

Town of Southern Shores, North Carolina

Financial Statements

June 30, 2010

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, 2010, 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, 2010, 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 21, 2010 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. 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. Such information has 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, L.L.P.
Certified Public Accountants

September 21, 2010

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, 2010. 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 \$ 6,528,292 (*net assets*).
- The government's total net assets increased by \$ 120,937.
- As of the close of the current fiscal year, the Town of Southern Shores' governmental funds reported combined ending fund balances of \$ 4,541,761, an increase of \$ 155,425 over the prior year. Approximately 48 % of this total amount, or \$ 2,148,659, is available for spending at the government's discretion (**unreserved fund balance**).
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$ 2,106,029 or 54 % of total general fund expenditures for the fiscal year.
- The general fund budget for the year was adopted with a tax rate of \$.0975 per \$ 100 assessed valuation.

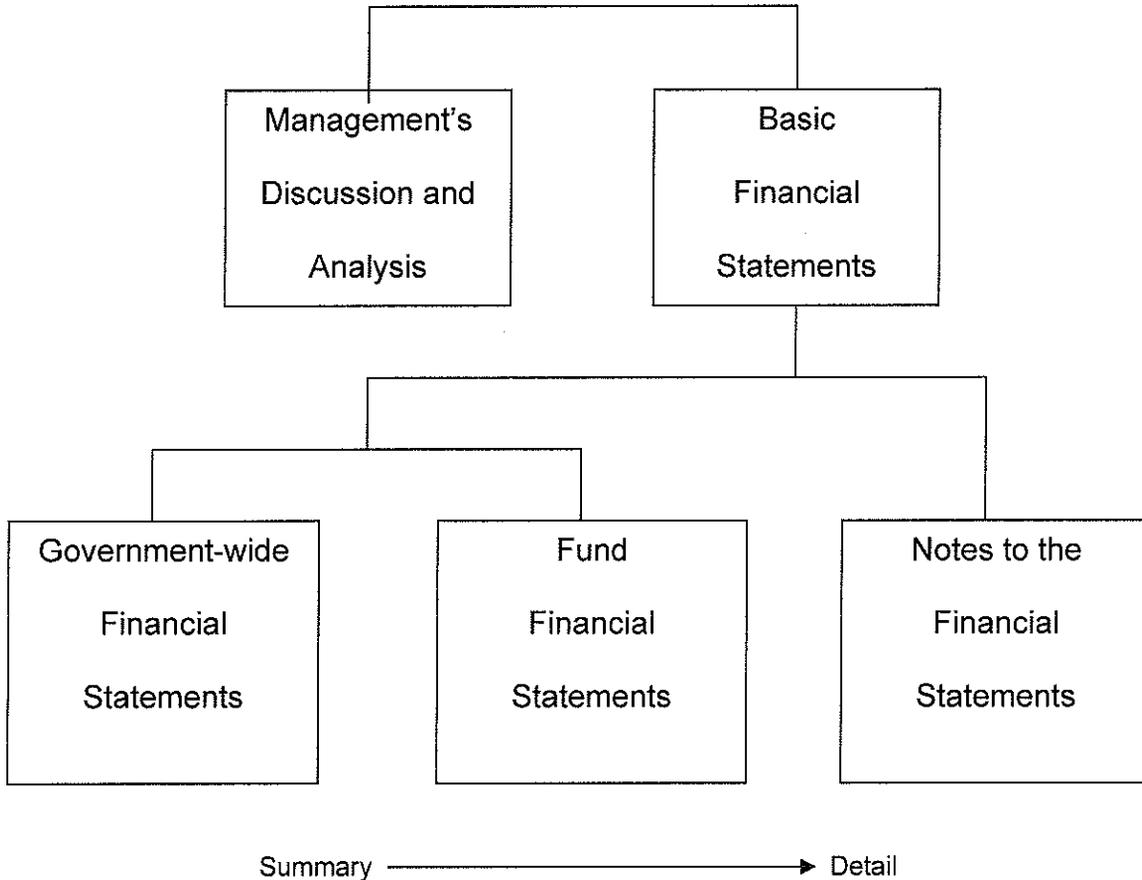
Overview of the Financial Statements

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 19-32 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 33-36 of this report.

Government-Wide Financial Analysis

The Town of Southern Shores' Net Assets

Figure 2

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Current and other assets	\$ 4,676,678	\$ 4,579,085
Capital assets	<u>2,123,228</u>	<u>2,069,946</u>
Total assets	6,799,906	6,649,031
Long-term liabilities outstanding	146,681	75,080
Other liabilities	<u>124,933</u>	<u>166,596</u>
Total liabilities	271,614	241,676
Net assets:		
Invested in capital assets, net of related debt	2,073,860	2,069,946
Restricted for Powell Bill	213,896	112,909
Unrestricted	<u>4,240,536</u>	<u>4,224,500</u>
Total net assets	<u>\$ 6,528,292</u>	<u>\$ 6,407,355</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 \$ 6,528,292 as of June 30, 2010. The town's net assets increased by \$ 120,937 for the fiscal year ended June 30, 2010. Net assets invested in capital assets (32% 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 \$ 3,914; the amount by which current year capital acquisitions exceeded current year depreciation and increase in debt related to fixed assets. 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. Another 4% or \$ 213,896 is restricted for Powell Bill and represents unused Powell Bill funds at June 30, 2010. The remaining balance of \$ 4,240,536 or 64% is unrestricted.

Management Discussion and Analysis Town of Southern Shores

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

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Revenues:		
Program Revenues:		
Charges for services	\$ 104,075	\$ 116,978
Operating grants and contributions	456,363	72,227
Capital grants and contributions	107,393	121,552
General Revenues:		
Property taxes	1,716,230	1,708,748
Other taxes	1,637,856	1,690,759
Investment earnings	17,354	83,550
Other	<u>5,601</u>	<u>19,959</u>
Total Revenues	<u>4,044,872</u>	<u>3,813,773</u>
Expenses:		
General government	997,498	962,102
Public safety	1,396,792	1,422,187
Environmental protection and transportation	<u>1,529,645</u>	<u>1,081,492</u>
Total Expenses	<u>3,923,935</u>	<u>3,465,781</u>
Increase in net assets	120,937	347,992
Net assets, July 1	<u>6,407,355</u>	<u>6,059,363</u>
Net assets, June 30	<u>\$ 6,528,292</u>	<u>\$ 6,407,355</u>

The increase in operating grants revenues and increase in environmental protection expenses were related to the canal dredging maintenance project.

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, unreserved fund balance of the General Fund was \$ 2,106,029 while total fund balance reached \$ 4,016,114. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 54 % of total General Fund expenditures.

At June 30, 2010, the governmental funds of Town of Southern Shores reported a combined fund balance of \$4,541,761, a 4 % increase over last year. Included in this change in fund balance are increases in the General Fund, Cemetery Fund and Capital Reserve 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.

Management Discussion and Analysis Town of Southern Shores

Capital Asset and Debt Administration

Capital assets. The Town of Southern Shores' investment in capital assets for its governmental activities as of June 30, 2010, totals \$ 2,123,228 (net of accumulated depreciation). These assets include buildings, land, vehicles and infrastructure.

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

- Completion of East Holly Trail cul-de-sac
- Completion of Hickory Trail
- Purchase of three police vehicles
- Installation of new HVAC system in buildings

Town of Southern Shores' Governmental Activities Capital Assets

Figure 4
(net of depreciation)

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Land	\$ 132,650	\$ 132,650
Construction in progress	-	197,825
Buildings	750,107	722,953
Equipment	10,149	-
Infrastructure	1,101,406	938,093
Vehicles	<u>128,916</u>	<u>78,425</u>
Total	\$ 2,123,228	\$ 2,069,946

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 \$ 140,704,985. The town's general obligation debt at June 30, 2010 was \$ 49,368.

Economic Factors and Next Year's Budgets and Rates

The following economic indicators affect the town.

- Tourist related revenues including occupancy and sales taxes decreased due to a decrease in the town's proportionate share of these revenues.
- New construction and remodeling have slowed which decreased building fees while land transfer taxes increased slightly due to increases in real estate sales.

Budget Highlights for the Fiscal Year Ending June 30, 2010

- The adopted budget for the June 30, 2011 reflects an increase in taxes of 4.25 cents of which 3.0 cents is allocated for capital improvements
- Funds are budgeted to lease purchase two police vehicles
- The adopted budget is based on a tax rate of 14 cents per \$ 100 of assessed valuation

Management Discussion and Analysis

Town of Southern Shores

Requests for Information

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

TOWN OF SOUTHERN SHORES, NORTH CAROLINA

Exhibit 1

STATEMENT OF NET ASSETS

June 30, 2010

	<u>Governmental Activities</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 4,389,626
Taxes receivable	19,738
Miscellaneous accounts receivable	3,803
Prepaid expenses	476
Due from governmental units	257,788
Total current assets	<u>4,671,431</u>
Capital assets:	
Land	132,650
Other capital assets, net of depreciation	1,990,578
Total capital assets	<u>2,123,228</u>
Other assets:	
Overfunded net pension obligation	<u>5,247</u>
Total assets	<u>\$ 6,799,906</u>
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 84,815
Unearned revenue	25,118
Long-term liabilities:	
Due within one year	15,000
Due in more than one year	146,681
Total liabilities	<u>271,614</u>
NET ASSETS	
Invested in capital assets, net of related debt	2,073,860
Restricted for Powell Bill	213,896
Unrestricted	4,240,536
Total net assets	<u>\$ 6,528,292</u>

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

TOWN OF SOUTHERN SHORES, NORTH CAROLINA

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2010

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 997,498	\$ 89,346	\$ 23,888	\$ -
Public safety	1,396,792	7,531	2,250	-
Environmental protection and transportation	1,529,645	7,198	430,225	107,393
	<u>3,923,935</u>	<u>104,075</u>	<u>456,363</u>	<u>107,393</u>
Total primary government	\$ 3,923,935	\$ 104,075	\$ 456,363	\$ 107,393

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

Net assets-ending

Exhibit 2

Net (Expense) Revenue and Changes in Net Assets	
Governmental Activities	Total
\$ (884,264)	\$ (884,264)
(1,387,011)	(1,387,011)
(984,829)	(984,829)
<u>(3,256,104)</u>	<u>(3,256,104)</u>
<u>\$ (3,256,104)</u>	<u>\$ (3,256,104)</u>

1,716,230	1,716,230
1,637,856	1,637,856
17,354	17,354
5,601	5,601
<u>3,377,041</u>	<u>3,377,041</u>
120,937	120,937
6,407,355	6,407,355
<u>\$ 6,528,292</u>	<u>\$ 6,528,292</u>

TOWN OF SOUTHERN SHORES, NORTH CAROLINA
BALANCE SHEET - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2010

Exhibit 3

	Major Funds		Total Non-Major Fund	Total Governmental Funds
	General	Capital Reserve		
ASSETS				
Cash and cash equivalents	\$ 3,863,979	\$ 483,017	\$ 42,630	\$ 4,389,626
Taxes receivable	19,738	-	-	19,738
Miscellaneous accounts receivable	3,803	-	-	3,803
Prepaid expenses	476	-	-	476
Due from governmental units	257,789	-	-	257,789
Total Assets	<u>4,145,785</u>	<u>483,017</u>	<u>42,630</u>	<u>4,671,432</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	84,815	-	-	84,815
Unearned revenue	25,118	-	-	25,118
Deferred revenues	19,738	-	-	19,738
Total Liabilities	<u>129,671</u>	<u>-</u>	<u>-</u>	<u>129,671</u>
Fund Balances:				
Reserved for streets - Powell Bill	213,896	-	-	213,896
Reserved by state statute	261,592	-	-	261,592
Reserved for drug enforcement	4,442	-	-	4,442
Reserved for encumbrances	1,391,416	-	-	1,391,416
Reserved for prepaid expenses	476	-	-	476
Unreserved, General Fund:				
Designated for subsequent year's expenditures	38,263	-	-	38,263
Undesignated	2,106,029	-	42,630	2,148,659
Unreserved, reported in:				
Special Revenue Fund	-	483,017	-	483,017
Total Fund Balances	<u>4,016,114</u>	<u>483,017</u>	<u>42,630</u>	<u>4,541,761</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 4,145,785</u>	<u>\$ 483,017</u>	<u>\$ 42,630</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.	2,123,228
Liabilities for earned but deferred revenues in fund statements.	19,738
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.	(161,682)
Some assets including overfunded net pension obligation, are not available for use in the current period and therefore are not reported in the net assets of the funds.	<u>5,247</u>
	<u>\$ 6,528,292</u>

TOWN OF SOUTHERN SHORES, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2010

Exhibit 4

	Major Funds		Total Non-Major Fund	Total Governmental Funds
	General	Capital Reserve		
REVENUES:				
Ad valorem taxes	\$ 1,709,741	\$ -	\$ -	\$ 1,709,741
Other taxes and licenses	1,325,856	-	-	1,325,856
Unrestricted intergovernmental revenue	312,000	-	-	312,000
Restricted intergovernmental revenue	563,756	-	-	563,756
Permits and fees	75,868	-	-	75,868
Sales and services	16,777	-	11,430	28,207
Investment earnings	15,611	1,743	-	17,354
Other revenues	5,602	-	-	5,602
TOTAL REVENUES	4,025,211	1,743	11,430	4,038,384
EXPENDITURES:				
General government	1,012,167	-	-	1,012,167
Public safety	1,456,378	-	-	1,456,378
Environmental protection and transportation	1,487,414	-	-	1,487,414
TOTAL EXPENDITURES	3,955,959	-	-	3,955,959
REVENUES OVER (UNDER) EXPENDITURES	69,252	1,743	11,430	82,425
OTHER FINANCING SOURCES (USES)				
Lease proceeds	73,000	-	-	73,000
TOTAL OTHER FINANCING SOURCES	73,000	-	-	73,000
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	142,252	1,743	11,430	155,425
FUND BALANCES:				
Beginning of year - July 1	3,873,862	481,274	31,200	4,386,336
End of year - June 30	\$ 4,016,114	\$ 483,017	\$ 42,630	\$ 4,541,761

TOWN OF SOUTHERN SHORES, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2010

Exhibit 4
(continued)

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

Net changes in fund balances - total governmental funds	155,425
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Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	53,282
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds: Change in deferred revenue for tax revenue	6,488
--	-------

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	(49,368)
--	----------

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds: Increase in compensated absences Increase in OPEB obligation Increase in net pension obligation	(10,161) (27,072) <u>(7,657)</u>
--	--

Total changes in net assets of governmental activities	<u><u>120,937</u></u>
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TOWN OF SOUTHERN SHORES, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - ANNUAL BUDGET AND ACTUAL
GENERAL FUND AND ANNUALLY BUDGETED SPECIAL REVENUE FUND
For the Year Ended June 30, 2010

	General Fund			Variance with Final Budget- Positive (Negative)
	Original	Final	Actual Amounts	
REVENUE:				
Ad valorem taxes	\$ 1,710,000	\$ 1,710,000	\$ 1,709,741	\$ (259)
Other taxes and licenses	1,125,000	1,125,000	1,325,856	200,856
Unrestricted intergovernmental revenues	304,500	304,500	312,000	7,500
Restricted intergovernmental revenues	1,929,000	936,105	563,756	(372,349)
Permits and fees	79,600	79,600	75,868	(3,732)
Sales and services	4,000	4,000	16,777	12,777
Investment earnings	50,000	50,000	15,611	(34,389)
Other revenue	7,050	7,050	5,602	(1,448)
Total Revenues	5,209,150	4,216,255	4,025,211	(191,044)
EXPENDITURES:				
General government	1,000,650	1,099,255	1,012,167	87,088
Public safety	1,391,850	1,478,850	1,456,378	22,472
Environmental protection and transportation	3,236,650	3,333,815	1,487,414	1,846,401
Total Expenditures	5,629,150	5,911,920	3,955,959	1,955,961
REVENUES OVER (UNDER) EXPENDITURES				
	(420,000)	(1,695,665)	69,252	1,764,917
OTHER FINANCING SOURCES (USES):				
Fund balance appropriated	420,000	1,622,665	-	(1,622,665)
Transfer to/from general fund	-	-	-	-
Transfer to/from capital reserve fund	-	-	-	-
Lease proceeds	-	73,000	73,000	-
Transfer to pension trust fund	-	-	-	-
	420,000	1,695,665	73,000	(1,622,665)
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES				
	\$ -	\$ -	142,252	\$ 142,252
FUND BALANCES:				
Beginning			3,873,862	
Ending			\$ 4,016,114	

Exhibit 5

<u>Capital Reserve Fund</u>			
<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget- Positive (Negative)</u>
\$ -	\$ -	\$ -	\$ -
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	1,743	1,743
-	-	-	-
<u>-</u>	<u>-</u>	<u>1,743</u>	<u>1,743</u>
-	-	-	-
-	-	-	-
<u>-</u>	<u>-</u>	<u>1,743</u>	<u>1,743</u>
-	-	-	-
-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ -</u>	<u>\$ -</u>	<u>1,743</u>	<u>\$ 1,743</u>
		<u>481,274</u>	
		<u>\$ 483,017</u>	

TOWN OF SOUTHERN SHORES, NORTH CAROLINA

Exhibit 6

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2010

	<u>Pension Trust</u>
ASSETS	
Cash and cash equivalents	<u>\$ 129,495</u>
Total Assets	<u>129,495</u>
NET ASSETS	
Held in trust for pension benefits	<u>129,495</u>
Total Net Assets	<u><u>\$ 129,495</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, 2010

	<u>Pension Trust</u>
Additions	
Employer contributions	\$ -
Interest income	348
	<hr/>
Total additions	348
	<hr/>
Deductions	
Benefits	-
Administrative expenses	-
	<hr/>
Total deductions	-
	<hr/>
Change in net assets	348
	<hr/>
Net assets - beginning of year	129,147
	<hr/>
Net assets - end of year	<u>\$ 129,495</u>

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TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2010

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.

Capital Reserve Fund. This is the fund used to accumulate funds for capital projects.

The Town reports the following non-major governmental funds:

Cemetery 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, 2010

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 2009 through February 2010 apply to the fiscal year ended June 30, 2010. 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, 2010

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. 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, 2009.

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2010

4. 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.

5. 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.

6. 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

7. 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.

8. Compensated Absences

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

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

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2010

9. Net Assets/Fund Balances

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.

In the governmental fund financial statements, reservations of fund balance represent amounts that cannot be appropriated or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

State law [G.S. 159-13(b)(16)] restricts appropriation of fund balance for the subsequent year's budget to an amount not to exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts as those amounts stand at the close of the fiscal year preceding the budget year.

The governmental fund types classify fund balances as follows:

Reserved:

Reserved for encumbrances - portion of fund balance available to pay for commitments related to purchase orders or contracts, which remain unperformed at year-end.

Reserved by State Statute - portion of fund balance, in addition to reserves for encumbrances and reserves for inventories, which is not available for appropriation under State law [G.S. 159-8(a)]. This amount is usually comprised of accounts receivable and inter-fund receivables, which have not been offset by deferred revenues.

Reserved for Streets - Powell Bill - portion of fund balance that is available for appropriation but legally segregated for street construction and maintenance expenditures. This amount represents the balance of the total unexpended Powell Bill funds.

Reserve for Drug Enforcement – portion of total fund balance that is available for appropriation that has been designated for use by the Police Department for drug enforcement.

Unreserved:

Designated for subsequent year's expenditures - portion of the total fund balance available for appropriation that has been designated for the adopted 2010-2011 budget ordinance.

Undesignated - portion of total fund balance available for appropriation that is uncommitted at year-end.

II. Stewardship, Compliance, and Accountability

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

The town entered into a construction contract and the contract was not pre-audited by the finance officer when the contract was executed in accordance with the Local Government Budget and

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2010

Fiscal Control Act. The funds were available in the budget for this contract and the contract was subsequently pre-audited.

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, 2010, the Town's deposits had a carrying amount of \$ 2,543,383 and a bank balance of \$ 4,169,369. Of the bank balance, all was covered by federal depository insurance. At June 30, 2010, the Town's petty cash fund totaled \$ 200.

2. Investments

At June 30, 2010, the Town's investments were as follows:

	<u>Fair Value</u>	<u>Maturity</u>	<u>Rating</u>
NC Capital Management Trust:			
Cash Portfolio	\$ 1,975,539	N/A	AAAm
Total Investments	<u>\$ 1,975,539</u>		

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

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2010

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, 2010.

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, 2010 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	197,825	-	197,825	-
	<u>330,475</u>	-	<u>197,825</u>	<u>132,650</u>
Capital assets being depreciated:				
Buildings	1,080,402	54,851	-	1,135,253
Equipment	-	10,683	-	10,683
Infrastructure	1,138,389	230,062	-	1,368,451
Vehicles	497,763	101,676	-	599,439
Total capital assets being depreciated	<u>2,716,554</u>	<u>397,272</u>	-	<u>3,113,826</u>
Less accumulated depreciation for:				
Buildings	357,451	27,696	-	385,147
Equipment	-	534	-	534
Infrastructure	200,295	66,748	-	267,043
Vehicles	419,337	51,187	-	470,524
Total accumulated depreciation	<u>977,083</u>	<u>\$ 146,165</u>	-	<u>1,123,248</u>
Total capital assets being depreciated (net)	<u>1,739,471</u>			<u>1,990,578</u>
Governmental activity capital assets, net	<u>\$ 2,069,946</u>			<u>\$2,123,228</u>

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

General Government	\$ 24,618
Public Safety	50,947
Environmental protection and transportation	<u>70,600</u>
	<u>\$ 146,165</u>

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

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2010

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 4.8% and 4.72%, 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, 2010, 2009, and 2008 were \$ 57,153, \$ 54,397, and \$ 49,954 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, 2009, 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	9

A separate report was not issued for the plan.

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.

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2010

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, 2008 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 7.25% 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, 2008 was 22 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	\$ 7,780
Interest on net pension obligation	(936)
Adjustment to annual required contribution	813
Annual pension cost	7,657
Employer contributions made for fiscal year ended 6/30/10	0
Increase in net pension obligation	7,657
Net pension obligation beginning of fiscal year	(12,904)
Net pension obligation end of fiscal year (See note)	\$ (5,247)

Note: This overfunded net pension obligation is reported as an "other asset" in the government-wide statement of net assets.

3-Year Trend Information

For Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2008	7,085	211.71%	(1,382)
2009	6,478	277.86%	(12,904)
2010	7,657	0.00%	(5,247)

4. Funded Status and Funding Progress.

As of December 31, 2009, the most recent actuarial valuation date, the plan was 71.75% funded. The actuarial accrued liability for benefits was \$ 180,484, and the actuarial value of assets was \$ 129,495, resulting in an unfunded actuarial accrued liability (UAAL) of \$ 50,989. The covered payroll (annual payroll of active employees covered by the plan) was \$ 566,155 and the ratio of the UAAL to the covered payroll was 9.01%.

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

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2010

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, 2010, were \$33,577, which consisted of \$ 27,937 from the Town and \$ 5,640 from law enforcement officers.

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

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

Funding Policy. Beginning July 1, 2002 the Town began making a contribution of five percent for non-law enforcement officers and all amounts contributed are vested immediately. These employees may make voluntary contributions to the plan. Contributions for the year ended June 30, 2009, were \$ 40,712, which consisted of \$ 32,062 from the Town and \$ 8,650 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 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:

	<u>General Employees</u>	<u>Law Enforcement Employees</u>
Retirees and dependents receiving benefits	2	0
Terminated plan members entitled to but not yet receiving benefits	0	0
Active plan members	<u>12</u>	<u>9</u>
Total	<u>14</u>	<u>9</u>

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2010

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 6/30/10	<u>(11,127)</u>
Increase in net OPEB obligation	27,072
Net OPEB obligation beginning of fiscal year	-
Net OPEB obligation end of fiscal year	<u>\$ 27,072</u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2010 were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost (AOC)</u>	<u>Percentage of AOC Contributed</u>	<u>Net OPEB Obligation</u>
6/30/10	\$ 38,199	29.13%	\$ 27,072

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

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2010

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 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, 2010, the Town made contributions to the State for death benefits of \$1,359. 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	\$ 19,738	-
Prepaid Taxes	-	\$ 1,007
Prepaid Grant	-	\$ 24,111
Total	\$ 19,738	\$ 25,118

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2010

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 \$ 186,800 for the building and \$ 95,000 for contents.

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

5. 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. Annual debt service payments on the installment purchase at June 30, 2010 are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ -	\$ -
2012	24,328	1,451
2013	<u>25,040</u>	<u>738</u>
Totals	\$ 49,368	2,189

b. Changes in Long-Term Liabilities

	<u>Balance</u> <u>July 1, 2009</u>	<u>Increase</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2010</u>	<u>Current Portion</u> <u>of Balance</u>
Governmental activities:					
Compensated absences	\$ 75,080	\$ 10,161	\$ -	\$ 85,241	\$ 15,000
Lease	-	73,000	23,632	49,368	-
OPEB Obligation	-	38,199	11,127	27,072	-
Governmental Activity Long-Term Liabilities	<u>\$ 75,080</u>	<u>\$ 121,360</u>	<u>\$ 34,759</u>	<u>\$ 161,681</u>	<u>\$ 15,000</u>

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2010

V. 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.

VI. Commitments

The Town was committed under various open purchases orders and contracts as of June 30, 2010. Those amounts which relate to the General Fund totaling \$ 1,391,416 are included in the re-appropriation of fund balance in the subsequent year and are reported in the fund balance section of the Combined Balance Sheet (Exhibit 3) as reserved for encumbrances. This amount is primarily for canal dredging maintenance.

The Town was also a party to the following contracts at June 30, 2010:

Contract with Southern Shores Volunteer Fire Department

The Town has a contract with the Southern Shores Volunteer Fire Department to pay at least \$ 300,000 for fire-fighting services in the June 30, 2011 fiscal year.

Contract with Sandski, LLC for Ocean Rescue Services

The Town has a contract with Sandski, LLC to pay at least \$ 144,134 for ocean rescue services in the June 30, 2011 fiscal year.

Contract with Atlantic Tree Experts

The Town has a contract with Atlantic Tree Experts to pay at least \$ 92,000 plus applicable fuel charge in the June 30, 2011 fiscal year.

Contract with Tidewater Fibre Corporation

The Town has a contract with Tidewater Fibre Corporation for curbside recycling with varying rates for in-season and off-season collection. Total cost to the Town for the June 30, 2011 fiscal year is estimated to be approximately \$ 100,000.

VII. Related Party Transactions

State statute prohibits transactions between a municipality and its elected officials. The statute excludes any municipality with a population of less than 15,000, but limits the dollar value of all transactions within a twelve-month period to \$ 25,000 per elected official. In compliance with the restrictions of this statute, the following is a listing of all elected officials who transacted business with the Town. During the fiscal year ended June 30, 2010, the aggregate dollar value of such transactions is as follows:

Brian McDonald (Outer Banks Heating & Cooling)	\$ 622
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VIII. 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.

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 Liability (AAL)		Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll c	UAAL as a % of Covered Payroll ((b-a)/c)
		-Projected Unit Credit (b)					
12/31/00	-	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%

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%

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 closed
Remaining amortization period	21
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return*	5.00%
Projected salary increases*	4.5-12.3%
*Includes inflation at	3.75%
Cost of living adjustments	N/A

TOWN OF SOUTHERN SHORES, NORTH CAROLINA

Other Postemployment Benefits

Required Supplementary Information

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued	Unfunded	Funded Ratio (a/b)	Covered Payroll c	UAAL as a
		Liability (AAL) -Projected Unit Credit (b)	AAL (UAAL) (b-a)			% of Covered Payroll ((b-a)/c)
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	19.17%

Notes to the Required Schedules:

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

Valuation date	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, 2010
 With Comparative Actual Amounts for the Year Ended June 30, 2009

	2010		Variance Favorable (Unfavorable)	2009
	Budget	Actual		Actual
<u>REVENUES</u>				
<u>AD VALOREM TAXES:</u>				
Current year	\$ 1,700,000	\$ 1,702,879	2,879	\$ 1,700,311
Prior year	8,000	4,789	(3,211)	7,843
Penalties and interest	2,000	2,073	73	2,253
	<u>1,710,000</u>	<u>1,709,741</u>	<u>(259)</u>	<u>1,710,407</u>
<u>OTHER TAXES AND LICENSES:</u>				
Local option sales tax	475,000	522,137	47,137	551,497
Occupancy tax	550,000	658,327	108,327	682,957
Land transfer tax	100,000	145,392	45,392	135,201
	<u>1,125,000</u>	<u>1,325,856</u>	<u>200,856</u>	<u>1,369,655</u>
<u>UNRESTRICTED INTERGOVERNMENTAL REVENUES:</u>				
ABC Revenue	54,000	39,411	(14,589)	51,437
Utilities franchise/telecommunications tax	138,000	172,297	34,297	162,087
Video programming tax	80,000	75,224	(4,776)	76,785
Peg Channel Revenue	20,000	19,173	(827)	19,100
Solid waste disposal tax	-	2,210	2,210	-
Beer and wine tax	12,500	3,685	(8,815)	11,695
	<u>304,500</u>	<u>312,000</u>	<u>7,500</u>	<u>321,104</u>
<u>RESTRICTED INTERGOVERNMENTAL REVENUES:</u>				
Powell Bill allocation	109,000	107,393	(1,607)	121,552
Grant - NCDENR-canal dredging grant	800,000	430,225	(369,775)	28,801
Grant - Land Use Plan Update	-	-	-	8,225
Controlled substance tax	-	2,250	2,250	-
Grant - GHSP	-	-	-	6,065
Contribution from Dare Cty - Sand Fencing	27,105	23,888	(3,217)	29,136
	<u>936,105</u>	<u>563,756</u>	<u>(372,349)</u>	<u>193,779</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, 2010

With Comparative Actual Amounts for the Year Ended June 30, 2009

	2010		Variance Favorable (Unfavorable)	2009
	Budget	Actual		Actual
<u>PERMITS AND FEES:</u>				
Building permits and plan review	65,000	66,842	1,842	75,148
CAMA permits	2,000	1,025	(975)	2,440
Re-Inspection fees	2,500	375	(2,125)	3,347
Planning fees	500	95	(405)	500
Encroachment agreement	500	-	(500)	400
Parking fines	7,500	6,550	(950)	8,270
Court costs and fees	1,600	981	(619)	1,620
	<u>79,600</u>	<u>75,868</u>	<u>(3,732)</u>	<u>91,725</u>
<u>SALES AND SERVICES:</u>				
Cable franchise fees	-	9,579	9,579	10,275
Garbage carts	4,000	7,198	3,198	6,988
	<u>4,000</u>	<u>16,777</u>	<u>12,777</u>	<u>17,263</u>
<u>INVESTMENT EARNINGS</u>				
	<u>50,000</u>	<u>15,611</u>	<u>(34,389)</u>	<u>74,842</u>
<u>OTHER REVENUES:</u>				
Rents	2,400	2,400	-	2,100
Insurance claims	-	614	614	10,998
Miscellaneous	4,650	2,588	(2,062)	6,862
	<u>7,050</u>	<u>5,602</u>	<u>(1,448)</u>	<u>19,960</u>
<u>TOTAL REVENUES</u>	<u>\$ 4,216,255</u>	<u>\$ 4,025,211</u>	<u>\$ (191,044)</u>	<u>\$ 3,798,734</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, 2010
 With Comparative Actual Amounts for the Year Ended June 30, 2009

	2010		Variance Favorable (Unfavorable)	2009
	Budget	Actual		Actual
<u>EXPENDITURES</u>				
<u>GENERAL GOVERNMENT:</u>				
Administration:				
Salaries	-	306,228	-	316,441
Council compensation	-	12,415	-	15,000
Payroll taxes	-	22,736	-	23,880
Retirement	-	30,294	-	31,233
Health insurance	-	40,441	-	39,846
Training	-	5,363	-	3,436
Printing	-	-	-	379
Utilities	-	15,730	-	15,178
Travel	-	3,113	-	8,848
Legal service	-	70,279	-	88,732
Audit services	-	16,250	-	16,250
Payroll services	-	6,030	-	5,259
Equipment lease and maintance	-	11,564	-	14,908
Telephone	-	15,559	-	16,044
Postage	-	1,484	-	2,641
Supplies	-	6,618	-	5,134
Municipal elections	-	3,813	-	-
Advertising	-	950	-	1,039
Dues and subscriptions	-	7,360	-	1,677
Insurance and bonds	-	57,411	-	58,797
Contracted services	-	33,520	-	11,866
Newsletter	-	-	-	1,283
Computer service	-	51,015	-	14,059
Town code update	-	400	-	6,282
Dare County tax collection fees	-	25,649	-	25,695
Government access channel	-	1,000	-	1,000
Equipment purchases	-	-	-	685
Government Access Channel	-	19,173	-	42,338
Vehicle operations	-	-	-	136
Employee recognition and appreciation	-	2,713	-	-
Wellness initiative	-	805	-	-
Community pride supplies	-	-	-	9,114
	820,100	767,913	52,187	777,179
Planning and Inspections:				
Salaries	-	163,680	-	142,817
Payroll taxes	-	12,342	-	10,757
Retirement	-	15,370	-	10,995
Health insurance	-	17,098	-	13,159
Training	-	358	-	2,262
Printing	-	703	-	2,371
Travel	-	1,378	-	1,347
Supplies	-	933	-	408
Advertising	-	653	-	493
Dues and subscriptions	-	1,291	-	2,822
Vehicles maintenance	-	2,101	-	199
Vehicles operations	-	1,823	-	1,073
Uniforms	-	-	-	28
Homeowner recovery fund	-	54	-	144

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, 2010

With Comparative Actual Amounts for the Year Ended June 30, 2009

	2010		Variance Favorable (Unfavorable)	2009
	Budget	Actual		Actual
Flood zone map mailing	-	1,360	-	-
Medical testing	-	72	-	-
Land use plan update	-	-	-	958
Sand Fencing & Grass Planting	-	25,038	-	29,136
	<u>279,155</u>	<u>244,254</u>	<u>34,901</u>	<u>218,968</u>
TOTAL GENERAL GOVERNMENT	<u>1,099,255</u>	<u>1,012,167</u>	<u>87,088</u>	<u>996,147</u>
<u>PUBLIC SAFETY:</u>				
Police:				
Salaries	-	618,338	-	600,747
Payroll taxes	-	46,055	-	44,920
Retirement	-	60,409	-	58,115
Health insurance	-	64,518	-	62,939
Training	-	4,033	-	6,972
Printing	-	248	-	76
Travel	-	7,756	-	5,199
Postage	-	-	-	25
Supplies	-	10,744	-	16,546
Dues and subscriptions	-	806	-	653
Contracted services	-	217	-	218
Vehicle maintenance	-	22,011	-	26,194
Vehicle operations	-	19,361	-	24,068
Uniforms	-	8,343	-	9,014
Medical testing	-	150	-	556
Debt service	-	26,748	-	-
Capital outlay	-	135,741	-	42,476
	<u>1,047,850</u>	<u>1,025,478</u>	<u>22,372</u>	<u>898,716</u>
Fire:				
Contracted services	<u>300,000</u>	<u>300,000</u>	-	<u>311,650</u>
	<u>300,000</u>	<u>300,000</u>	-	<u>311,650</u>
Ocean Rescue:				
Contracted services	<u>131,000</u>	<u>130,900</u>	-	<u>127,988</u>
	<u>131,000</u>	<u>130,900</u>	<u>100</u>	<u>127,988</u>
TOTAL PUBLIC SAFETY	<u>1,478,850</u>	<u>1,456,378</u>	<u>22,472</u>	<u>1,338,354</u>
<u>ENVIRONMENTAL PROTECTION AND TRANSPORTATION:</u>				
Public Works:				
Salaries	-	132,483	-	125,048
Payroll taxes	-	10,043	-	9,566
Retirement	-	12,439	-	12,342
Health insurance	-	19,254	-	18,899
Training	-	250	-	190
Travel	-	125	-	291
Equipment lease and maintenance	-	3,568	-	2,435
Supplies	-	12,994	-	8,509
Advertising	-	203	-	46
Vehicles maintenance	-	4,292	-	3,727
Vehicles operations	-	6,081	-	6,737
Uniforms	-	1,922	-	1,229

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, 2010

With Comparative Actual Amounts for the Year Ended June 30, 2009

	2010		Variance Favorable (Unfavorable)	2009
	Budget	Actual		Actual
Street sign maintenance	-	1,235	-	2,730
Engineering services	-	7,749	-	4,916
Street maintenance	-	6,985	-	3,280
Beautification	-	3,000	-	2,896
Brush trimming	-	15,975	-	1,710
Town buildings maintenance and repairs	-	108,181	-	23,957
Inmates	-	-	-	144
Medical testing	-	85	-	-
Safety compliance	-	2,384	-	1,399
Chipping	-	94,344	-	103,033
Miscellaneous projects	-	3,267	-	36,906
Bridge maintenance	-	35	-	319
East Holly Street project	-	-	-	1,080
Waterway maintenance and repair	-	692	-	-
Cemetery Road	-	-	-	9,065
East Holly Trail Cul-De-Sac	-	993	-	37,421
Hickory Trail	-	15,631	-	160,403
Chicahawk Trail road design	-	394	-	20,808
Grey Squirrel Lane	-	453	-	2,635
Poteskeet Trail road design	-	94	-	14,223
Soundview Trail resurfacing	-	-	-	10,424
Kingfisher resurfacing	-	-	-	8,519
Juniper Trail multi use path	-	-	-	9,911
Poteskeet Trail road design	-	584	-	-
S. Dogwood/Tall Pine Bridge	-	14,268	-	-
Canal dredging project	-	537,963	-	97,112
Capital outlay	-	18,718	-	2,438
	<u>2,831,815</u>	<u>1,036,684</u>	<u>1,795,131</u>	<u>744,348</u>
Solid Waste:				
Residential collection	-	169,358	-	161,188
Commercial collection	-	31,286	-	29,254
Recycling collection	-	116,861	-	125,624
Tipping fees	-	133,225	-	144,651
Large Item Pickup	-	-	-	4,000
	<u>502,000</u>	<u>450,730</u>	<u>51,270</u>	<u>464,718</u>
TOTAL ENVIRONMENTAL PROTECTION AND TRANSPORTATION	<u>3,333,815</u>	<u>1,487,414</u>	<u>1,846,401</u>	<u>1,209,066</u>
TOTAL EXPENDITURES	5,911,920	3,955,959	1,955,961	3,543,568
REVENUES OVER (UNDER) EXPENDITURES	(1,695,665)	69,252	1,764,917	255,166
OTHER FINANCING SOURCES (USES):				
Fund balance appropriated	1,622,665	-	1,622,665	-
Transfer from/to capital reserve fund	-	-	-	(30,766)
Lease proceeds	73,000	73,000	-	-
Transfer to pension trust fund	-	-	-	(18,000)
	<u>1,695,665</u>	<u>73,000</u>	<u>(1,622,665)</u>	<u>(48,766)</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER USES	<u>\$ -</u>	<u>142,252</u>	<u>142,252</u>	<u>206,400</u>
FUND BALANCE:	<u>\$ -</u>	<u>142,252</u>	<u>142,252</u>	<u>206,400</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, 2010
With Comparative Actual Amounts for the Year Ended June 30, 2009

	2010		Variance Favorable (Unfavorable)	2009
	Budget	Actual		Actual
Beginning of year, July 1		3,873,862		3,667,462
End of year, June 30		<u>\$ 4,016,114</u>		<u>\$ 3,873,862</u>

TOWN OF SOUTHERN SHORES, NORTH CAROLINA

CEMETERY FUND

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

For the Year Ended June 30, 2010

With Comparative Actual Amounts for the Year Ended June 30, 2009

	2010		Variance Favorable (Unfavorable)	2009
	Budget	Actual		Actual
<u>REVENUES:</u>				
Cemetery revenues		\$ 11,430	\$ 11,430	\$ 7,990
<u>EXPENDITURES:</u>				
Cemetery operations	-	-	-	-
<u>REVENUES OVER EXPENDITURES</u>	-	11,430	11,430	7,990
<u>OTHER FINANCING SOURCES (USES):</u>				
Fund balance appropriated	-	-	-	-
<u>EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES</u>	\$ -	11,430	\$ 11,430	7,990
<u>FUND BALANCE:</u>				
Beginning of year, July 1		31,200		23,210
End of year, June 30		\$ 42,630		\$ 31,200

TOWN OF SOUTHERN SHORES, NORTH CAROLINA
SCHEDULE OF AD VALOREM TAXES RECEIVABLE
June 30, 2010

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2009</u>	<u>Additions</u>	<u>Releases/ Adjustments</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2010</u>
2009-2010	\$ -	\$1,717,152	\$ (2,057)	\$ 1,702,879	12,216
2008-2009	8,249	-	(185)	4,818	3,246
2007-2008	1,628	-	(57)	-	1,571
2006-2007	323	-	(40)	(33)	316
2005-2006	396	-	(33)	2	361
2004-2005	456	-	-	2	454
2003-2004	453	-	-	-	453
2002-2003	459	-	-	-	459
2001-2002	275	-	-	-	275
2000-2001	387	-	-	-	387
1999-2000	624	-	(624)	-	-
	<u>\$ 13,250</u>	<u>\$1,717,152</u>	<u>\$ (2,996)</u>	<u>\$ 1,707,668</u>	<u>\$ 19,738</u>

Reconciliation of collections and credits to revenues:

Ad valorem taxes - Schedule 1	\$ 1,709,741
Penalties and interest	(2,073)
	<u>\$ 1,707,668</u>

TOWN OF SOUTHERN SHORES, NORTH CAROLINA
ANALYSIS OF CURRENT TAX LEVY
June 30, 2010

	<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	\$ 1,760,914,872	0.0975	\$ 1,716,892	\$ 1,685,236	\$ 31,656
Discoveries/Abatements	(2,102,564)	0.0975	(2,050)	(1,702)	(348)
Late list penalties			253	253	-
Total property valuation	<u>\$ 1,758,812,308</u>				
Net levy			<u>1,715,095</u>	<u>1,683,787</u>	<u>31,308</u>
Uncollected taxes at June 30, 2010			<u>(12,216)</u>	<u>(10,283)</u>	<u>(1,933)</u>
Current year's taxes collected			<u>\$ 1,702,879</u>	<u>\$ 1,673,504</u>	<u>\$ 29,375</u>
Current levy collection percentage			<u>99.29%</u>	<u>99.39%</u>	<u>93.83%</u>

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**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, 2010, which collectively comprises the Town of Southern Shores' financial statements, and have issued our report thereon dated September 21, 2010. 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

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.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Town of Southern Shores', North Carolina's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that misstatement of the Town of Southern Shores', North Carolina's financial statements that is more than inconsequential will not be prevented or detected by the Town of Southern Shores', North Carolina's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Town of Southern Shores', North Carolina's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 the audit committee, 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, L.L.P.
Nags Head, North Carolina

September 21, 2010