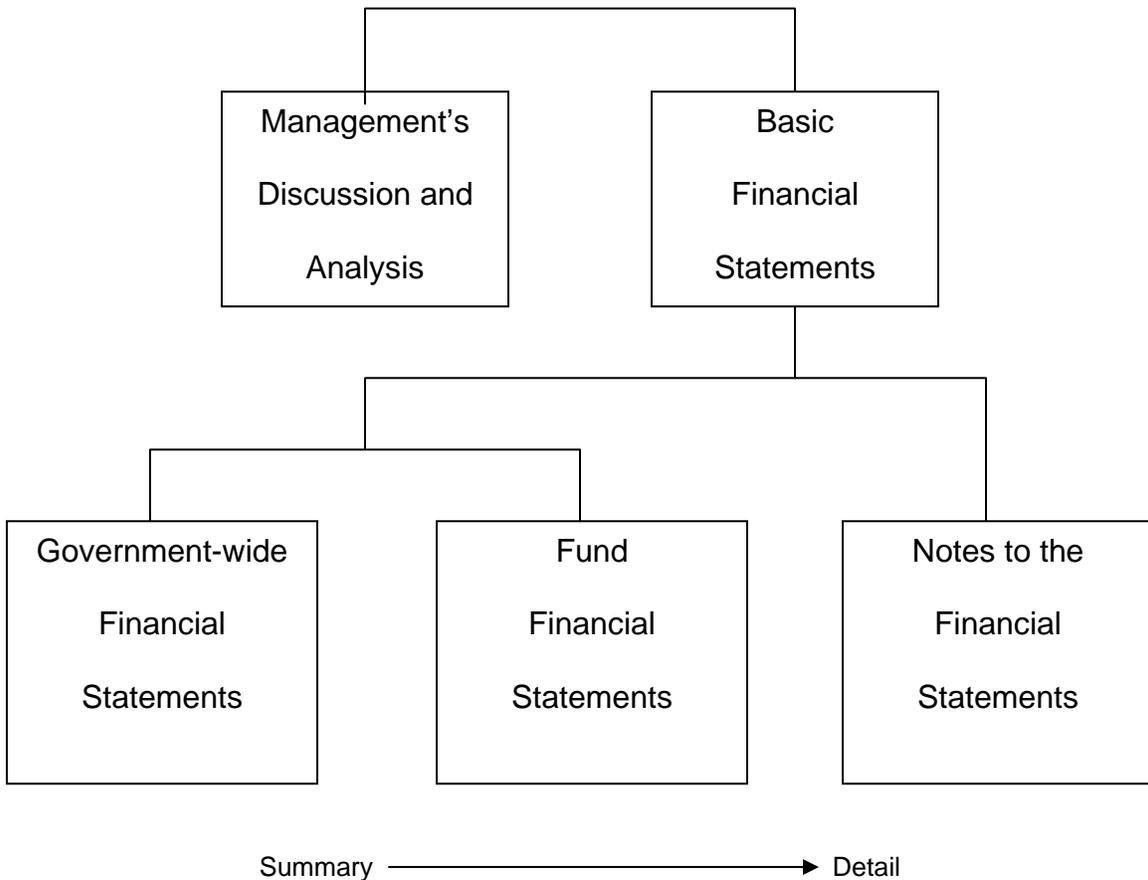
Overview of the Financial Statements

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

Management Discussion and Analysis Town of Southern Shores

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

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

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

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

Management Discussion and Analysis

Town of Southern Shores

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

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

Management Discussion and Analysis

Town of Southern Shores

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

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 18-36 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the town's progress in funding its obligation to provide pension benefits and other postemployment healthcare benefits to its employees. Required supplementary information can be found beginning on pages 37-41 of this report.

Government-Wide Financial Analysis

The Town of Southern Shores' Net Position

Figure 2

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Current and other assets	\$ 5,225,468	\$ 4,449,038
Capital assets	9,643,991	8,411,262
Deferred outflows of resources	<u>122,962</u>	<u>106,245</u>
Total assets and deferred outflows of resources	14,992,421	12,966,545
Long-term liabilities outstanding	386,840	213,518
Other liabilities	311,752	222,233
Deferred inflows of resources	<u>63,983</u>	<u>360,166</u>
Total liabilities and deferred inflows of resources	762,575	795,917
Net position:		
Net investment in capital assets	9,643,991	8,411,262
Restricted for Public Safety	6,687	6,281
Restricted for Capital Reserve Fund	71,217	50,767
Restricted for Stabilization by State Statute	718,405	512,232
Unrestricted	<u>3,789,546</u>	<u>3,190,086</u>
Total net position	<u>\$ 14,229,846</u>	<u>\$ 12,170,628</u>

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of the Town of Southern Shores exceeded liabilities and deferred inflows by \$ 14,229,846 as of June 30, 2016. The town's net position increased by \$ 1,846,995 for the fiscal year ended June 30, 2016. Net investment in capital assets (68% of total net position) reflects the town's investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt still outstanding that was issued to acquire those items. This amount increased by \$ 1,232,729; the amount by which current year capital acquisitions exceeded current year depreciation. The Town of Southern Shores uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Southern Shores' net investment in capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An

Management Discussion and Analysis

Town of Southern Shores

additional portion of the Town's net position, \$ 796,309 represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$ 3,789,546 is unrestricted.

Town of Southern Shores Changes in Net Position
Figure 3

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Revenues:		
Program Revenues:		
Charges for services	\$ 148,093	\$ 146,281
Operating grants and contributions	89,272	72,536
Capital grants and contributions	917,771	205,611
General Revenues:		
Property taxes	2,929,472	2,896,424
Other taxes	2,558,876	2,485,989
Investment earnings	11,269	2,926
Other	<u>48,024</u>	<u>24,890</u>
Total Revenues	<u>6,702,777</u>	<u>5,834,657</u>
Expenses:		
General government	1,187,825	1,121,461
Public safety	2,088,070	2,020,431
Public works and transportation	905,268	1,043,484
Environmental protection	<u>674,619</u>	<u>639,502</u>
Total Expenses	<u>4,855,782</u>	<u>4,824,878</u>
Increase in net position	<u>1,846,995</u>	<u>1,009,779</u>
Net position, July 1 (previously reported)	12,170,628	11,347,863
Restatement due to GASB Statement 68 implementation	-	(187,014)
Restatement due to GASB Statement 73 implementation	<u>212,223</u>	<u>-</u>
Net position July 1 (restated)	<u>12,382,851</u>	<u>11,160,849</u>
Net position, June 30	<u>\$14,229,846</u>	<u>\$12,170,628</u>

The increase in capital grants and contributions is due to an increase in grant funds for the Tall Pine bridge construction of \$ 712,471.

General government and public safety expenses remained fairly comparable to prior year. Public works and transportation decreased \$ 138,216. This was largely due to a legal settlement related to canal dredging in the prior year along with fewer town building maintenance and repairs.

Financial Analysis of the Town of Southern Shores' Funds

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

Governmental Funds. The focus of the Town of Southern Shores' governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Town of Southern Shores' financing requirements. Specifically, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the Town of Southern Shores. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$ 3,761,481 while total fund balance reached \$ 4,779,108. The Town Council has adopted a fund balance policy which endeavors to establish, maintain and grow the Town's unreserved fund balance but in no circumstances shall it be allowed to decrease to an amount less than \$ 1,750,000 unless it is

Management Discussion and Analysis

Town of Southern Shores

needed for an unforeseen emergency. The unassigned fund balance represents 62% of the current fiscal year general fund expenses.

At June 30, 2016, the governmental funds of Town of Southern Shores reported a combined fund balance of \$ 4,894,756 a 16 % (\$ 629,010) increase over last year.

General Fund Budgetary Highlights: During the fiscal year, the town revised the budget on several occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services. The primary changes to the adopted budget were increases of \$ 134,942 to complete street construction and \$ 36,200 for unexpected increases in contracted sanitation services.

Capital Asset and Debt Administration

Capital assets. The Town of Southern Shores' investment in capital assets for its governmental activities as of June 30, 2016, totals \$ 9,643,991 (net of accumulated depreciation). These assets include buildings, land, vehicles and infrastructure.

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

- Street improvements costing approximately \$ 624,058
- Tall Pine bridge improvements costing \$ 997,755
- Wild Swan bulkhead improvements of \$ 62,490
- Purchase of two police vehicles costing \$ 70,110
- Purchase of public works vehicle costing \$ 25,061
- Purchase of administration vehicle costing \$ 19,293

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

Town of Southern Shores' Governmental Activities Capital Assets

**Figure 4
(net of depreciation)**

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Land	\$ 286,275	\$ 286,275
Buildings	790,324	825,857
Equipment	122,358	142,567
Infrastructure	8,208,221	6,690,791
Vehicles	222,639	199,446
Construction in progress	14,174	266,326
Total	<u>\$ 9,643,991</u>	<u>\$ 8,411,262</u>

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

Long-Term Debt. The Town has no long term debt other than pension, OPEB obligations and vacation outlined in the long-term debt schedule on page 35 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 \$ 106,352,073.

Economic Factors and Next Year's Budgets and Rates

The following economic indicators affect the town.

- Overall land transfer tax collections increased 2.76% indicating an increase in real estate sales. The Town's portion of land transfer tax revenues decreased \$ 4,318 or 1.79% due to a combination of overall growth combined with a reduction due to the changes in the proportionate tax levies among the other local governments in Dare County..
- Travel and tourism has remained constant in Dare County and overall occupancy tax collections increased 4.09%. The Town's portion of occupancy tax decreased \$ 4,825 or .51% due to a combination of overall growth combined with a reduction due to the changes in the proportionate tax levies among the other local governments in Dare County.
- Building related revenues remained fairly comparable to the prior year.

Budget Highlights for the Fiscal Year Ending June 30, 2017

- The adopted budget includes a tax rate of 22 cents per \$ 100 of assessed valuation which represents no tax increase.
- The adopted budget includes \$ 516,000 for street construction.
- The adopted budget plans for reductions in occupancy, sales and land transfer tax revenues. This is a result of the Town's projected decrease in its proportionate percentage of tax levies as compared to others municipalities in Dare County who increased their tax rates in fiscal year 15-16 for beach nourishment, which will increase their proportionate percentage of shared revenues.

Management Discussion and Analysis

Town of Southern Shores

Requests for Information

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

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

Town of Southern Shores' Governmental Activities Capital Assets

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(net of depreciation)**

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Management Discussion and Analysis

Town of Southern Shores

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TOWN OF SOUTHERN SHORES, NORTH CAROLINA

Exhibit 1

STATEMENT OF NET POSITION

June 30, 2016

	<u>Governmental Activities</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 4,477,157
Taxes receivable	8,481
Prepaid expenses	4,437
Due from governmental units	647,010
Restricted cash and cash equivalents	<u>77,904</u>
Total current assets	5,214,989
Non-current assets:	
Net pension asset - LEOSSA	10,479
Capital assets:	
Land	286,275
Construction in progress	14,173
Other capital assets, net of depreciation	<u>9,343,543</u>
Total capital assets	<u>9,643,991</u>
Total assets	<u>14,869,459</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pension deferrals	<u>122,962</u>
LIABILITIES	
Current liabilities:	
Accounts payable	248,895
Salaries and benefits payable	62,857
Current portion of long-term liabilities	<u>25,000</u>
Total current liabilities	336,752
Long-term liabilities:	
Net pension liability - LGERS	121,489
Due in more than one year	<u>240,351</u>
Total liabilities	<u>698,592</u>
DEFERRED INFLOWS OF RESOURCES	
Pension deferrals	<u>63,983</u>
NET POSITION	
Net investment in capital assets	9,643,991
Restricted for Stabilization by State Statute	718,405
Restricted for Public Safety	6,687
Restricted for Capital Reserve Fund	71,217
Unrestricted	<u>3,789,546</u>
Total net position	<u>\$ 14,229,846</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, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Total
Primary government:						
Governmental activities:						
General Government	\$ 1,187,825	\$ 142,776	\$ 10,000	\$ -	\$ (1,035,049)	\$ (1,035,049)
Public Safety	2,088,070	5,317	55,272	-	(2,027,481)	(2,027,481)
Public Works/Transportation	905,268	-	24,000	917,771	36,503	36,503
Environmental Protection	674,619	-	-	-	(674,619)	(674,619)
	<u>4,855,782</u>	<u>148,093</u>	<u>89,272</u>	<u>917,771</u>	<u>(3,700,646)</u>	<u>(3,700,646)</u>
Total primary government	\$ 4,855,782	\$ 148,093	\$ 89,272	\$ 917,771	\$ (3,700,646)	\$ (3,700,646)

General revenues:

Taxes:

Property taxes, levied for general purpose	2,929,472	2,929,472
Other taxes	2,558,876	2,558,876
Investment earnings, unrestricted	11,269	11,269
Miscellaneous, unrestricted	48,024	48,024
Total general revenues, special items, and transfers	<u>5,547,641</u>	<u>5,547,641</u>
Change in net position	<u>1,846,995</u>	<u>1,846,995</u>
Net position, beginning, previously reported	12,170,628	12,170,628
Restatement	212,223	212,223
Net position, beginning, restated	<u>12,382,851</u>	<u>12,382,851</u>
Net position-ending	<u>\$ 14,229,846</u>	<u>\$ 14,229,846</u>

TOWN OF SOUTHERN SHORES, NORTH CAROLINA
BALANCE SHEET - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2016

Exhibit 3

	Major Funds		Total Non-Major Fund	Total Governmental Funds
	General	Canal Capital Project Fund		
ASSETS				
Cash and cash equivalents	\$ 4,361,509	\$ 64,706	\$ 50,942	\$ 4,477,157
Restricted cash and cash equivalents	77,904	-	-	77,904
Taxes receivable	8,481	-	-	8,481
Prepaid expenses	4,437	-	-	4,437
Due from governmental units	647,010	-	-	647,010
Total Assets	5,099,341	64,706	50,942	5,214,989
LIABILITIES				
Liabilities:				
Accounts payable	248,895	-	-	248,895
Salaries and benefits payable	62,857	-	-	62,857
Total Liabilities	311,752	-	-	311,752
DEFERRED INFLOWS OF RESOURCES				
Property taxes receivable	8,481	-	-	8,481
Total Deferred Inflows of Resources	8,481	-	-	8,481
FUND BALANCES				
Non Spendable:				
Prepaid expenses	4,437	-	-	4,437
Restricted:				
Stabilization by State Statute	718,405	-	-	718,405
Public Safety	6,687	-	-	6,687
Capital Reserve Fund	71,217	-	-	71,217
Committed:				
LEO Special Separation Allowance	216,881	-	-	216,881
Assigned:				
Canal dredging	-	64,706	-	64,706
Cemetery	-	-	50,942	50,942
Unassigned	3,761,481	-	-	3,761,481
Total Fund Balances	4,779,108	64,706	50,942	4,894,756
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 5,099,341	\$ 64,706	\$ 50,942	

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	9,643,991
Net pension asset	10,479
Deferred outflows of resources related to pensions are not reported in the funds	122,962
Earned revenues considered deferred inflows of resources in fund statements	8,481
Long term liabilities used on governmental activities are not financial uses and therefore are not reported in the funds	(386,840)
Deferred inflows of resources related to pensions are not reported in the funds	(63,983)
Net position of governmental activities (Exhibit 1)	\$ 14,229,846

TOWN OF SOUTHERN SHORES, NORTH CAROLINA

Exhibit 4

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2016**

	Major Funds			
	General	Canal Capital Project Fund	Total Non- Major Fund	Total Governmental Funds
REVENUES:				
Ad valorem taxes	\$ 2,935,930	\$ -	\$ -	2,935,930
Other taxes and licenses	2,079,459	-	-	2,079,459
Unrestricted intergovernmental revenue	479,417	-	-	479,417
Restricted intergovernmental revenue	1,007,043	-	-	1,007,043
Permits and fees	122,769	-	-	122,769
Sales and services	18,324	-	7,000	25,324
Investment earnings	11,251	19	-	11,270
Other revenues	48,024	-	-	48,024
TOTAL REVENUES	6,702,217	19	7,000	6,709,236
EXPENDITURES:				
General government	1,165,044	-	2,966	1,168,010
Public safety	2,072,481	-	-	2,072,481
Public works and transportation	2,161,315	3,800	-	2,165,115
Environmental protection	674,620	-	-	674,620
TOTAL EXPENDITURES	6,073,460	3,800	2,966	6,080,226
REVENUES OVER (UNDER) EXPENDITURES	628,757	(3,781)	4,034	629,010
FUND BALANCES:				
Beginning of year - July 1	3,938,128	68,487	46,908	4,053,523
Restatement	212,223	-	-	212,223
End of year - June 30	<u>\$ 4,779,108</u>	<u>\$ 64,706</u>	<u>\$ 50,942</u>	<u>\$ 4,894,756</u>

TOWN OF SOUTHERN SHORES, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2016

Exhibit 4
(continued)

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

Net changes in fund balances - total governmental funds \$ 629,010

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	1,798,765	
Depreciation expense for governmental assets	<u>(566,036)</u>	1,232,729

Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities	105,378
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:	
Change in unavailable revenue for tax revenues	(6,458)

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	(438)	
Pension expense	(71,370)	
Increase in OPEB obligation	(51,395)	
Increase in net pension asset	<u>9,539</u>	<u>(113,664)</u>

Total changes in net position of governmental activities (Exhibit 2)	<u><u>\$ 1,846,995</u></u>
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TOWN OF SOUTHERN SHORES, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - ANNUAL BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended June 30, 2016

Exhibit 5

	General Fund			Variance with Final Budget- Positive (Negative)
	Original	Final	Actual Amounts	
REVENUES:				
Ad valorem taxes	\$ 2,907,331	\$ 2,907,331	\$ 2,935,930	\$ 28,599
Other taxes and licenses	1,948,025	1,948,025	2,079,459	131,434
Unrestricted intergovernmental revenues	356,300	356,300	479,417	123,117
Restricted intergovernmental revenues	1,345,202	1,345,202	1,007,043	(338,159)
Permits and fees	106,000	106,000	122,769	16,769
Sales and services	17,000	17,000	18,324	1,324
Investment earnings	2,500	2,500	10,801	8,301
Other revenue	9,900	36,451	48,024	11,573
<u>Total Revenues</u>	<u>6,692,258</u>	<u>6,718,809</u>	<u>6,701,767</u>	<u>(17,042)</u>
EXPENDITURES:				
General government	1,269,757	1,299,500	1,165,044	134,456
Public safety	2,267,515	2,267,515	2,072,481	195,034
Public works and transportation	2,458,826	2,603,576	2,161,315	442,261
Environmental protection	676,160	712,360	674,620	37,740
<u>Total Expenditures</u>	<u>6,672,258</u>	<u>6,882,951</u>	<u>6,073,460</u>	<u>809,491</u>
REVENUES OVER (UNDER) EXPENDITURES				
	<u>20,000</u>	<u>(164,142)</u>	<u>628,307</u>	<u>792,449</u>
OTHER FINANCING SOURCES (USES):				
Fund balance appropriated	-	184,142	-	(184,142)
Transfer to capital reserve fund	(20,000)	(20,000)	(20,000)	-
	<u>(20,000)</u>	<u>164,142</u>	<u>(20,000)</u>	<u>(184,142)</u>
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES				
	<u>\$ -</u>	<u>\$ -</u>	<u>608,307</u>	<u>\$ 608,307</u>
FUND BALANCES:				
Beginning			3,887,361	
Restatement			<u>212,223</u>	
Ending			<u>\$ 4,707,891</u>	
A legally adopted Capital Reserve Fund is consolidated into the General Fund for reporting purposes:				
Interest income			450	
Transfer from general fund			20,000	
Transfer to general fund			0	
Fund Balance, Beginning			<u>50,767</u>	
Fund Balance, Ending (Exhibit 4)			<u>\$ 4,779,108</u>	

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

I. Summary of Significant Accounting Policies

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

A. Reporting Entity

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

B. Basis of Presentation

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

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

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

The Town reports the following major governmental funds:

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

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

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

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

The Town reports the following non-major governmental funds:

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

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, 2016

revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

D. Budgetary Data

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund, Capital Reserve Fund and Cemetery Fund. A multi-year project ordinance has been adopted for the canal dredging project. All annual appropriations lapse at the fiscal-year end. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the department level for all annually budgeted funds. The Town Manager can reallocate departmental appropriations among objects of expenditure and is authorized to make inter-departmental transfers within the same fund not to exceed 10% of the appropriated monies for the department whose allocation is reduced. During the year, several amendments to the original budget were necessary with the largest one associated with budgeting debt repayment on canal dredging loan which was paid off in full. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

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

1. Deposits and Investments

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

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

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

2. Cash and Cash Equivalents

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

3. Restricted Assets

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

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

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

Town of Southern Shores Restricted Cash:

Governmental Activities:

General Fund:

Capital reserve fund	\$ 71,217
Public Safety	<u>6,687</u>
Total General Fund	<u>77,904</u>

Total Restricted Cash \$ 77,904

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, 2015.

5. Allowances for Doubtful Accounts

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

6. Prepaid Items

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

7. Capital Assets

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

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

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

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

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

8. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town has one item that meets this criterion, contributions made to the pension plan in the 2016 fiscal year. In addition to liabilities, the statements of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Town has several items that meet the criterion for this category – property taxes receivable and deferrals of pension expense that result from the implementation of GASB Statement 68.

9. Long-Term Obligations

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

10. Compensated Absences

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

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

11. Net Position/Fund Balances

Net Position

Net position in government-wide financial statements are classified as net position in capital assets, net of related debt; restricted; and unrestricted. Restricted net position represents constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute.

Fund Balances

In the governmental fund financial statements, fund balance is composed of five classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent. The governmental fund types classify fund balance as follows:

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

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

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

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

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

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

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

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

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

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

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

Canal dredging – portion of fund balance remaining in canal dredging capital project fund.

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

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

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

12. Pensions

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

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

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

II. Stewardship, Compliance, and Accountability

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

No items to report.

B. Deficit Fund Balance or Retained Earnings of Individual Funds

No items to report.

C. Excess of Expenditures over Appropriations

No items to report.

III. Detail Notes on All Funds

A. Assets

1. Deposits

All the deposits of the Town are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Town's agents in these units' names. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town of Southern Shores, these deposits are considered to be held by the Town's agents in their names. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town, or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method.

At June 30, 2016, the Town's deposits had a carrying amount of \$ 833,445 and a bank balance of \$ 848,056. Of the bank balance, \$ 740,464 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. At June 30, 2016, the Town's petty cash fund totaled \$ 700.

2. Investments

At June 30, 2016, the Town's investments were as follows:

	<u>Valuation</u> <u>Measurement Method</u>	<u>Book Value</u> <u>At 6/30/16</u>	<u>Maturity</u>	<u>Rating</u>
NC Capital Management Trust:				
Cash Portfolio	Amortized Cost	\$ 1,963,078	N/A	AAAm
Term Portfolio	Fair Value Level 1	<u>1,757,837</u>	.14 years	Unrated
Total Investments		<u>\$ 3,720,915</u>		

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

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

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

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

Credit Risk. The Town's cash management policy does not address credit risk. The Town's investment in the NC Capital Management Trust Cash Portfolio carried a credit rating of AAAM by Standard & Poor's as of June 30, 2015. The Town's investment in the NC Capital Management Trust Term Portfolio is unrated. The Term Portfolio is authorized to invest in obligations of the U.S. government and agencies, and in high grade money market instruments as permitted under North Carolina General Statutes 159-30 as amended.

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

3. Capital Assets

Primary Government

Capital asset activity for the primary government for the year ended June 30, 2016 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	\$ 286,275	\$ -	\$ -	\$ 286,275
Construction in process	266,326	1,181	253,334	14,173
	<u>552,601</u>	<u>1,181</u>	<u>253,334</u>	<u>300,448</u>
Capital assets being depreciated:				
Buildings	1,366,460	-	-	1,366,460
Equipment	201,982	-	-	201,982
Infrastructure	8,154,794	1,936,455	-	10,091,249
Vehicles	674,530	114,463	19,534	769,459
Total capital assets being depreciated	<u>10,397,766</u>	<u>2,050,918</u>	<u>19,534</u>	<u>12,429,150</u>
Less accumulated depreciation for:				
Buildings	540,603	35,533	-	576,136
Equipment	59,414	20,209	-	79,623
Infrastructure	1,464,004	419,025	-	1,883,029
Vehicles	475,084	91,269	19,534	546,819
Total accumulated depreciation	<u>2,102,625</u>	<u>\$ 545,071</u>	<u>\$ 108,591</u>	<u>3,085,607</u>
Total capital assets being depreciated (net)	<u>7,858,661</u>			<u>9,343,543</u>
Governmental activity capital assets, net	<u>\$ 8,411,262</u>			<u>\$9,643,991</u>

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

General Government	\$ 29,327
Public Safety	91,062
Public works and transportation	<u>445,647</u>
	<u>\$ 566,036</u>

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

B. Liabilities

1. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

Plan Description

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

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'

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

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, 2016, was 7.01% of compensation for law enforcement officers and 6.67% 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 \$ 105,378 for the year ended June 30, 2016.

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

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

At June 30, 2016, the Town reported a liability of \$121,489 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2014. The total pension liability was then rolled forward to the measurement date of June 30, 2015 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, 2015, the Town's proportion was 0.027%, which represented no change from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the Town recognized pension expense of \$71,370. At June 30, 2016, 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	\$ -	\$ 28,557
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	34,587
Changes in proportion and differences between Town Contributions and proportionate share of contributions	17,584	839
Town contributions subsequent to the measurement date	105,378	-
Total	\$ 122,962	\$ 63,983

\$105,378 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as an increase of the net pension asset in the year ended June 30, 2017. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

Year ended June 30:	
2017	\$ (34,639)
2018	(34,639)
2019	(34,654)
2020	57,533
2021	-
Thereafter	-

Actuarial Assumptions. The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

The actuarial assumptions used in the December 31, 2014 valuation were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

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

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

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	29.0%	2.2%
Global Equity	42.0%	5.8%
Real Estate	8.0%	5.2%
Alternatives	8.0%	9.8%
Credit	7.0%	6.8%
Inflation Protection	6.0%	3.4%
Total	<u>100%</u>	

The information above is based on 30 year expectations developed with the consulting actuary for the 2014 asset liability and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

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

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

	<u>1% Decrease (6.25%)</u>	<u>Discount Rate (7.25%)</u>	<u>1% Increase (8.25%)</u>
Town's proportionate share of the net pension liability (asset)	\$ 847,160	\$ 121,489	(\$ 489,873)

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

b. Law Enforcement Officers Special Separation Allowance

1. Plan Description.

The Town of Southern Shores administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

the Town's qualified sworn law enforcement officers. The Separation Allowance is equal to .85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

All full time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2015, 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 following criteria which are outlined in GASB Statement 67 and 68:

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

3. Contributions.

The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned 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 annual required contribution for the current year was determined as part of the December 31, 2014 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 5.00% investment rate of return (net of administrative expenses) and (b) projected salary increases of 4.25 – 7.85% per year. Both (a) and (b) included an inflation component of 3%. The assumptions did not include post-employment benefit increases. The actuarial value of assets was determined using the market value of investments. The remaining amortization period at December 31, 2014 was 16 years.

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

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

Employer annual required contribution	\$ 13,102
Interest on net pension obligation	(47)
Adjustment to annual required contribution	<u>83</u>
Annual pension cost	13,138
Benefit payments made	<u>(22,677)</u>
Decrease in net pension obligation	(9,539)
Net pension asset beginning of fiscal year	<u>(940)</u>
Net pension asset end of fiscal year	<u>\$ (10,479)</u>

Assets reserved to pay benefits are reported as committed fund balance in the General Fund. Benefit payments reduce the net pension obligation.

3-Year Trend Information

For Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
2014	25,998	57.70%	27,459
2015	25,601	210.93%	(940)
2016	13,138	172.61%	(10,479)

4. Funded Status and Funding Progress.

As of December 31, 2015, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$ 333,992, and the actuarial value of assets was \$ 0, resulting in an unfunded actuarial accrued liability (UAAL) of \$ 333,992. The covered payroll (annual payroll of active employees covered by the plan) was \$ 829,465 and the ratio of the UAAL to the covered payroll was 40.27%.

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

c. Supplemental Retirement Income Plan for Law Enforcement Officers

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

Funding Policy. Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2016, were \$ 50,351, which consisted of \$ 39,716 from the Town and \$ 10,635 from law enforcement officers.

d. Supplemental Retirement Income Plan for Non-Law Enforcement Officers

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

Plan Description. The Town contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to non-law enforcement officers employed by the Town. The Town has no requirement or obligation under State statutes to contribute to the plan.

Funding Policy. Beginning July 1, 2002 the Town began making a contribution of five percent for non-law enforcement officers and all amounts are vested immediately. These employees may make voluntary contributions to the plan. Contributions for the year ended June 30, 2016, were \$ 47,153, which consisted of \$ 37,253 from the Town and \$ 9,900 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, 2016 were \$ 19,985 which consisted of \$ 16,510 from regular employees and \$ 3,475 for law enforcement employees.

f. Other Postemployment Benefit - Healthcare Benefits

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

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

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

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

The current ARC rate is 5.4% of annual covered payroll. For the current year, the Town contributed \$ 20, 289 or 1.54% of annual covered payroll. The Town obtains healthcare coverage through private insurers. There were no contributions made by employees. The Town's obligation to contribute to the HCB Plan is established and may be amended by Town Council.

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

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

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

Employer annual required contribution	\$ 71,453
Valuation Discount Rate	4.00%
Interest on net OPEB obligation	5,167
Amortization Factor	26.1695
Adjustment to annual required contribution	<u>(4,936)</u>
Annual OPEB cost (expense)	71,684
Employer contributions made for fiscal year ended 6/30/16	<u>(20,289)</u>
Increase in net OPEB obligation	51,395
Net OPEB obligation beginning of fiscal year	<u>129,179</u>
Net OPEB obligation end of fiscal year	<u>\$ 180,574</u>

3-Year Trend Information

For Year Ended June 30	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Obligation
2013	\$ 25,459	23.00%	\$ 121,857
2015	\$ 25,504	71.29%	\$ 129,179
2016	\$ 71,684	28.30%	\$ 180,574

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

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members at that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of calculations.

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

2. Other Employment Benefit

The Town has also elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months salary in a row during the 24 months prior to the employee's death. Effective July 1, 2004, the death benefit payments to beneficiaries must be between \$25,000 and \$50,000. All death benefit payments are made from the Death Benefit Plan. The Town has no liability beyond the payment of monthly contributions. Contributions are determined as a percentage of monthly payroll, based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. Because the benefit payments are made by the Death Benefit Plan and not by the Town, the Town does not determine the number of eligible participants. For the fiscal year ended June 30, 2015 the Town made contributions to the State for death benefits of \$ 1,634. The Town's required contributions for employees not engaged in law enforcement and for law enforcement officers represented 0.07% and 0.14% of covered payroll respectively.

3. Deferred Outflows and Inflows of Resources

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

<u>Source</u>	<u>Amount</u>
Contributions to pension plan in the current fiscal year	\$ 105,378
Pension deferrals	\$ 17,584

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

Taxes receivable (General Fund)	\$ 8,481
Pension deferrals	\$ 63,983

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

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

Total fund balance – General Fund		\$ 4,779,108
Less:		
Prepaid expenses	\$ 4,437	
Stabilization by State Statute	624,244	
Drug enforcement	6,687	
Capital reserve fund	71,217	
LEO Special Separation Allowance	216,881	
Working capital/fund balance policy	<u>1,750,000</u>	
Total Reductions	<u>\$ 2,673,466</u>	
Remaining Fund Balance		<u>\$ 2,105,642</u>

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

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

General Fund \$ 71,395

IV. Southern Shores Cemetery Perpetual Care Fund

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

V. Change in Accounting Principles/Restatement

In accordance with Governmental Accounting Standards Board (GASB) Statement 73, the Town reclassified the Law Enforcement Officers' Special Separation Allowance trust fund to the General Fund. As a result, net position for the governmental activities increased by \$ 212,223.

VI. Summary Disclosure of Contingencies

Federal and State Assisted Programs

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

Subsequent Events

Management has evaluated subsequent events through September 26, 2016, the date on which the financial statements were available to be issued.

TOWN OF SOUTHERN SHORES, NORTH CAROLINA

Law Enforcement Officers' Special Separation Allowance

Required Supplementary Information

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued		Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll c	UAAL as a % of Covered Payroll ((b-a)/c)
		Liability (AAL) -Projected Unit Credit (b)					
12/31/00	-	48,874		48,874	0.00%	307,939	15.87%
12/31/01	-	44,858		44,858	0.00%	285,646	15.70%
12/31/02	-	74,294		74,294	0.00%	390,984	19.00%
12/31/03	-	89,639		89,639	0.00%	360,617	24.86%
12/31/04	-	105,192		105,192	0.00%	340,423	30.90%
12/31/05	-	80,896		80,896	0.00%	436,948	18.51%
12/31/06	-	86,251		86,251	0.00%	414,945	20.79%
12/31/07	-	88,407		88,407	0.00%	495,092	17.86%
12/31/08	-	109,964		109,964	0.00%	517,820	21.24%
12/31/09	-	180,484		180,484	0.00%	566,155	31.88%
12/31/10	-	196,891		196,891	0.00%	558,039	35.28%
12/31/11	-	247,873		247,873	0.00%	620,292	39.96%
12/31/12	-	297,319		297,319	0.00%	697,369	42.63%
12/31/13	-	298,279		298,279	0.00%	736,323	40.51%
12/31/14	-	241,739		241,739	0.00%	656,783	36.81%
12/31/15	-	333,992		333,992	0.00%	829,465	40.27%

TOWN OF SOUTHERN SHORES, NORTH CAROLINA

Other Postemployment Benefits

Required Supplementary Information

Schedule of Funding Progress

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

TOWN OF SOUTHERN SHORES, NORTH CAROLINA

Other Postemployment Benefits
 Required Supplementary Information
 Schedule of Employer Contributions

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

Notes to the Required Schedules:

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

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

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

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

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

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

TOWN OF SOUTHERN SHORES, NORTH CAROLINA

Town of Southern Shores' Contributions

Required Supplementary Information

Last Three Fiscal Years

Local Government Employees' Retirement System

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

TOWN OF SOUTHERN SHORES, NORTH CAROLINA

GENERAL FUND

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

For the Year Ended June 30, 2016

With Comparative Actual Amounts for the Year Ended June 30, 2015

	2016		Variance Favorable (Unfavorable)	2015
	Budget	Actual		Actual
<u>REVENUES</u>				
<u>AD VALOREM TAXES:</u>				
Current year	\$ 2,897,831	\$ 2,922,931	25,100	\$ 2,885,796
Prior year	7,500	9,592	2,092	7,033
Penalties and interest	2,000	3,407	1,407	3,385
	<u>2,907,331</u>	<u>2,935,930</u>	<u>28,599</u>	<u>2,896,214</u>
<u>OTHER TAXES AND LICENSES:</u>				
Local option sales tax	845,234	894,212	48,978	862,727
Occupancy tax	885,791	948,488	62,697	953,313
Land transfer tax	217,000	236,759	19,759	241,077
	<u>1,948,025</u>	<u>2,079,459</u>	<u>131,434</u>	<u>2,057,117</u>
<u>UNRESTRICTED INTERGOVERNMENTAL REVENUES:</u>				
ABC Revenue	50,000	59,175	9,175	53,299
Utilities franchise/telecommunications tax	185,000	309,054	124,054	259,260
Video programming tax	75,000	69,122	(5,878)	71,676
Peg Channel Revenue	32,000	28,071	(3,929)	29,226
Solid waste disposal tax	1,800	1,396	(404)	1,837
Beer and wine tax	12,500	12,599	99	13,574
	<u>356,300</u>	<u>479,417</u>	<u>123,117</u>	<u>428,872</u>
<u>RESTRICTED INTERGOVERNMENTAL REVENUES:</u>				
Federal:				
NCDOJ-COPS Grant	41,667	41,173	(494)	20,833
Byrne Justice Assistance Grant	11,250	13,693	2,443	-
NCDOT - Tall Pine	1,051,785	798,204	(253,581)	85,733
State:				
Powell Bill allocation	122,000	119,567	(2,433)	119,878
Public safety grants	94,500	-	(94,500)	8,489
Controlled substance tax	-	406	406	354
NCDOT Grant - Bike Path Plan	-	-	-	11,792
Other:				
Government Access Channel grant	-	10,000	10,000	5,484
Contribution from Dare Cty - Sand Fencing	24,000	24,000	-	24,000
	<u>1,345,202</u>	<u>1,007,043</u>	<u>(338,159)</u>	<u>276,563</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, 2016

With Comparative Actual Amounts for the Year Ended June 30, 2015

	2016		Variance Favorable (Unfavorable)	2015
	Budget	Actual		Actual
<u>PERMITS AND FEES:</u>				
Building permits and plan review	95,000	111,622	16,622	115,169
CAMA permits	2,000	3,380	1,380	1,945
Planning fees	500	2,450	1,950	650
Encroachment agreement	-	-	-	100
Parking fines	7,500	4,300	(3,200)	7,250
Court costs and fees	1,000	1,017	17	935
	<u>106,000</u>	<u>122,769</u>	<u>16,769</u>	<u>126,049</u>
<u>SALES AND SERVICES:</u>				
Cable franchise fees	17,000	18,324	1,324	16,889
	<u>17,000</u>	<u>18,324</u>	<u>1,324</u>	<u>16,889</u>
<u>INVESTMENT EARNINGS</u>	<u>2,500</u>	<u>10,801</u>	<u>8,301</u>	<u>2,789</u>
<u>OTHER REVENUES:</u>				
Rents	2,400	9,900	7,500	2,400
Sale of fixed assets	5,598	10,222	4,624	11,272
Insurance claims	20,953	22,313	1,360	812
Outer Banks Community Foundation	-	1,500	1,500	-
Body armor grant	-	1,951	1,951	1,584
Miscellaneous	7,500	2,138	(5,362)	10,414
	<u>36,451</u>	<u>48,024</u>	<u>11,573</u>	<u>26,482</u>
<u>TOTAL REVENUES</u>	<u>\$ 6,718,809</u>	<u>\$ 6,701,767</u>	<u>\$ (17,042)</u>	<u>\$ 5,830,975</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, 2016

With Comparative Actual Amounts for the Year Ended June 30, 2015

	2016		Variance Favorable (Unfavorable)	2015
	Budget	Actual		Actual
<u>EXPENDITURES</u>				
<u>GENERAL GOVERNMENT:</u>				
Administration:				
Salaries		355,769		356,283
Council compensation		15,554		11,400
Payroll taxes		25,490		25,134
Retirement		42,208		43,343
Health insurance		44,968		38,759
Training		7,792		3,748
Utilities		20,275		21,502
Travel		8,964		3,399
Legal service		52,480		48,919
Audit services		16,069		16,273
Payroll services		7,861		7,244
Equipment lease and maintance		22,605		6,937
Telephone		28,631		29,157
Postage		1,572		1,477
Supplies		9,847		12,667
Vehicle operations		171		1,298
Municipal elections		3,570		-
Advertising		823		244
Dues and subscriptions		7,564		7,669
Insurance and bonds		84,036		78,158
Contracted services		1,068		14,983
Computer service		58,384		62,664
Town code update		2,835		2,382
Dare County and NCVTS tax collection fees		46,838		46,012
Government Access Channel membership		1,000		1,000
Government Access Channel PEG revenues to Dare County		28,071		29,225
Employee recognition and appreciation		7,290		8,536
Wellness initiative		868		2,689
Cleaning		16,430		16,900
Technology upgrade - Pitts Center		10,276		6,381
Recording of meetings		5,242		4,775
Unemployment		519		10,982
Miscellaneous		-		999
C/O-vehicle		19,293		-
C/O-property purchases		-		204,832
	998,928	954,363	44,565	1,125,971
Planning and Inspections:				
Salaries		125,029		115,109
Payroll taxes		10,008		8,709
Retirement		15,517		13,894
Health insurance		22,110		21,201
Training		-		376
Printing		202		942
Travel		-		749
Supplies		404		570
Advertising		528		163
Dues and subscriptions		170		130
Contracted Services		21,095		14,998
Vehicles operations		788		864

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, 2016

With Comparative Actual Amounts for the Year Ended June 30, 2015

	2016		Variance Favorable (Unfavorable)	2015
	Budget	Actual		Actual
Miscellaneous		14		-
Homeowner recovery fund		477		778
Town Code Update		12,529		-
Flood zone map mailing		1,810		1,307
Pedestrian and bike path plan		-		14,740
	<u>300,572</u>	<u>210,681</u>	<u>89,891</u>	<u>194,530</u>
TOTAL GENERAL GOVERNMENT	<u>1,299,500</u>	<u>1,165,044</u>	<u>134,456</u>	<u>1,320,501</u>
<u>PUBLIC SAFETY:</u>				
Police:				
Salaries		867,282		802,517
Payroll taxes		65,767		60,529
Retirement		104,238		98,749
Health insurance		113,446		97,607
Training		5,697		4,703
Printing		-		791
Travel		10,730		8,079
Equipment lease and maintenance		3,050		3,343
Supplies		32,146		22,319
Advertising		-		819
Dues and subscriptions		1,899		1,668
Computer service		6,646		6,566
Contracted services		9,105		5,780
Vehicle maintenance		19,849		16,276
Vehicle operations		25,057		34,493
Uniforms		15,428		16,446
Medical testing		-		1,904
Miscellaneous		109		-
Career development		1,000		-
Separation allowance		22,677		54,000
Debt service		-		222,035
Capital outlay		134,724		129,703
	<u>1,633,765</u>	<u>1,438,850</u>	<u>194,915</u>	<u>1,588,327</u>
Fire:				
Contracted services	<u>475,505</u>	<u>475,505</u>	<u>-</u>	<u>525,505</u>
	<u>475,505</u>	<u>475,505</u>	<u>-</u>	<u>525,505</u>
Ocean Rescue:				
Contracted services	<u>158,245</u>	<u>158,126</u>	<u>-</u>	<u>158,000</u>
	<u>158,245</u>	<u>158,126</u>	<u>119</u>	<u>158,000</u>
TOTAL PUBLIC SAFETY	<u>2,267,515</u>	<u>2,072,481</u>	<u>195,034</u>	<u>2,271,832</u>
<u>PUBLIC WORKS AND TRANSPORTATION</u>				
Public Works:				
Salaries		209,340		206,448
Payroll taxes		15,092		15,651
Retirement		23,442		24,918
Health insurance		38,373		34,863
Medical testing		131		130
Training		4,410		1,725
Travel		2,417		406
Equipment lease and maintenance		5,167		2,355

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, 2016

With Comparative Actual Amounts for the Year Ended June 30, 2015

	2016		Variance Favorable (Unfavorable)	2015
	Budget	Actual		Actual
Advertising		1,096		107
Supplies		3,204		2,740
Dues & Subscriptions		489		320
Vehicles maintenance		1,977		3,817
Vehicles operations		5,434		7,963
Uniforms		3,779		2,765
Beautification		11,499		4,897
Town buildings maintenance and repairs		25,948		77,011
Green initiative		-		3,898
Safety compliance		586		1,481
Parking lot maintenance		2,153		1,370
Miscellaneous		593		1,592
Sand fencing and grass planting		24,000		24,000
Capital outlay-equipment		27,609		84,761
	<u>455,003</u>	<u>406,739</u>	<u>48,264</u>	<u>503,218</u>
Streets, bridges and canals:				
Street sign maintenance		4,974		15,545
Miscellaneous engineering services		1,794		3,803
Street maintenance		54,278		27,358
Waterway maintenance		400		400
Brush trimming		7,650		10,750
Bridge maintenance		915		894
Bulkhead maintenance & repair		62,490		-
Storm debris clean up		-		1,564
Street construction - Gravey Pond		19		319
Street construction - Deer Path		-		225
Juniper/Trinitie Tr. Bridge		-		12,760
Bridge construction - Tall Pine Bridge		997,755		107,167
Street construction-Duck Woods Dr.		-		71,161
Street construction-Scuppernong		38		106,941
Street construction-Fairway Dr.		131		207,013
Street construction-N. Dogwood Trail		59,397		822
Street construction-Yaupon		1,163		7,988
Street construction-Dogwood interesection		75		156,743
Street construction-Pintail		4,918		68,604
Street construction-Beech Tree		166,532		413
Street construction-Bear Track Lane		71,563		2,171
Street construction-Wild Swan Lane		19		4,355
Street construction-Fox Grape Lane		249,751		4,977
Street construction-Hollow Beach Court		70,714		2,415
Canal dredging legal settlement		-		123,500
Debt payment - canal dredging Phase 2		-		1,340,142
	<u>2,148,573</u>	<u>1,754,576</u>	<u>393,997</u>	<u>2,278,030</u>
TOTAL PUBLIC WORKS AND TRANSPORTATION	2,603,576	2,161,315	442,261	2,781,248

ENVIRONMENTAL PROTECTION

Solid Waste:				
Residential collection		216,755		199,417
Commercial collection		44,284		39,869
Recycling collection		136,294		134,178
Chipping		110,000		108,203

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, 2016

With Comparative Actual Amounts for the Year Ended June 30, 2015

	2016		Variance Favorable (Unfavorable)	2015
	Budget	Actual		Actual
Miscellaneous		300		200
Tipping fees		166,987		157,635
	<u>712,360</u>	<u>674,620</u>	<u>37,740</u>	<u>639,502</u>
 TOTAL ENVIRONMENTAL PROTECTION	 <u>712,360</u>	 <u>674,620</u>	 <u>37,740</u>	 <u>639,502</u>
 TOTAL EXPENDITURES	 <u>6,882,951</u>	 <u>6,073,460</u>	 <u>809,491</u>	 <u>7,013,083</u>
 REVENUES OVER (UNDER) EXPENDITURES	 <u>(164,142)</u>	 <u>628,307</u>	 <u>792,449</u>	 <u>(1,182,108)</u>
 OTHER FINANCING SOURCES (USES):				
Fund balance appropriated	184,142	-	(184,142)	-
Transfer (to) from capital reserve fund	(20,000)	(20,000)	-	9,842
Lease proceeds	-	-	-	72,692
	<u>164,142</u>	<u>(20,000)</u>	<u>(184,142)</u>	<u>82,534</u>
 REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	 <u>\$ -</u>	 <u>608,307</u>	 <u>608,307</u>	 <u>(1,099,574)</u>
 FUND BALANCE:				
Beginning of year, July 1		3,887,361		4,986,935
Restatement		<u>212,223</u>		<u>-</u>
End of year, June 30		<u>\$ 4,707,891</u>		<u>\$ 3,887,361</u>

TOWN OF SOUTHERN SHORES, NORTH CAROLINA

CANAL DREDGING PHASE II CAPITAL PROJECT FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL From Inception and For the Year Ended June 30, 2016

	Project Authorization	Prior Years	Actual Current Year	Total to Date
REVENUES:				
Investment income	\$ -	\$ 2,434	\$ 19	\$ 2,453
	<u>-</u>	<u>2,434</u>	<u>19</u>	<u>2,453</u>
EXPENDITURES:				
Canal dredging, removal, disposal	1,212,880	1,212,880	-	1,212,880
Dredging performance surveys	50,000	37,700	-	37,700
Sub aquatic vegetation survey	10,000	4,500	-	4,500
Engineering for dredging	28,500	33,483	-	33,483
Town Hall Complex Improvements	236,500	227,226	-	227,226
Project contingency	50,000	6,038	3,800	9,838
	<u>1,587,880</u>	<u>1,521,827</u>	<u>3,800</u>	<u>1,525,627</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(1,587,880)</u>	<u>(1,519,393)</u>	<u>(3,781)</u>	<u>(1,523,174)</u>
OTHER FINANCIAL SOURCES (USES)				
Transfer from capital reserve fund	40,000	40,000	-	40,000
Installment purchase loan	1,547,880	1,547,880	-	1,547,880
	<u>1,587,880</u>	<u>1,587,880</u>	<u>-</u>	<u>1,587,880</u>
REVENUES AND OTHER FINANCIAL SOURCES OVER EXPENDITURES	<u>\$ -</u>	<u>\$ 68,487</u>	<u>(3,781)</u>	<u>\$ 64,706</u>
FUND BALANCE				
Beginning of year, July 1			<u>68,487</u>	
End of year, June 30			<u>\$ 64,706</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, 2016

With Comparative Actual Amounts for the Year Ended June 30, 2015

	2016		Variance Favorable (Unfavorable)	2015
	Budget	Actual		Actual
REVENUES:				
Miscellaneous revenues	\$ -	\$ -	\$ -	\$ 338
Cemetery revenues	1,000	7,000	6,000	3,005
	<u>\$ 1,000</u>	<u>\$ 7,000</u>	<u>\$ 6,000</u>	<u>\$ 3,343</u>
EXPENDITURES:				
Cemetery operations	11,180	2,966	\$ 8,214	3,999
	<u>11,180</u>	<u>2,966</u>	<u>8,214</u>	<u>3,999</u>
REVENUES OVER (UNDER) EXPENDITURES				
	<u>(10,180)</u>	<u>4,034</u>	<u>14,214</u>	<u>(656)</u>
OTHER FINANCING SOURCES:				
Fund Balance Appropriated	10,180	-	(10,180)	-
	<u>10,180</u>	<u>-</u>	<u>(10,180)</u>	<u>-</u>
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES				
	<u>\$ -</u>	<u>4,034</u>	<u>4,034</u>	<u>(656)</u>
FUND BALANCE:				
Beginning of year, July 1		<u>46,908</u>		<u>47,564</u>
End of year, June 30		<u>\$ 50,942</u>		<u>\$ 46,908</u>

TOWN OF SOUTHERN SHORES, NORTH CAROLINA
SCHEDULE OF AD VALOREM TAXES RECEIVABLE
June 30, 2016

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2015</u>	<u>Additions</u>	<u>Releases/ Adjustments</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2016</u>
2015-2016	\$ -	\$2,926,270	\$ (831)	\$ 2,922,928	\$ 2,511
2014-2015	7,648	-	-	6,344	1,304
2013-2014	4,011	974	-	2,743	2,242
2012-2013	729	-	-	120	609
2011-2012	840	-	-	385	455
2010-2011	256	-	-	-	256
2009-2010	339	-	-	-	339
2008-2009	316	-	-	-	316
2007-2008	184	-	-	-	184
2006-2007	265	-	-	-	265
2005-2006	351	-	(351)	-	-
	<u>\$ 14,939</u>	<u>\$2,927,244</u>	<u>\$ (1,182)</u>	<u>\$ 2,932,520</u>	<u>\$ 8,481</u>

Reconciliation of collections and credits to revenues:

Ad valorem taxes - Schedule 1	\$ 2,935,930
Write offs and adjustments	(3)
Penalties and interest	(3,407)
	<u>\$ 2,932,520</u>

TOWN OF SOUTHERN SHORES, NORTH CAROLINA
ANALYSIS OF CURRENT TAX LEVY
June 30, 2016

	<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	\$ 1,329,721,364	0.2200	\$ 2,925,387	\$ 2,834,761	\$ 90,626
Discoveries/Abatements	\$ (320,455)	0.2200	(705)	(705)	-
Late list penalties			757	757	-
Total property valuation	<u>\$ 1,329,400,909</u>				
Net levy			<u>2,925,439</u>	<u>2,834,813</u>	<u>90,626</u>
Uncollected taxes at June 30, 2016			<u>(2,511)</u>	<u>(2,511)</u>	<u>-</u>
Current year's taxes collected			<u>\$ 2,922,928</u>	<u>\$ 2,832,302</u>	<u>\$ 90,626</u>
Current levy collection percentage			<u>99.91%</u>	<u>99.91%</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 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, 2016, 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, 2016.

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, 2016



Jeff Dowdy, CPA • Teresa Osborne, CPA

Report On Compliance For Each Major Federal Program; Report on Internal Control Over Compliance; In accordance with OMB Uniform Guidance; and the State Single Audit Implementation Act

Independent Auditor's Report

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

Report on Compliance for Each Major Federal Program

We have audited the Town of Southern Shores, North Carolina's' compliance with the types of compliance requirements described in the *OMB Compliance Supplement and the Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of the Town of Southern Shores' major federal programs for the year ended June 30, 2016. The Town of Southern Shores' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Town of Southern Shores' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the State Single Audit Implementation Act. Those standards, the Uniform Guidance, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town of Southern Shores' compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major state program. However, our audit does not provide a legal determination of the Town of Southern Shores' compliance.

Opinion on Each Major Federal Program

In our opinion, the Town of Southern Shores complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of the Town of Southern Shores is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town of Southern Shores' internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or

detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Dowdy & Osborne, LLP

Dowdy & Osborne, LLP
Certified Public Accountants

Nags Head, North Carolina

September 26, 2016

TOWN OF SOUTHERN SHORES
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2016

Section I - Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were presented in accordance to GAAP: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? ___ YES X NO
- Significant deficiency (s) identified ___ YES X none reported

Noncompliance material to financial statements noted? ___ YES X NO

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? ___ YES X NO
- Significant deficiency (s) identified ___ YES X none reported

Type of auditor's report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516 (a)? ___ YES X NO

Identification of major federal programs:

<u>CFDA No (s).</u>	<u>Name of Federal Program</u>
20.205-1	U.S Department of Transportation-Highway Planning and Construction

Dollar threshold used to distinguish between Type A and Type B Programs \$ 750,000

- Auditee qualified as low-risk auditee? ___ YES X NO

Section II – Financial Statement Findings

None reported

Section III - Federal Award Findings and Questioned Costs

None reported

Section IV – State Award Findings and Questioned Costs

No major State programs identified

**Town of Southern Shores
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2016**

None reported.

**Town of Southern Shores
Schedule of Expenditures of Federal and State Awards
For the year ended June 30, 2016**

Grantor/Pass through Grantor/Program Title	Federal CFDA Number	State/ Pass-through Grantor's Number	Federal (Direct and Pass Through) Expenditures	State Expenditures	Local Expenditures
<u>U.S Department of Transportation</u>					
Passed through N.C. Department of Transportation:					
Highway Planning and Construction (WBS 45450)	20.205-1	XXXX	\$ 798,204	\$ -	\$ 199,551
Total U.S. Department of Transportation			<u>798,204</u>	<u>-</u>	<u>199,551</u>
<u>U.S. Department of Justice</u>					
Byrne Justice Assistance Grant	16.738	XXXX	13,693	-	-
Office of Community Oriented Policing Services	16.710	XXXX	<u>41,173</u>	<u>-</u>	<u>30,426</u>
Total U.S. Department of Justice			<u>54,866</u>	<u>-</u>	<u>30,426</u>
Total federal awards			<u>\$ 853,070</u>	<u>\$ -</u>	<u>\$ 229,977</u>
State Grants:					
<u>N.C. Department of Transportation</u>					
Powell Bill		DOT-4	\$ -	\$ 119,567	\$ -
Total N.C. Department of Transportation			<u>-</u>	<u>119,567</u>	<u>-</u>
Total state awards			<u>-</u>	<u>119,567</u>	<u>-</u>
Total federal and state awards			<u>\$ 853,070</u>	<u>\$ 119,567</u>	<u>\$ 229,977</u>

Notes to the Schedule of Expenditures of Federal and State Financial Awards:

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal and State awards (SEFSA) includes the federal and state grant activity of the Town of Southern Shores under the programs of the federal government and the State of North Carolina for the year ended June 30, 2016. The information in the SEFSA is presented in accordance with the requirements of Title 2 US Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and the State Single Audit Implementation Act. Because the Schedule presents only a selected portion of the operations of the Town of Southern Shores, it is not intended to and doesn't present the financial position, changes in net position or cash flows of the Town of Southern Shores.

Note 2. Summary of Significant Accounting Policies

Expenditures reported in the SEFSA are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.