

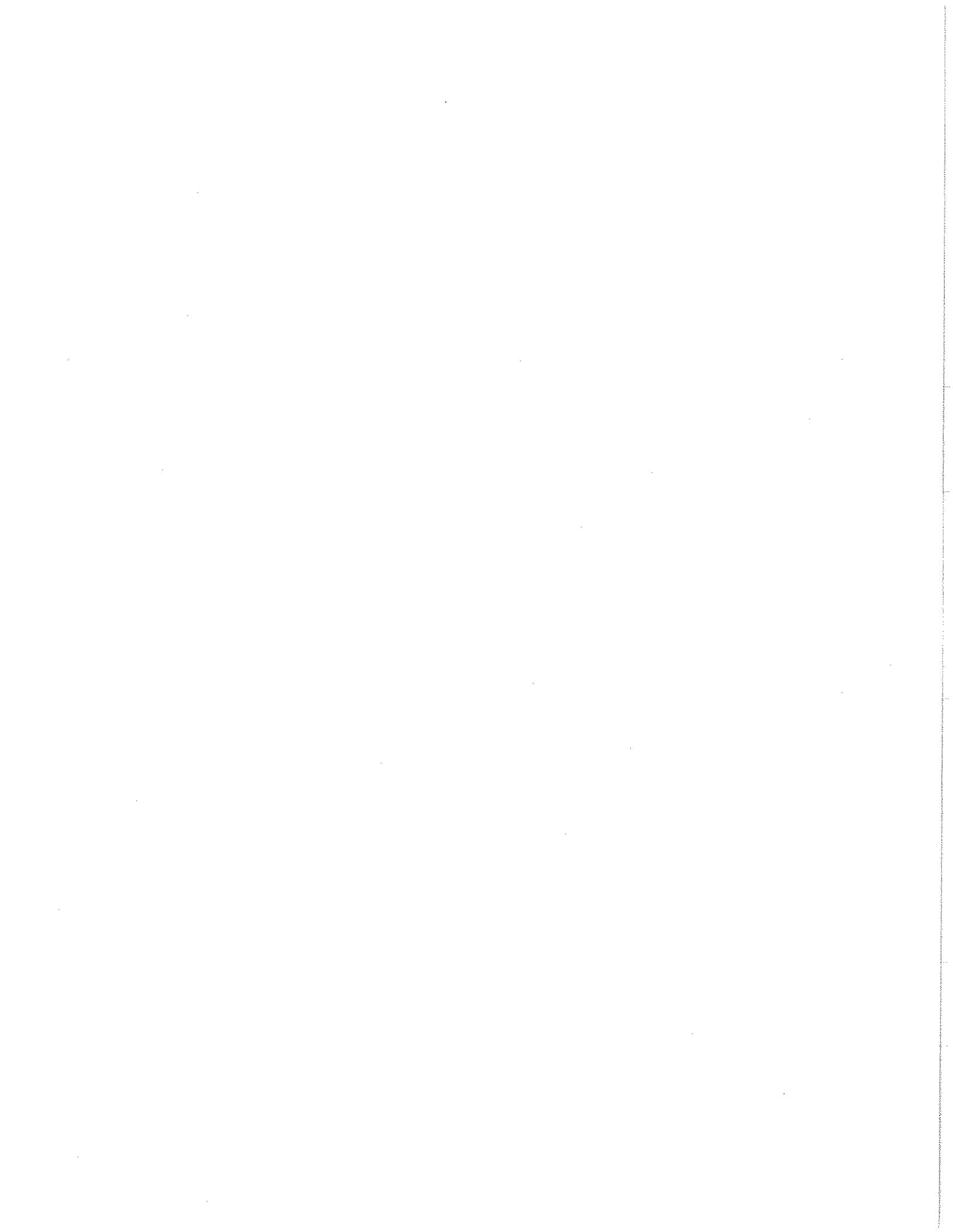
Town of Southern Shores, North Carolina

Financial Statements

June 30, 2011

Hal Denny, Mayor
Jodi Hess, Mayor Pro-Tem
Kevin Stroud, Council Member
Jim Pfizenmayer, Council Member
George Kowalski, Council Member

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



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Independent Auditor's Report

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

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, 2011, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Southern Shores' management. Our responsibility is to express opinions on these basic 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit the financial statements referred to above present fairly, in all material respects, the 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, 2011, and the respective changes in financial position thereof and the respective budgetary comparison for the general fund and capital reserve fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated September 30, 2011 on our consideration of the Town of Southern Shores' internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grants. 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis, the Law Enforcement Officers' Special Separation Allowance Schedule of Funding Progress and Schedule of Employer Contributions, and the Other Postemployment Benefits Schedule of Funding Progress and Schedule of Employer Contributions are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion thereon.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Town of Southern Shores, North Carolina, taken as a whole. The individual fund financial

statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal and state awards is presented for the purpose of additional analysis and is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State Single Audit Implementation Act, and is also not a required part of the basic financial statements of the Town of Southern Shores. The individual fund financial statements and schedules and the schedule of expenditures of federal and state awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Dowdy & Osborne, LLP

Dowdy & Osborne, LLP
Certified Public Accountants

September 30, 2011

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, 2011. 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 of the Town of Southern Shores' exceeded its liabilities at the close of the fiscal year by \$ 5,860,371 (*net assets*).
- The government's total net assets decreased by \$ 593,988.
- As of the close of the current fiscal year, the Town of Southern Shores' governmental funds reported combined ending fund balances of \$ 3,588,002, a decrease of \$ 879,826 over the prior year. Approximately 12 % of this total amount, or \$ 421,018, is non-spendable, restricted or assigned.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$ 3,166,984 or 55 % of total general fund expenditures for the fiscal year.
- The general fund budget for the year was adopted with a tax rate of 14 cents per \$ 100 assessed valuation.

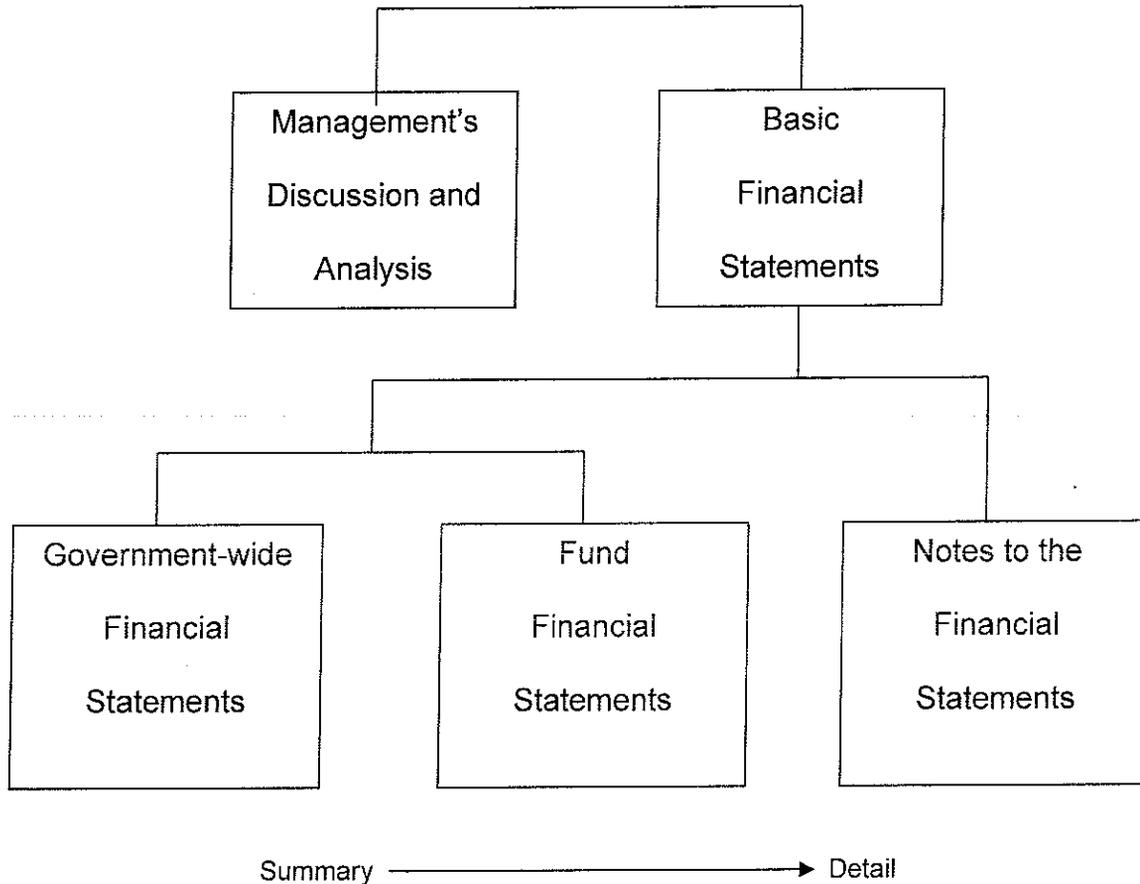
Overview of the Financial Statements

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 assets and how they have changed. Net assets are the difference between the town's total assets and total liabilities. Measuring net assets 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 Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The Town of Southern Shores adopts an annual budget for its General Fund and Capital Reserve Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the town, the management of the town, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the town to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the town complied with the budget ordinance and whether or not the town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the board; 2) the final budget as amended by the board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges. To account for the difference

Management Discussion and Analysis Town of Southern Shores

between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reported activities is shown at the end of the budgetary statement.

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 19-33 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 34-37 of this report.

Government-Wide Financial Analysis

The Town of Southern Shores' Net Assets

Figure 2

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Current and other assets	\$ 3,760,125	\$ 4,676,678
Capital assets	<u>2,500,192</u>	<u>2,123,228</u>
Total assets	6,260,317	6,799,906
Long-term liabilities outstanding	223,983	220,614
Other liabilities	<u>175,963</u>	<u>124,933</u>
Total liabilities	399,946	345,547
Net assets:		
Invested in capital assets, net of related debt	2,401,805	2,073,860
Restricted for Powell Bill	-	213,896
Restricted for Public Safety	5,237	4,442
Restricted for Capital Reserve Fund	-	483,017
Restricted for Stabilization by State Statute	326,020	261,592
Unrestricted	<u>3,127,309</u>	<u>3,417,552</u>
Total net assets	<u>\$ 5,860,371</u>	<u>\$ 6,454,359</u>

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of the Town of Southern Shores exceeded liabilities by \$ 5,860,371 as of June 30, 2011. The town's net assets decreased by \$ 593,988 for the fiscal year ended June 30, 2011. Net assets invested in capital assets (41% of total net assets) 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 \$ 327,945; the amount by which current year capital acquisitions and payments on related debt exceeded current year depreciation and new debt. 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' investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town's net assets, \$ 331,257 represents resources that are subject to

Management Discussion and Analysis Town of Southern Shores

external restrictions on how they may be used. The remaining balance of \$ 3,127,309 is unrestricted.

Town of Southern Shores Changes in Net Assets
Figure 3

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Revenues:		
Program Revenues:		
Charges for services	\$ 116,955	\$ 104,075
Operating grants and contributions	316,097	456,363
Capital grants and contributions	108,651	107,393
General Revenues:		
Property taxes	2,469,335	1,716,230
Other taxes	1,706,095	1,637,856
Investment earnings	7,640	17,354
Other	<u>20,539</u>	<u>5,601</u>
Total Revenues	<u>4,745,312</u>	<u>4,044,872</u>
Expenses:		
General government	989,136	997,498
Public safety	1,874,428	1,396,792
Environmental protection and transportation	<u>2,475,736</u>	<u>1,529,645</u>
Total Expenses	<u>5,339,300</u>	<u>3,923,935</u>
Increase in net assets	(593,988)	120,937
Net assets, July 1	6,454,359	6,407,355
Prior period adjustment	-	(73,933)
Net assets, June 30	<u>\$ 5,860,371</u>	<u>\$ 6,454,359</u>

The increase in property tax revenue is the result of an increase in taxes from 9.75 cents to 14 cents per \$ 100 of valuation. The increase in public safety is the result of \$ 120,000 in radio equipment for the police department which were not capitalized since they did not meet the town's fixed asset capitalization threshold. Additionally, due to the increase in taxes the fire department received an additional operating allocation of \$ 173,000 plus a \$ 50,000 appropriation for radio equipment. Environmental protection and transportation increased due to \$ 975,000 more spent on canal dredging maintenance.

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 \$ 3,166,984 while total fund balance reached \$ 3,534,298. The Town council has adopted a fund balance policy which endeavors to maintain an unassigned fund balance of 75% of the previous fiscal year's operating expenses for emergency management and other unforeseen needs or opportunities. The unassigned fund balance represents 56% of the previous fiscal year's operating expenses, however the expenses for the previous year were inflated due to the canal dredging project.

Management Discussion and Analysis Town of Southern Shores

At June 30, 2011, the governmental funds of Town of Southern Shores reported a combined fund balance of \$ 3,588,002, a 25 % decrease over last year. Included in this change in fund balance are decreases in the General Fund and Capital Reserve Fund and an increase in the Cemetery Fund.

General Fund Budgetary Highlights: During the fiscal year, the town revised the budget on several occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services. The primary changes to the adopted budget were to designate fund balance instead of grant revenues for the canal dredging project.

Capital Asset and Debt Administration

Capital assets. The Town of Southern Shores' investment in capital assets for its governmental activities as of June 30, 2011, totals \$ 2,500,192 (net of accumulated depreciation). These assets include buildings, land, vehicles and infrastructure.

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

- Street construction and maintenance to Gray Squirrel Lane (\$ 32,150), Poteskeet Trail (\$ 258,271), Poteskeet Loop (\$ 108,258) and Old Passage (\$ 34,241)
- Purchase of three police vehicles

Town of Southern Shores' Governmental Activities Capital Assets

**Figure 4
(net of depreciation)**

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Land	\$ 132,650	\$ 132,650
Buildings	720,354	750,107
Equipment	8,012	10,149
Infrastructure	1,457,686	1,101,406
Vehicles	<u>181,490</u>	<u>128,916</u>
Total	<u>\$ 2,500,192</u>	<u>\$ 2,123,228</u>

Additional information on the town's capital assets can be found on page 25 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 \$ 140,937,314.

Economic Factors and Next Year's Budgets and Rates

The following economic indicators affect the town.

- Travel and tourism remain significant revenues for Dare County; the town's portion of occupancy and sales taxes revenues showed a 5% increase over the prior year.

Management Discussion and Analysis Town of Southern Shores

- Area unemployment remains above 8% contributing to flat construction and remodeling activity resulting in only a slight increase in building permit revenues.

Budget Highlights for the Fiscal Year Ending June 30, 2012

- The adopted budget maintains a tax rate of 14 cents per \$ 100 of assessed valuation.
- The adopted budget includes an increase in occupancy, sales and land transfer taxes due to an increase in the Town's proportionate share as a result of a tax increase in the prior fiscal year.
- The adopted budget includes a reduction of 2 ½ positions due to a reduction in force during the prior year.
- The adopted budget includes year-round recycling.

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.

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TOWN OF SOUTHERN SHORES, NORTH CAROLINA

Exhibit 1

STATEMENT OF NET ASSETS

June 30, 2011

	<u>Governmental Activities</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 3,381,651
Taxes receivable	11,160
Miscellaneous accounts receivable	859
Prepaid expenses	36,057
Due from governmental units	325,161
Restricted cash and cash equivalents	5,237
Total current assets	<u>3,760,125</u>
Capital assets:	
Land	132,650
Other capital assets, net of depreciation	2,367,542
Total capital assets	<u>2,500,192</u>
Total assets	<u>\$ 6,260,317</u>
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 84,981
Salaries and benefits payable	74,591
Unearned revenue	1,391
Long-term liabilities:	
Due within one year	15,000
Due in more than one year	223,983
Total liabilities	<u>399,946</u>
NET ASSETS	
Invested in capital assets, net of related debt	2,401,805
Restricted for Stabilization by State Statute	326,020
Restricted for Public Safety	5,237
Unrestricted	3,127,309
Total net assets	<u>\$ 5,860,371</u>

TOWN OF SOUTHERN SHORES, NORTH CAROLINA

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 989,136	\$ 100,983	\$ 10,000	\$ -
Public safety	1,869,566	6,777	795	-
Environmental protection and transportation	2,475,736	9,195	305,302	108,651
Interest on long-term debt	4,862	-	-	-
	<u>5,339,300</u>	<u>116,955</u>	<u>316,097</u>	<u>108,651</u>
Total primary government	\$ 5,339,300	\$ 116,955	\$ 316,097	\$ 108,651

General revenues:

Taxes:

Property taxes, levied for general purpose

Other taxes

Investment earnings, unrestricted

Miscellaneous, unrestricted

Total general revenues, special items, and transfers

Change in net assets

Net assets-beginning (restated)

Net assets-ending

Exhibit 2

**Net (Expense) Revenue and
Changes in Net Assets**

Governmental Activities	Total
\$ (878,153)	\$ (878,153)
(1,861,994)	(1,861,994)
(2,052,588)	(2,052,588)
(4,862)	(4,862)
<u>(4,797,597)</u>	<u>(4,797,597)</u>
<u>\$ (4,797,597)</u>	<u>\$ (4,797,597)</u>

2,469,335	2,469,335
1,706,095	1,706,095
7,640	7,640
20,539	20,539
<u>4,203,609</u>	<u>4,203,609</u>
(593,988)	(593,988)
6,454,359	6,454,359
<u>\$ 5,860,371</u>	<u>\$ 5,860,371</u>

TOWN OF SOUTHERN SHORES, NORTH CAROLINA
BALANCE SHEET - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2011

Exhibit 3

	<u>Major Fund</u>	<u>Total Non-</u>	<u>Total</u>
	<u>General</u>	<u>Major</u>	<u>Governmental</u>
		<u>Fund</u>	<u>Funds</u>
ASSETS			
Cash and cash equivalents	\$ 3,327,947	\$ 53,704	\$ 3,381,651
Restricted cash and cash equivalents	5,237	-	5,237
Taxes receivable	11,160	-	11,160
Miscellaneous accounts receivable	859	-	859
Prepaid expenses	36,057	-	36,057
Due from governmental units	325,161	-	325,161
Total Assets	<u>3,706,421</u>	<u>53,704</u>	<u>3,760,125</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	84,981	-	84,981
Salaries and benefits payable	74,591	-	74,591
Unearned revenue	1,391	-	1,391
Deferred revenues	11,160	-	11,160
Total Liabilities	<u>172,123</u>	<u>-</u>	<u>172,123</u>
Fund Balances:			
Non Spendable			
Prepaid expenses	36,057	-	36,057
Restricted			
Stabilization by State Statute	326,020	-	326,020
Public Safety	5,237	-	5,237
Assigned			
Cemetery	-	53,704	53,704
Unassigned	3,166,984	-	3,166,984
Total Fund Balances	<u>3,534,298</u>	<u>53,704</u>	<u>3,588,002</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 3,706,421</u>	<u>\$ 53,704</u>	

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

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

2,500,192

Liabilities for earned but deferred revenues in fund statements.

11,160

Some liabilities including vacation payable and long-term debt are not due and payable in the current period and therefore are not reported in the funds.

(238,983)

\$ 5,860,371

TOWN OF SOUTHERN SHORES, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2011

Exhibit 4

	<u>Major Fund</u>		
	<u>General</u>	<u>Total Non-Major Fund</u>	<u>Total Governmental Funds</u>
REVENUES:			
Ad valorem taxes	\$ 2,477,913	\$ -	\$ 2,477,913
Other taxes and licenses	1,389,016	-	1,389,016
Unrestricted intergovernmental revenue	317,079	-	317,079
Restricted intergovernmental revenue	424,748	-	424,748
Permits and fees	86,102	-	86,102
Sales and services	19,343	11,510	30,853
Investment earnings	7,640	-	7,640
Other revenues	20,538	-	20,538
TOTAL REVENUES	4,742,379	11,510	4,753,889
EXPENDITURES:			
General government	965,764	436	966,200
Public safety	1,887,253	-	1,887,253
Environmental protection and transportation	2,824,419	-	2,824,419
Debt Service			
Principal	61,000	-	61,000
Interest	4,862	-	4,862
TOTAL EXPENDITURES	5,743,298	436	5,743,734
REVENUES OVER (UNDER) EXPENDITURES	(1,000,919)	11,074	(989,845)
OTHER FINANCING SOURCES			
Lease proceeds	110,019	-	110,019
TOTAL OTHER FINANCING SOURCES	110,019	-	110,019
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(890,900)	11,074	(879,826)
FUND BALANCES:			
Beginning of year - July 1 (restated)	4,425,198	42,630	4,467,828
End of year - June 30	<u>\$ 3,534,298</u>	<u>\$ 53,704</u>	<u>\$ 3,588,002</u>

TOWN OF SOUTHERN SHORES, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2011

Exhibit 4
(continued)

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

Net changes in fund balances - total governmental funds \$ (879,826)

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 (\$ 541,918) exceeded depreciation (\$ 164,954) in the current period. 376,964

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:
Change in deferred revenue for tax revenue (8,578)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets.
Net effect of loan proceeds and principal payments on long-term debt (49,018)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:
Decrease in compensated absences 1,372
Increase in OPEB obligation (26,111)
Increase in net pension obligation (8,791)

Total changes in net assets of governmental activities \$ (593,988)

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, 2011

Exhibit 5

	General Fund			Variance with Final Budget- Positive (Negative)
	Original	Final	Actual Amounts	
REVENUES:				
Ad valorem taxes	\$ 2,459,800	\$ 2,459,800	\$ 2,477,913	\$ 18,113
Other taxes and licenses	1,315,000	1,315,000	1,389,016	74,016
Unrestricted intergovernmental revenues	304,500	296,500	317,079	20,579
Restricted intergovernmental revenues	428,000	428,000	424,748	(3,252)
Permits and fees	71,300	71,300	86,102	14,802
Sales and services	4,000	4,000	19,343	15,343
Investment earnings	20,000	20,000	7,032	(12,968)
Other revenue	8,800	8,800	20,538	11,738
<u>Total Revenues</u>	<u>4,611,400</u>	<u>4,603,400</u>	<u>4,741,771</u>	<u>138,371</u>
EXPENDITURES:				
General government	1,000,650	1,107,805	965,764	142,041
Public safety	1,391,850	1,989,745	1,953,115	36,630
Environmental protection and transportation	3,236,650	2,994,975	2,824,419	170,556
<u>Total Expenditures</u>	<u>5,629,150</u>	<u>6,092,525</u>	<u>5,743,298</u>	<u>349,227</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(1,017,750)</u>	<u>(1,489,125)</u>	<u>(1,001,527)</u>	<u>487,598</u>
OTHER FINANCING SOURCES (USES):				
Fund balance appropriated	420,000	893,875	-	(893,875)
Transfer to capital reserve fund	(516,000)	(516,000)	(516,000)	-
Transfer from capital reserve fund	1,001,000	1,001,000	999,625	(1,375)
Lease proceeds	-	110,250	110,019	(231)
<u>Total</u>	<u>905,000</u>	<u>1,489,125</u>	<u>593,644</u>	<u>(895,481)</u>
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>\$ (112,750)</u>	<u>\$ -</u>	<u>(407,883)</u>	<u>\$ (407,883)</u>
FUND BALANCES:				
Beginning (restated)			<u>3,942,181</u>	
Ending			<u>\$ 3,534,298</u>	
A legally adopted Capital Reserve Fund is consolidated into the General Fund for reporting purposes:				
Interest income			608	
Transfer from general fund			516,000	
Transfer to general fund			(999,625)	
Fund Balance Beginning			483,017	
Fund Balance Ending, (Exhibit 4)			<u>\$ 3,534,298</u>	

TOWN OF SOUTHERN SHORES, NORTH CAROLINA

Exhibit 6

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2011

	<u>Pension Trust</u>
ASSETS	
Cash and cash equivalents	<u>\$ 137,646</u>
 Total Assets	 <u>137,646</u>
 NET ASSETS	
Held in trust for pension benefits	<u>137,646</u>
Total Net Assets	<u><u>\$ 137,646</u></u>

TOWN OF SOUTHERN SHORES, NORTH CAROLINA

Exhibit 7

Statement of Changes in Fiduciary Net Assets**Fiduciary Funds**

For the Fiscal Year Ended June 30, 2011

	Pension Trust
Additions	
Employer contributions	\$ 8,000
Interest income	151
Total additions	<u>8,151</u>
Deductions	
Benefits	-
Administrative expenses	-
Total deductions	<u>-</u>
Change in net assets	8,151
Net assets - beginning of year	<u>129,495</u>
Net assets - end of year	<u>\$ 137,646</u>

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TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2011

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 assets 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.

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.

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2011

The Town reports the following fiduciary fund types:

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

C. Measurement Focus and Basis of Accounting

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

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

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

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad-valorem taxes receivable are not accrued as a revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of January 1, 1993, 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, Dare County is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts in the County, including the Town of Southern Shores. For motor vehicles registered under the staggered system, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, the Town's vehicle taxes for vehicles registered in Dare County from March 2010 through February 2011 apply to the fiscal year ended June 30, 2011. Uncollected taxes that were billed during this period are shown as a receivable in these financial statements and are offset by deferred revenues.

Sales taxes and certain intergovernmental revenues, such as the utilities franchise tax, collected and held by the State at year-end on behalf of the Town are recognized as revenue. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Grant revenues which are unearned at year-end are recorded as unearned revenues. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the Town's policy to

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2011

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

D. Budgetary Data

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund, Capital Reserve Fund and Cemetery Fund. All annual appropriations lapse at the fiscal-year end. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds. During the year, several immaterial amendments to the original budget were necessary. 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, and Fund Equity

1. Deposits and Investments

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

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

The Town's investments with a maturity of more than one year at acquisition and non-money market investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT Cash Portfolio, a SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued at fair value. Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost. Non-participating interest earning investment contracts are reported at cost.

2. Cash and Cash Equivalents

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

3. Restricted Assets

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

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2011

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, 2010.

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:

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

8. 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.

9. 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.

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2011

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.

9. Net Assets/Fund Balances

Net Assets

Net assets in government-wide financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net assets represent 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.

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

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

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

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

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

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

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

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

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2011

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 targets to maintain 75% of the previous year's annual operating expenses in undesignated fund balance.

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, 2011, the Town's deposits had a carrying amount of \$ 1,859,185 and a bank balance of \$ 1,863,749. Of the bank balance, all was covered by federal depository insurance. At June 30, 2011, the Town's petty cash fund totaled \$ 700.

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2011

2. Investments

At June 30, 2011, the Town's investments were as follows:

	<u>Fair Value</u>	<u>Maturity</u>	<u>Rating</u>
NC Capital Management Trust:			
Cash Portfolio	<u>\$ 1,664,649</u>	N/A	AAAm
Total Investments	<u>\$ 1,664,649</u>		

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

Credit Risk. The Town's cash management policy does not address credit risk. The Town's investment in the NC Capital Management Trust Cash Portfolio carried a credit rating of AAAm by Standard & Poor's as of June 30, 2011.

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, 2011 was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 132,650	\$ -	\$ -	\$ 132,650
Construction in process	-	-	-	-
	<u>132,650</u>	<u>-</u>	<u>-</u>	<u>132,650</u>
Capital assets being depreciated:				
Buildings	1,135,253	-	-	1,135,253
Equipment	10,683	-	-	10,683
Infrastructure	1,368,451	431,901	-	1,800,352
Vehicles	599,439	110,019	104,437	605,021
Total capital assets being depreciated	<u>3,113,826</u>	<u>541,918</u>	<u>104,437</u>	<u>3,551,309</u>
Less accumulated depreciation for:				
Buildings	385,147	29,753	-	414,900
Equipment	534	2,137	-	2,671
Infrastructure	267,043	75,621	-	342,664
Vehicles	470,524	57,445	104,437	423,532
Total accumulated depreciation	<u>1,123,248</u>	<u>\$ 164,956</u>	<u>104,437</u>	<u>1,183,767</u>
Total capital assets being depreciated (net)	<u>1,990,578</u>			<u>2,367,542</u>
Governmental activity capital assets, net	<u>\$ 2,123,228</u>			<u>\$2,500,192</u>

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

General Government	\$ 21,285
Public Safety	65,629
Environmental protection and transportation	<u>78,042</u>
	<u>\$ 164,956</u>

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2011

B. Liabilities

1. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

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

Funding Policy. Plan members are required to contribute six percent of their annual covered salary. The Town is required to contribute at an actuarially determined rate. For the Town, the current rate for employees not engaged in law enforcement and for law enforcement officers is 6.35% and 6.27%, respectively, of annual covered payroll. The contribution requirements of members and of the Town of Southern Shores is established and may be amended by the North Carolina General Assembly. The Town's contributions to LGERS for the years ended June 30, 2011, 2010, and 2009 were \$ 78,506, \$ 57,153 and \$ 54,397 respectively. The contributions made by the Town equaled the required contributions for each year.

b. Law Enforcement Officers Special Separation Allowance

1. *Plan Description.*

The Town of Southern Shores administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the Town's qualified sworn law enforcement officers. The Separation Allowance is equal to .85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

All full time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2010, the Separation Allowance's membership consisted of:

Retirees receiving benefits	-
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	9
Total	<u>9</u>

A separate report was not issued for the plan.

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2011

2. Summary of Significant Accounting Policies:

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

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

3. Contributions.

The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned by making contributions based on actuarial valuations. For the current year, the Town did not make any contributions to the plan because the plan was overfunded. There were no contributions made by employees. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly.

The annual required contribution for the current year was determined as part of the December 31, 2009 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 4.5 – 12.3% per year. Both (a) and (b) included an inflation component of 3.75%. The assumptions did not include post-employment benefit increases. The actuarial value of assets was determined using the market value of investments. The unfunded actuarial accrued liabilities are being amortized as a level dollar amount on a closed basis. The remaining amortization period at December 31, 2009 was 21 years.

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

Employer annual required contribution	\$ 16,772
Interest on net pension obligation	(262)
Adjustment to annual required contribution	<u>281</u>
Annual pension cost	16,791
Employer contributions made for fiscal year ended 6/30/11	<u>8,000</u>
Increase in net pension obligation	8,791
Net pension obligation beginning of fiscal year	<u>(5,247)</u>
Net pension obligation end of fiscal year (See note)	\$ 3,544

3-Year Trend Information

For Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2009	\$ 6,478	277.86%	\$ (12,904)
2010	7,657	0.00%	(5,247)
2011	16,791	47.64%	3,544

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2011

4. Funded Status and Funding Progress.

As of December 31, 2010, the most recent actuarial valuation date, the plan was 69.87% funded. The actuarial accrued liability for benefits was \$ 196,891, and the actuarial value of assets was \$ 137,571, resulting in an unfunded actuarial accrued liability (UAAL) of \$ 59,320. The covered payroll (annual payroll of active employees covered by the plan) was \$ 558,039 and the ratio of the UAAL to the covered payroll was 10.63%.

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, 2011, were \$34,533, which consisted of \$ 29,403 from the Town and \$ 5,130 from law enforcement officers.

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

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

Funding Policy. Beginning July 1, 2002 the Town began making a contribution of five percent for non-law enforcement officers and all amounts contributed are vested immediately. These employees may make voluntary contributions to the plan. Contributions for the year ended June 30, 2011, were \$ 4 3,739, which consisted of \$ 3 2,783 from the Town and \$ 10 ,956 from employees.

e. Other Postemployment Benefit - Healthcare Benefits

Plan Description. Under the terms of a Town policy, the Town administers a single-employer defined Healthcare Benefits Plan (the HCB Plan). As of November 1, 2007 this plan provides postemployment healthcare benefits to retirees of the Town, provided they participate in the Local Government Employees' Retirement System and have at least 25 years of creditable service with

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2011

the Town and retire with unreduced benefits. Prior to November 1, 2007, employees qualified for similar level benefits after completing 10 years of creditable service. The Town pays the full cost of coverage for these benefits through private insurers. Also, the Town's retirees can purchase coverage for their dependents at the Town group rates. A separate report was not issued for the plan.

Membership of the HCB Plan consisted of the following at December 31, 2009, the date of the latest actuarial valuation:

	General Employees	Law Enforcement Employees
Retirees and dependents receiving benefits	2	0
Terminated plan members entitled to but not yet receiving benefits	0	0
Active plan members	<u>12</u>	<u>9</u>
Total	<u>14</u>	<u>9</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 3.08% of annual covered payroll. For the current year, the Town contributed \$ 11,127 or .90% of annual covered payroll. The Town obtains healthcare coverage through private insurers. The Town's required contributions, for employees not engaged in law enforcement and for law enforcement officers represented 1.2% and 0% of covered payroll, respectively. There were no contributions made by employees. The Town's obligation to contribute to the HCB Plan is established and may be amended by Town Council.

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

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

Employer annual required contribution	\$ 38,199
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	<u>38,199</u>
Employer contributions made for fiscal year ended 6/30/11	<u>(12,088)</u>
Increase in net OPEB obligation	26,111
Net OPEB obligation beginning of fiscal year	<u>27,072</u>
Net OPEB obligation end of fiscal year	\$ 53,183

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2011

2-Year Trend Information

For Year Ended June 30	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Obligation
2010	\$ 38,199	29.13%	\$ 27,072
2011	38,199	31.64%	53,183

Funding Status and Funding Progress. As of December 31, 2009, 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 \$ 588,902. The covered payroll (annual payroll of active employees covered by the plan) was \$ 1,240,837, and the ratio of the UAAL to the covered payroll was 47.5%. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

In the December 31, 2009 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 10.5% to 5.00% annually. The investment rate included a 3.75% 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, 2009, was 30 years.

2. Other Employment Benefit

The Town has also elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months salary in a row during the 24 months prior to the employee's death. Effective July 1, 2004, the death benefit payments to beneficiaries must be between \$25,000 and \$50,000. All death benefit payments are made from the Death Benefit Plan. The Town has no liability beyond the payment of monthly contributions. Contributions are

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2011

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, 2011, the Town made contributions to the State for death benefits of \$1,413. The Town's required contributions for employees not engaged in law enforcement and for law enforcement officers represented .09% and .14% of covered payroll, respectively. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount.

3. Deferred / Unearned Revenues

The balance in deferred / unearned revenues at year-end is composed of the following elements:

	Deferred Revenues	Unearned Revenues
Taxes Receivable	\$ 11,160	-
Prepaid Taxes	-	\$ 1,391
Total	\$ 19,738	\$ 25,118

4. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in two self-funded risk-financing pools administered by the North Carolina League of Municipalities. Through these pools, the Town obtains general liability and auto liability coverage of \$1 million per occurrence and property coverage up to the total insurance values of the property policy, and workers' compensation coverage up to statutory limits. The pools are reinsured through commercial companies for single occurrence claims against general liability, auto liability and property in excess of \$500,000 and \$300,000 up to statutory limits for workers' compensation. The property liability pool has an aggregate limit for the total property losses in a single year, with the reinsurance limit based upon a percentage of the total insurance values. The Town carries commercial coverage for all other risks of loss including employee health coverage. There have been no significant reductions in insurance coverage in the prior year, and settled claims have not exceeded coverage in any of the past three fiscal years.

The Town carries flood insurance only on its public works building which is located in a flood zone with coverage amounts of \$ 248,700 for the building and \$ 110,000 for contents.

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

5. Claims, Judgments and Contingent Liabilities

As of June 30, 2011 the Town is involved in a contract dispute where the contractor is claiming \$ 730,870 in damages. The claim is currently being handled through arbitration, however an estimate of the possible loss cannot be made and the town's position is that no award is warranted to the contractor. If any award is made, it will most likely be significantly less than the claim.

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2011

6. Long-Term Obligations

a. Installment Purchase

In July, 2009, the town entered into a lease purchase agreement with a financial institution for the purchase of (2) police vehicles. The financing agreement requires three annual payments of \$ 25,779 including interest at 2.94% beginning in July 2010. The town prepaid the initial payment in June 2010.

In September, 2010, the town entered into a lease purchase agreement with a financial institution for the purchase of (3) police vehicles. The financing agreement requires three annual principal payments of \$ 36,673 plus interest at 3.10% beginning in September 2011. The town prepaid the initial payment in June 2011.

Annual debt service payments on the installment purchase agreement at June 30, 2011 are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ -	\$ -
2013	61,713	3,018
2014	<u>36,673</u>	<u>1,137</u>
Totals	\$ 98,386	4,155

b. Changes in Long-Term Liabilities

	<u>Balance July 1, 2010</u>	<u>Increase</u>	<u>Decreases</u>	<u>Balance June 30, 2011</u>	<u>Current Portion of Balance</u>
Governmental activities:					
Compensated absences	\$ 85,241	\$ -	\$ 1,372	\$ 83,869	\$ 15,000
Lease	49,368	110,019	61,001	98,386	-
Pension obligation	(5,247)	16,791	8,000	3,544	-
OPEB Obligation	27,072	38,199	12,088	53,183	-
Governmental Activity Long-Term Liabilities	<u>\$ 156,434</u>	<u>\$ 165,009</u>	<u>\$ 82,461</u>	<u>\$ 238,982</u>	<u>\$ 15,000</u>

The overfunded pension obligation of \$ 5,427 at June 30, 2010 was reported in the statement of net assets as other assets and the remaining debt of \$ 161,681 was shown as long-term liabilities in the statement of net assets.

C. Inter-fund Balances and Activity

Transfers to/from other funds at June 30, 2011, consist of the following:

From the General Fund to the Capital Reserve Fund (for capital projects)	\$ 516,000
From the Capital Reserve Fund to the General Fund (for capital projects)	\$ 999,625

D. Prior Period Adjustment

During the fiscal year ended June 30, 2011, the Town began recording salaries and benefits paid on the full accrual basis. This resulted in a restatement of beginning general fund balance and governmental net assets as follows:

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2011

	<u>General Fund Balance</u>	<u>Governmental Net Assets</u>
June 30, 2010 as previously reported	\$ 4,016,114	\$ 6,528,292
Prior period adjustment	<u>73,933</u>	<u>(73,933)</u>
June 30, 2010, restated	\$ 3,942,181	\$ 6,454,359

E. Fund Balance

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

Total fund balance – General Fund		\$ 3,534,298
Less:		
Prepaid expenses	\$ 36,057	
Stabilization by State Statute	326,020	
Drug enforcement	5,237	
Working capital/fund balance policy	<u>3,166,984</u>	
Total Reductions	<u>\$ 3,534,298</u>	
Remaining Fund Balance		<u>\$ 0</u>

The Town Council has adopted a fund balance policy which endeavors to maintain an unassigned fund balance of 75% of the previous year's operating expenses for emergency management and other unforeseen needs or opportunities. The unassigned portion above of \$ 3,166,984 represents 56% of the previous year's operating expenses, however the expenses for the previous year were inflated due to the canal dredging project and other projects funded from accumulated capital reserve funds.

IV. Southern Shores Cemetery Perpetual Care Fund

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

V. Summary Disclosure of Contingencies

State Assisted Programs

The Town has received proceeds from several 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 30, 2011, 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		Funded Ratio (a/b)	Covered Payroll c	UAAL as a % of Covered Payroll ((b-a)/c)
		Liability (AAL) -Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)			
12/31/00	-	48,874	48,874	0.00%	307,939	15.87%
12/31/01	-	44,858	44,858	0.00%	285,646	15.70%
12/31/02	-	74,294	74,294	0.00%	390,984	19.00%
12/31/03	-	89,639	89,639	0.00%	360,617	24.86%
12/31/04	-	105,192	105,192	0.00%	340,423	30.90%
12/31/05	-	80,896	80,896	0.00%	436,948	18.51%
12/31/06	77,390	86,251	8,861	89.73%	414,945	2.14%
12/31/07	107,640	88,407	(19,233)	121.76%	495,092	-3.88%
12/31/08	127,382	109,964	(17,418)	115.84%	517,820	-3.36%
12/31/09	129,495	180,484	50,989	71.75%	566,155	9.01%
12/31/10	137,571	196,891	59,320	69.87%	558,039	10.63%

TOWN OF SOUTHERN SHORES, NORTH CAROLINA

Law Enforcement Officers' Special Separation Allowance

Required Supplementary Information

Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2004	\$ 11,889	0.00%
2005	\$ 13,260	0.00%
2006	\$ 14,914	518.91%
2007	\$ 11,404	101.15%
2008	\$ 7,085	211.71%
2009	\$ 6,478	277.86%
2010	\$ 7,657	0.00%
2011	\$ 16,791	48.10%

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	12/31/2010
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	20
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return*	5.00%
Projected salary increases*	4.25-7.85%
*Includes inflation at	3.00%
Cost of living adjustments	N/A

TOWN OF SOUTHERN SHORES, NORTH CAROLINA

Other Postemployment Benefits

Required Supplementary Information

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued		Funded Ratio (a/b)	Covered Payroll c	UAAL as a % of Covered Payroll {(b-a)/c}
		Liability (AAL) -Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)			
12/31/09	-	588,902	588,902	0.00%	1,240,837	47.46%

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%

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	12/31/2009
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay open
Remaining amortization period	30
Asset valuation method	Market value of Assets
Actuarial assumptions:	
Investment rate of return*	4.00%
Medical cost trend rate	
Pre-Medicare trend rate	10.50% - 5.00%
Post-Medicare trend rate	9.00% - 5.00%
Year of Ultimate trend rate	2017
*Includes inflation at	3.75%

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, 2011

With Comparative Actual Amounts for the Year Ended June 30, 2010

	2011		Variance	2010
	Budget	Actual	Favorable (Unfavorable)	Actual
<u>REVENUES</u>				
<u>AD VALOREM TAXES:</u>				
Current year	\$ 2,450,000	\$ 2,461,107	11,107	\$ 1,702,879
Prior year	8,000	13,266	5,266	4,789
Penalties and interest	1,800	3,540	1,740	2,073
	<u>2,459,800</u>	<u>2,477,913</u>	<u>18,113</u>	<u>1,709,741</u>
<u>OTHER TAXES AND LICENSES:</u>				
Local option sales tax	525,000	546,561	21,561	522,137
Occupancy tax	665,000	697,630	32,630	658,327
Land transfer tax	125,000	144,825	19,825	145,392
	<u>1,315,000</u>	<u>1,389,016</u>	<u>74,016</u>	<u>1,325,856</u>
<u>UNRESTRICTED INTERGOVERNMENTAL REVENUES:</u>				
ABC Revenue	45,000	44,980	(20)	39,411
Utilities franchise/telecommunications tax	138,000	169,094	31,094	172,297
Video programming tax	80,000	72,083	(7,917)	75,224
Peg Channel Revenue	20,000	17,641	(2,359)	19,173
Solid waste disposal tax	1,000	1,751	751	2,210
Beer and wine tax	12,500	11,530	(970)	3,685
	<u>296,500</u>	<u>317,079</u>	<u>20,579</u>	<u>312,000</u>
<u>RESTRICTED INTERGOVERNMENTAL REVENUES:</u>				
Powell Bill allocation	108,000	108,651	651	107,393
Grant - NCDENR-canal dredging grant	300,000	305,302	5,302	430,225
Controlled substance tax	-	795	795	2,250
Contribution from Dare Cty - Sand Fencing	20,000	10,000	(10,000)	23,888
	<u>428,000</u>	<u>424,748</u>	<u>(3,252)</u>	<u>563,756</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, 2011
 With Comparative Actual Amounts for the Year Ended June 30, 2010

	2011		Variance Favorable (Unfavorable)	2010
	Budget	Actual		Actual
PERMITS AND FEES:				
Building permits and plan review	60,000	76,818	16,818	66,842
CAMA permits	1,000	1,360	360	1,025
Re-Inspection fees	1,000	-	(1,000)	375
Planning fees	500	1,047	547	95
Encroachment agreement	100	100	-	-
Parking fines	7,500	5,600	(1,900)	6,550
Court costs and fees	1,200	1,177	(23)	981
	<u>71,300</u>	<u>86,102</u>	<u>14,802</u>	<u>75,868</u>
SALES AND SERVICES:				
Cable franchise fees	-	10,148	10,148	9,579
Garbage carts	4,000	9,195	5,195	7,198
	<u>4,000</u>	<u>19,343</u>	<u>15,343</u>	<u>16,777</u>
INVESTMENT EARNINGS	<u>20,000</u>	<u>7,032</u>	<u>(12,968)</u>	<u>15,611</u>
OTHER REVENUES:				
Rents	2,400	1,800	(600)	2,400
Sale of fixed assets	4,000	9,774	5,774	-
Insurance claims	-	2,945	2,945	614
Miscellaneous	2,400	6,019	3,619	2,588
	<u>8,800</u>	<u>20,538</u>	<u>11,738</u>	<u>5,602</u>
TOTAL REVENUES	<u>\$ 4,603,400</u>	<u>\$ 4,741,771</u>	<u>\$ 138,371</u>	<u>\$ 4,025,211</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, 2011

With Comparative Actual Amounts for the Year Ended June 30, 2010

	2011		Variance	2010
	Budget	Actual	Favorable (Unfavorable)	Actual
<u>EXPENDITURES</u>				
<u>GENERAL GOVERNMENT:</u>				
Administration:				
Salaries		335,238		306,228
Council compensation		10,800		12,415
Payroll taxes		25,189		22,736
Retirement		38,074		30,294
Health insurance		38,538		40,441
Training		4,493		5,363
Utilities		16,381		15,730
Travel		3,910		3,113
Legal service		35,823		70,279
Audit services		16,250		16,250
Payroll services		6,216		6,030
Equipment lease and maintance		10,998		11,564
Telephone		18,135		15,559
Postage		2,118		1,484
Supplies		5,552		6,618
Municipal elections		-		3,813
Advertising		32		950
Dues and subscriptions		8,377		7,360
Insurance and bonds		62,248		57,411
Contracted services		6,713		33,520
Computer service		26,840		51,015
Town code update		3,965		400
Dare County tax collection fees		37,197		25,649
Government Access Channel membership		1,000		1,000
Government Access Channel PEG revenues		17,641		19,173
Employee recognition and appreciation		3,398		2,713
Wellness initiative		1,485		805
Unemployment		8,785		-
	826,050	745,396	80,654	767,913
Planning and Inspections:				
Salaries		142,077		163,680
Payroll taxes		10,731		12,342
Retirement		17,302		15,370
Health insurance		22,586		17,098
Training		820		358
Printing		-		703
Travel		1,078		1,378
Supplies		1,268		933
Advertising		558		653
Dues and subscriptions		1,031		1,291
Contracted Services		9,912		-
Vehicles maintenance		854		2,101
Vehicles operations		1,408		1,823
Homeowner recovery fund		45		54
Flood zone map mailing		698		1,360
Medical testing		-		72
Land use plan update		-		-
Sand Fencing & Grass Planting		10,000		25,038
	281,755	220,368	61,387	244,254

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, 2011 With Comparative Actual Amounts for the Year Ended June 30, 2010

	2011		Variance Favorable (Unfavorable)	2010
	Budget	Actual		Actual
TOTAL GENERAL GOVERNMENT	1,107,805	965,764	142,041	1,012,167
<u>PUBLIC SAFETY:</u>				
Police:				
Salaries		648,219		618,338
Payroll taxes		48,170		46,055
Retirement		73,969		60,409
Health insurance		78,513		64,518
Training		2,353		4,033
Printing		534		248
Travel		3,676		7,756
Equipment lease and maintenance		617		100
Supplies		14,682		10,644
Advertising		699		-
Dues and subscriptions		1,285		806
Computer service		3,549		
Contracted services		2,302		217
Vehicle maintenance		20,262		22,011
Vehicle operations		33,901		19,361
Uniforms		13,706		8,343
Medical testing		955		150
Separation allowance		8,000		-
Debt service		65,862		26,748
Capital outlay		263,513		135,741
	1,318,745	1,284,767	33,978	1,025,478
Fire:				
Contracted services	523,000	523,000	-	300,000
	523,000	523,000	-	300,000
Ocean Rescue:				
Contracted services	148,000	145,348	-	130,900
	148,000	145,348	2,652	130,900
TOTAL PUBLIC SAFETY	1,989,745	1,953,115	36,630	1,456,378
<u>ENVIRONMENTAL PROTECTION AND TRANSPORTATION:</u>				
Public Works:				
Salaries		125,495		132,483
Payroll taxes		9,448		10,043
Retirement		14,392		12,439
Health insurance		22,407		19,254
Training		165		250
Travel		-		125
Equipment lease and maintenance		2,616		3,568
Supplies		8,260		12,994
Advertising		181		203
Dues & Subscriptions		75		-
Vehicles maintenance		1,138		4,292
Vehicles operations		5,398		6,081
Uniforms		1,749		1,922
Street sign maintenance		3,411		1,235

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, 2011

With Comparative Actual Amounts for the Year Ended June 30, 2010

	2011		Variance Favorable (Unfavorable)	2010
	Budget	Actual		Actual
Engineering services		1,774		7,749
Street maintenance		8,429		6,985
Beautification		2,939		3,000
Brush trimming		750		15,975
Town buildings maintenance and repairs		14,578		108,181
Medical testing		-		85
Safety compliance		1,717		2,384
Chipping		97,321		94,344
Miscellaneous projects		8,062		3,267
Waterway maintenance and repair		-		692
Bridge maintenance		1,557		35
Street construction/maintenance		117,720		25,914
Street construction/maintenance-Powell Bill		322,547		6,503
Storm debris cleanup		29,170		-
Canal dredging project		1,512,664		537,963
Capital outlay		333		18,718
	<u>2,450,975</u>	<u>2,314,296</u>	<u>136,679</u>	<u>1,036,684</u>
Solid Waste:				
Residential collection		164,854		169,358
Commercial collection		31,928		31,286
Recycling collection		155,886		116,861
Tipping fees		157,455		133,225
	<u>544,000</u>	<u>510,123</u>	<u>33,877</u>	<u>450,730</u>
TOTAL ENVIRONMENTAL PROTECTION AND TRANSPORTATION	<u>2,994,975</u>	<u>2,824,419</u>	<u>170,556</u>	<u>1,487,414</u>
TOTAL EXPENDITURES	6,092,525	5,743,298	349,227	3,955,959
REVENUES OVER (UNDER) EXPENDITURES	(1,489,125)	(1,001,527)	487,598	69,252
OTHER FINANCING SOURCES (USES):				
Fund balance appropriated	893,875	-	893,875	-
Transfer from capital reserve fund	1,001,000	999,625	1,375	-
Transfer to capital reserve fund	(516,000)	(516,000)	-	-
Lease proceeds	110,250	110,019	231	73,000
	<u>1,489,125</u>	<u>593,644</u>	<u>(895,481)</u>	<u>73,000</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER USES	<u>\$ -</u>	<u>(407,883)</u>	<u>(407,883)</u>	<u>142,252</u>
FUND BALANCE:				
Beginning of year, July 1		3,942,181		3,873,862
Prior period adjustment		-		(73,933)
End of year, June 30		<u>\$ 3,534,298</u>		<u>\$ 3,942,181</u>

TOWN OF SOUTHERN SHORES, NORTH CAROLINA

CAPITAL RESERVE FUND

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

For the Year Ended June 30, 2011

With Comparative Actual Amounts for the Year Ended June 30, 2010

	2011		Variance Favorable (Unfavorable)	2010
	Budget	Actual		Actual
REVENUES:				
Interest income	\$ -	\$ 608	\$ 608	\$ 1,743
	-	608	608	1,743
OTHER FINANCING SOURCES (USES):				
Fund balance appropriated	485,000	-	(485,000)	-
Transfer from general fund	516,000	516,000	-	-
Transfer to general fund	(1,001,000)	(999,625)	1,375	-
	-	(483,625)	(483,625)	-
EXCESS OF OTHER FINANCING SOURCES (USES) OVER REVENUES				
	\$ -	(483,017)	\$ (483,017)	1,743
FUND BALANCE:				
Beginning of year, July 1		483,017		481,274
End of year, June 30		\$ -		\$ 483,017

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, 2011

With Comparative Actual Amounts for the Year Ended June 30, 2010

	2011		Variance Favorable (Unfavorable)	2010
	Budget	Actual		Actual
REVENUES:				
Miscellaneous revenues	\$ -	\$ 510	\$ 510	\$ -
Cemetery revenues	-	11,000	11,000	11,430
	<u>\$ -</u>	<u>\$ 11,510</u>	<u>\$ 11,510</u>	<u>\$ 11,430</u>
EXPENDITURES:				
Cemetery operations	-	436	-	-
	<u>-</u>	<u>436</u>	<u>436</u>	<u>-</u>
REVENUES OVER EXPENDITURES	<u>-</u>	<u>11,074</u>	<u>11,946</u>	<u>11,430</u>
FUND BALANCE:				
Beginning of year, July 1		<u>42,630</u>		<u>31,200</u>
End of year, June 30		<u>\$ 53,704</u>		<u>\$ 42,630</u>

TOWN OF SOUTHERN SHORES, NORTH CAROLINA
SCHEDULE OF AD VALOREM TAXES RECEIVABLE
June 30, 2011

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2010</u>	<u>Additions</u>	<u>Releases/ Adjustments</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2011</u>
2010-2011	\$ -	\$2,469,910	\$ (3,111)	\$ 2,461,107	5,692
2009-2010	12,216	-	(183)	10,239	1,794
2008-2009	3,246	-	(146)	1,932	1,168
2007-2008	1,571	-	(154)	1,180	237
2006-2007	316	-	(134)	(111)	293
2005-2006	361	-	-	1	360
2004-2005	454	-	-	12	442
2003-2004	453	-	-	13	440
2002-2003	459	-	-	-	459
2001-2002	275	-	-	-	275
2000-2001	387	-	(387)	-	-
	<u>\$ 19,738</u>	<u>\$2,469,910</u>	<u>\$ (4,115)</u>	<u>\$ 2,474,373</u>	<u>\$ 11,160</u>

Reconciliation of collections and credits to revenues:

Ad valorem taxes - Schedule 1	\$ 2,477,913
Penalties and interest	(3,540)
	<u>\$ 2,474,373</u>

TOWN OF SOUTHERN SHORES, NORTH CAROLINA
ANALYSIS OF CURRENT TAX LEVY
June 30, 2011

	<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	\$ 1,763,938,571	0.1400	\$ 2,469,514	\$ 2,427,556	\$ 41,958
Discoveries/Abatements	(2,222,143)	0.1400	(3,111)	(2,650)	(461)
Late list penalties			396	396	-
Total property valuation	<u>\$ 1,761,716,429</u>				
Net levy			<u>2,466,799</u>	<u>2,425,302</u>	<u>41,497</u>
Uncollected taxes at June 30, 2011			<u>(5,692)</u>	<u>(3,042)</u>	<u>(2,650)</u>
Current year's taxes collected			<u>\$ 2,461,107</u>	<u>\$ 2,422,260</u>	<u>\$ 38,847</u>
Current levy collection percentage			<u>99.77%</u>	<u>99.87%</u>	<u>93.61%</u>

**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 the accompanying 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, 2011, which collectively comprises the Town of Southern Shores' basic financial statements, and have issued our report thereon dated September 30, 2011. 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.

Internal Control Over Financial Reporting

Management of the Town of Southern Shores is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Town of Southern Shores', North Carolina's internal control over financial reporting as a basis for designing our auditing procedures 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', North Carolina's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

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.

Our consideration of the internal control over financial reporting 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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Southern Shores', North Carolina's basic 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*.

This report is intended solely for the information and use of management, others within the organization, Town Council, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Dowdy & Osborne, LLP

Dowdy & Osborne, LLP
Nags Head, North Carolina

September 30, 2011

Report On Compliance With Requirements Applicable To Each Major State Program And Internal Control Over Compliance In Accordance With Applicable Sections of OMB Circular A-133 and the State Single Audit Implementation Act

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

Compliance

We have audited Town of Southern Shores, North Carolina, compliance with the types of compliance requirements described in 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 its major State programs for the year ended June 30, 2011. The Town of Southern Shores' major State programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major State programs is the responsibility of the Town of Southern Shores' management. Our responsibility is to express an opinion on the Town of Southern Shores' compliance based on our audit.

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 applicable sections of OMB Circular A-133, as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Those standards, applicable sections of OMB Circular A-133, 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 State 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. Our audit does not provide a legal determination of the Town of Southern Shores' compliance with those requirements.

In our opinion, the Town of Southern Shores complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major State programs for the year ended June 30, 2011.

Internal Control Over Compliance

Management of the Town of Southern Shores is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to State programs. In planning and performing our audit, we considered the Town of Southern Shores' internal control over compliance with the requirements that could have a direct and material effect on a major State program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance with applicable sections of OMB Circular A-133 and the State Single Audit Implementation Act, 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 State program on a timely basis. A material weakness in internal control over compliance is a deficiency, or 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 State program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not be designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, others within the organization, members of Town Council, and federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Dowdy & Osborne, LLP
Certified Public Accountants

September 30, 2011

**TOWN OF SOUTHERN SHORES
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2011**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? NO
- Significant deficiencies identified that are not considered to be material weaknesses? None reported

Noncompliance material to financial statements noted? NO

Federal Awards

No major federal programs

State Awards

Internal control over major state programs:

- Material weakness(es) identified? NO
- Significant deficiencies identified that are not considered to be material weaknesses None reported

Type of auditor's report issued on compliance for major state programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with the State Single Audit Implementation Act No

Identification of major State programs:

Program Name

Powell Bill
Water Resources Development Project Grant Program

Dollar threshold used to distinguish between Type A and Type B programs \$ 300,000

Auditee qualified as low-risk auditee? NO

Section II – Financial Statement Findings

None reported

No major federal programs identified

Section IV – State Award Findings and Questioned Costs

None reported

**TOWN OF SOUTHERN SHORES
Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2011**

None reported.

**Town of Southern Shores
Schedule of Expenditures of Federal and State Awards
For the year ended June 30, 2011**

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
State Grants:					
<u>N.C. Department of Transportation</u>					
Powell Bill		32570	\$ -	\$ 322,547	\$ -
Total N.C. Department of Transportation			-	322,547	-
<u>N.C. Department of Environment and Natural Resources</u>					
<u>Division of Water Resources</u>					
Water Resources Development Project Grant Program		DENR-19	-	305,302	1,207,362
Total N.C. Department of Environment and Natural Resources			-	305,302	1,207,362
Total assistance - state programs			-	627,849	1,207,362
Total assistance			\$ -	\$ 627,849	\$ 1,207,362

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

1. Basis of Presentation

The accompanying schedule of expenditures of federal and state awards includes the federal and state grant activity of the Town of Southern Shores and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State Single Audit Implementation Act. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.