

Town of Southern Shores
North Carolina

Financial Statements

June 30, 2020

Tom Bennett, Mayor
Elizabeth Morey, Mayor Pro-Tem
Jim Conners, Council Member
Leo Holland, Council Member
Matt Neal, Council Member

Cliff Ogburn, Town Manager
Bonnie Swain, Finance Officer
Ben Gallop, Town Attorney

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Dowdy & Osborne LLP

CERTIFIED PUBLIC ACCOUNTANTS

Jeff Dowdy, CPA • Teresa Osborne, CPA

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Southern Shores, North Carolina, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Southern Shores, North Carolina as of June 30, 2020, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3-9, the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Asset and Contributions, on pages 39-40, the Law Enforcement Officers' Special Separation Allowance Schedules of the Changes in Total Pension Liability and Total Pension Liability as a Percentage of Covered Payroll on pages 41-42, and the Schedule of Changes in the Total OPEB Liability and Related Ratios on page 43, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Town of Southern Shores, North Carolina. The individual fund statements, budgetary schedules, other schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The individual fund statements, budgetary schedules and other schedules, are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us. In our opinion, based on our audit, the procedures performed as described above, the individual fund statements, budgetary schedules and other schedules, are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2020, on our consideration of the Town of Southern Shores' internal control over financial reporting and on our tests of its compliance with certain laws, regulations, contracts, and grant agreements, and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Southern Shores' internal control over financial reporting and compliance.

Dowdy & Osborne, LLP

Dowdy & Osborne, LLP
Certified Public Accountants

Nags Head, North Carolina

September 22, 2020

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, 2020. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town of Southern Shores' financial statements, which follow this narrative.

Financial Highlights

- The assets and deferred outflows of resources of the Town of Southern Shores exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$ 15,939,976 (*net position*).
- The government's total net position increased by \$ 302,589, due to a combination of factors including revenues over expenses in the governmental funds of \$ 663,695 adjusted by several factors to convert to the full accrual basis of accounting. These adjustments include capitalization of assets (net of depreciation and disposals) in the current year amount of \$ (192,999) full accrual revenue adjustments of (\$ 57,052) and long-term debt adjustments of (\$ 209,243).
- As of the close of the current fiscal year, the Town of Southern Shores' governmental funds reported combined ending fund balances of \$ 7,210,701, an increase of \$ 663,695 over the prior year. Approximately 17% of this total amount or \$ 1,215,155 is non-spendable, restricted, committed or assigned.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$ 5,995,546 or 97% of total general fund expenditures for the fiscal year.
- Total property valuation increased \$ 9,709,650 (0.71%) from \$ 1,374,336,818 in fiscal year 2019 to \$ 1,384,046,468 in fiscal year 2020.
- The general fund budget for the year was adopted with a tax rate of 22 cents per \$ 100 of assessed valuation which represents the same tax rate as the prior year.

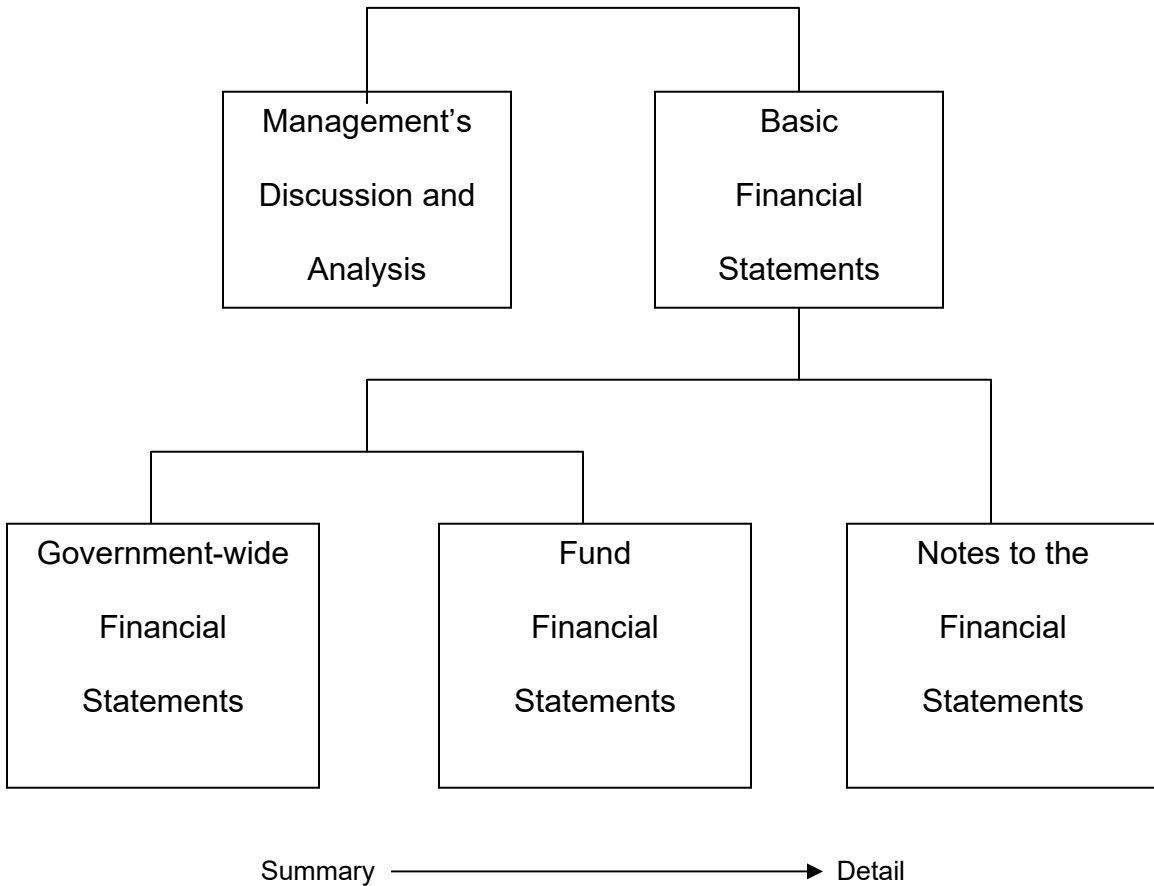
Overview of the Financial Statements

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

Management Discussion and Analysis Town of Southern Shores

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

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

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

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

Management Discussion and Analysis

Town of Southern Shores

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The Town of Southern Shores adopts an annual budget for its General Fund and Capital Reserve Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the town, the management of the town, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the town to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the town complied with the budget ordinance, and whether or not the town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the board; 2) the final budget as amended by the board; 3) the actual resources, charges to 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 17-38 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 39-43 of this report.

Government-Wide Financial Analysis

The Town of Southern Shores' Net Position

Figure 2

	<u>June 30, 2020</u>	<u>June 30, 2019</u>
Current and other assets	\$ 7,600,376	\$ 6,829,178
Capital assets	11,212,192	11,050,530
Deferred outflows of resources	<u>539,778</u>	<u>613,565</u>
Total assets and deferred outflows of resources	19,352,346	18,493,273
Long-term liabilities outstanding	2,549,011	2,469,778
Other liabilities	330,579	172,361
Deferred inflows of resources	<u>244,970</u>	<u>213,747</u>
	3,124,560	2,855,886
Net position:		
Net investment in capital assets	11,212,192	11,050,530
Restricted for Public Safety	9,492	9,459
Restricted for Capital Reserve Fund	187,393	164,114
Restricted for Stabilization by State Statute	692,112	573,663
Unrestricted	<u>4,126,597</u>	<u>3,839,621</u>
Total net position	<u>\$ 16,227,786</u>	<u>\$ 15,637,387</u>

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of the Town of Southern Shores exceeded liabilities and deferred inflows by \$ 16,227,786 as of June 30, 2020. The town's net position increased by \$ 590,399 for the fiscal year ended June 30, 2020. Net investment in capital assets (69% of total net position) reflects the town's investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt still outstanding that was issued to acquire those items. This amount increased by \$ 161,662; the amount by which current year acquisitions and disposals exceeded current year depreciation. The Town of Southern Shores uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Southern Shores' net investment in capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An

Management Discussion and Analysis

Town of Southern Shores

additional portion of the Town's net position, \$ 888,997 represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$ 4,126,597 is unrestricted.

Town of Southern Shores Changes in Net Position
Figure 3

	<u>June 30, 2020</u>	<u>June 30, 2019</u>
Revenues:		
Program Revenues:		
Charges for services	\$ 140,181	\$ 142,934
Operating grants and contributions	548,746	30,922
Capital grants and contributions	378,500	204,826
General Revenues:		
Property taxes	3,048,334	3,027,315
Other taxes	2,578,734	2,661,547
Investment earnings	83,634	131,941
Other	<u>25,068</u>	<u>111,517</u>
Total Revenues	<u>6,803,197</u>	<u>6,311,002</u>
Expenses:		
General government	1,190,935	1,331,287
Public safety	2,403,818	2,383,111
Public works and transportation	1,898,085	1,382,831
Environmental protection	<u>719,960</u>	<u>685,046</u>
Total Expenses	<u>6,212,798</u>	<u>5,782,275</u>
Increase in net position	590,399	528,727
Net position, July 1	<u>15,637,387</u>	<u>15,108,660</u>
Net position, June 30	<u>\$16,227,786</u>	<u>\$15,637,387</u>

Operating grants and contributions increased \$ 517,824 due primarily to FEMA reimbursements received to offset expenditures related to storm cleanup from Hurricane Dorian. Capital grants and contributions increased \$ 173,674 due to the Dare County Tourist Bureau grant of \$ 260,993 received in the current year for the South Dogwood bike path compared to \$ 86,938 received in prior year for East Dogwood bike path. Investment earnings decreased due to lower investment earning rates. Other revenues decreased \$ 86,449 due to \$ 51,720 reimbursed for damage to Juniper Trail in prior year and reduction of \$ 13,465 for sale of fixed assets.

General government expenses decreased \$ 140,352 primarily due to decreased legal fees of \$ 40,022 and decreased salaries and benefits in the administration department of \$ 122,408 due to position vacancies.

Public safety expenses decreased \$ 20,707 due primarily to decreases in the fire department for the amount reimbursed for architectural costs on the new fire station.

Public works and transportation expenses increased \$ 515,2544 primarily due to storm debris cleanup associated with Hurricane Dorian.

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.

Management Discussion and Analysis

Town of Southern Shores

The general fund is the chief operating fund of the Town of Southern Shores. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$ 5,995,546 while total fund balance reached \$ 7,149,603. The Town Council has adopted a fund balance policy which endeavors to establish, maintain and grow the Town's unreserved fund balance but in no circumstances shall it be allowed to decrease to an amount less than \$ 1,750,000 unless it is needed for an unforeseen emergency. The unassigned fund balance is \$ 4,245,546 more than the required minimum of \$ 1,750,000. The unassigned fund balance represents 97% of the current fiscal year general fund expenses.

At June 30, 2020, the governmental funds of Town of Southern Shores reported a combined fund balance of \$ 7,210,701 a 10 % (\$ 663,695) increase over last year. Unassigned fund balance increased \$ 1,822,225 due primarily to revenues exceeding budget estimates and expenses less than budgeted. The Town received an unbudgeted grant from the Dare County Tourist Bureau for the South Dogwood bike path and the costs for this project came in less than anticipated. Although the Town budgeted to use \$ 1,426,014 of fund balance it ended up not using any,

General Fund Budgetary Highlights: During the fiscal year, the town revised the budget on several occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services. The primary changes to the adopted budget were increases of \$ 29,017 to carry over outstanding commitments from the June 30, 2019 fiscal year and \$ 475,000 from FEMA reimbursements for storm damage from Hurricane Dorian.

Capital Asset and Debt Administration

Capital assets. The Town of Southern Shores' investment in capital assets for its governmental activities as of June 30, 2020, totals \$ 11,212,192 (net of accumulated depreciation). These assets include buildings, land, vehicles and infrastructure.

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

- Construction of S Dogwood bike path \$ 682,214 (offset by Grant from Dare County Tourist Bureau of \$ 260,993)
- Paving of E Dogwood Trail \$ 287,810
- Purchase of (3) police vehicles \$ 126,647
- Engineering for paving Hillcrest, Sea Oats and Dewberry Lane

Town of Southern Shores' Governmental Activities Capital Assets

Figure 4

(net of depreciation)

	<u>June 30, 2020</u>	<u>June 30, 2019</u>
Land	\$ 467,905	467,905
Buildings	603,706	637,958
Equipment	101,094	129,083
Infrastructure	9,711,694	9,516,49
Vehicles	280,389	290,523
Construction in progress	<u>47,404</u>	<u>8,569</u>
Total	<u>\$ 11,212,192</u>	<u>\$ 11,050,530</u>

Management Discussion and Analysis Town of Southern Shores

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

Long-Term Debt. The Town's long-term debt consist of pension liabilities, OPEB obligations and vacation outlined in the long-term debt schedule on page 37 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 \$ 110,723,717.

Economic Factors and Next Year's Budgets and Rates

The following economic indicators affect the town.

- Overall land transfer tax collections increased slightly by 0.47% indicating a small increase in real estate sales. The Town's portion of land transfer tax was relatively unchanged due to a combination of overall growth combined with a decrease due to the changes in the proportionate tax levies among the other local governments in Dare County.
- Travel and tourism in Dare County was impacted by the COVID-19 pandemic resulting in a decrease in gross occupancy tax collections of 4.82%. The Town's portion of occupancy tax decreased \$ 65,124 or 6.5% due to a combination of overall reduction in revenues received combined with a decrease due to the changes in the proportionate tax levies among the other local governments in Dare County.

Budget Highlights for the Fiscal Year Ending June 30, 2021

- Dare County underwent a property revaluation in 2020 (the last one was done in 2013). The adopted budget includes a tax rate of 19.58 cents per \$ 100 of assessed valuation which represents the estimated revenue neutral tax rate based on the increased valuations.
- The adopted 2020-21 budget was amended to include \$ 104,750 in funding for street projects and seasonal traffic control.
- The adopted 2020-21 budget was amended to include \$ 437,676 for beach nourishment design and permitting. The Town's beach nourishment project is currently planned for the Spring/Summer 2020.
- Funding is included to increase the Building Inspector position mid-year from part-time to full-time.

Requests for Information

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

TOWN OF SOUTHERN SHORES, NORTH CAROLINA

Exhibit 1

STATEMENT OF NET POSITION

June 30, 2020

	<u>Governmental Activities</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 6,683,900
Taxes receivable	11,459
Special assessment receivable	60,000
Prepaid expenses	20,129
Due from governmental units	628,004
Restricted cash and cash equivalents	<u>196,884</u>
Total current assets	7,600,376
Non-current assets:	
Capital assets:	
Land	467,905
Construction in progress	47,404
Other capital assets, net of depreciation	<u>10,696,883</u>
Total capital assets	<u>11,212,192</u>
 Total assets	 <u>18,812,568</u>
 DEFERRED OUTFLOWS OF RESOURCES	
Pension deferrals	512,240
OPEB deferrals	<u>27,538</u>
Total deferred outflows of resources	<u>539,778</u>
 LIABILITIES	
Current liabilities:	
Accounts payable	226,787
Salaries and benefits payable	78,792
Current portion of vacation payable	<u>25,000</u>
Total current liabilities	330,579
Long-term liabilities:	
Net pension liability - LGERS	664,706
Total pension liability - LEOSA	550,207
Total OPEB liability	1,267,601
Long-term portion of vacation payable	<u>66,497</u>
Total liabilities	<u>2,879,590</u>
 DEFERRED INFLOWS OF RESOURCES	
Prepaid grant	12,637
Pension deferrals	40,656
OPEB deferrals	<u>191,677</u>
Total deferred inflows of resources	<u>244,970</u>
 NET POSITION	
Net investment in capital assets	11,212,192
Restricted for Stabilization by State Statute	692,112
Restricted for Public Safety	9,492
Restricted for Capital Reserve Fund	187,393
Unrestricted	<u>4,126,597</u>
Total net position	<u>\$ 16,227,786</u>

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

TOWN OF SOUTHERN SHORES, NORTH CAROLINA

Exhibit 2

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2020

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Total
Primary government:						
Governmental activities:						
General Government	\$ 1,190,935	\$ 134,958	\$ 9,354	\$ -	\$ (1,046,623)	\$ (1,046,623)
Public Safety	2,403,818	5,223	32	-	(2,398,563)	(2,398,563)
Public Works/Transportation	1,898,085	-	539,360	378,500	(980,225)	(980,225)
Environmental Protection	719,960	-	-	-	(719,960)	(719,960)
	<u>6,212,798</u>	<u>140,181</u>	<u>548,746</u>	<u>378,500</u>	<u>(5,145,371)</u>	<u>(5,145,371)</u>
Total primary government	\$ 6,212,798	\$ 140,181	\$ 548,746	\$ 378,500	\$ (5,145,371)	\$ (5,145,371)

General revenues:

Taxes:

Property taxes, levied for general purpose	3,048,334	3,048,334
Other taxes	2,578,734	2,578,734
Investment earnings, unrestricted	83,634	83,634
Miscellaneous, unrestricted	25,068	25,068
Total general revenues, special items, and transfers	<u>5,735,770</u>	<u>5,735,770</u>
Change in net position	590,399	590,399
Net position, beginning	15,637,387	15,637,387
Net position-ending	<u>\$ 16,227,786</u>	<u>\$ 16,227,786</u>

TOWN OF SOUTHERN SHORES, NORTH CAROLINA

Exhibit 3

BALANCE SHEET - GOVERNMENTAL FUNDS

For the Year Ended June 30, 2020

	<u>Major Fund</u>	<u>Total Non-</u>	<u>Total</u>
	<u>General</u>	<u>Major</u>	<u>Governmental</u>
		<u>Fund</u>	<u>Funds</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 6,622,802	\$ 61,098	\$ 6,683,900
Restricted cash and cash equivalents	196,884	-	196,884
Taxes receivable	11,459	-	11,459
Special assessment receivable	60,000	-	60,000
Prepaid expenses	20,129	-	20,129
Due from governmental units	628,003	-	628,003
Total Assets	<u>7,539,277</u>	<u>61,098</u>	<u>7,600,375</u>
<u>LIABILITIES</u>			
Liabilities:			
Accounts payable	226,786	-	226,786
Salaries and benefits payable	78,792	-	78,792
Total Liabilities	<u>305,578</u>	<u>-</u>	<u>305,578</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Prepaid grant	12,637	-	12,637
Property taxes receivable	11,459	-	11,459
Special assessment receivable	60,000	-	60,000
Total Deferred Inflows of Resources	<u>84,096</u>	<u>-</u>	<u>84,096</u>
<u>FUND BALANCES</u>			
Non Spendable:			
Prepaid expenses	20,129	-	20,129
Restricted:			
Stabilization by State Statute	692,112	-	692,112
Public Safety	9,492	-	9,492
Capital Reserve Fund	187,393	-	187,393
Committed:			
LEO Special Separation Allowance	244,931	-	244,931
Assigned:			
Cemetery	-	61,098	61,098
Unassigned	5,995,546	-	5,995,546
Total Fund Balances	<u>7,149,603</u>	<u>61,098</u>	<u>7,210,701</u>
<u>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</u>	<u>\$ 7,539,277</u>	<u>\$ 61,098</u>	

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	11,212,192
Deferred outflows of resources related to pensions/OPEB are not reported in the funds	539,778
Earned revenues considered deferred inflows of resources in fund statements	71,459
Long term liabilities used on governmental activities are not financial uses and therefore are not reported in the funds	(2,574,011)
Deferred inflows of resources related to pensions/OPEB are not reported in the funds	<u>(232,333)</u>
Net position of governmental activities (Exhibit 1)	<u>\$ 16,227,786</u>

TOWN OF SOUTHERN SHORES, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2020

Exhibit 4

	<u>Major Fund</u>		
	<u>General</u>	<u>Total Non-Major Fund</u>	<u>Total Governmental Funds</u>
REVENUES:			
Ad valorem taxes	\$ 3,074,049	\$ -	3,074,049
Other taxes and licenses	2,123,562	-	2,123,562
Unrestricted intergovernmental revenue	455,172	-	455,172
Restricted intergovernmental revenue	927,246	-	927,246
Permits and fees	136,261	-	136,261
Sales and services	-	3,920	3,920
Investment earnings	83,634	-	83,634
Other revenues	58,362	-	58,362
	<u>6,858,286</u>	<u>3,920</u>	<u>6,862,206</u>
EXPENDITURES:			
General government	1,120,081	1,200	1,121,281
Public safety	2,281,298	-	2,281,298
Public works and transportation	2,075,972	-	2,075,972
Environmental protection	719,960	-	719,960
	<u>6,197,311</u>	<u>1,200</u>	<u>6,198,511</u>
REVENUES OVER (UNDER) EXPENDITURES	660,975	2,720	663,695
FUND BALANCES:			
Beginning of year - July 1	<u>6,488,628</u>	<u>58,378</u>	<u>6,547,006</u>
End of year - June 30	<u>\$ 7,149,603</u>	<u>\$ 61,098</u>	<u>\$ 7,210,701</u>

TOWN OF SOUTHERN SHORES, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2020

Exhibit 4
(continued)

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

Net changes in fund balances - total governmental funds \$ 663,695

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

Capital outlay expenditures which were capitalized	1,144,075	
Depreciation expense for governmental assets	<u>(951,076)</u>	192,999

The net effect of disposals of capital assets (insurance proceeds less gain on disposal) (31,337)

Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities (LGERS) 142,895

Benefit payments paid and administrative expense for the LEOSSA are not included on the Statements of Activities 22,083

OPEB benefit payments and administrative costs made in the current fiscal year are not included in the Statement of Activities 31,038

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:
Change in unavailable revenue for tax and special assessment revenues (25,715)

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

Decrease in compensated absences	6,285	
Pension expense-LGERS	(286,818)	
Pension expense-LEOSSA	(65,820)	
OPEB Plan expense	<u>(58,906)</u>	<u>(405,259)</u>

Total changes in net position of governmental activities (Exhibit 2) \$ 590,399

TOWN OF SOUTHERN SHORES, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - ANNUAL BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended June 30, 2020

Exhibit 5

	General Fund			Variance with Final Budget- Positive (Negative)
	Original	Final	Actual Amounts	
REVENUES:				
Ad valorem taxes	\$ 3,081,460	\$ 3,081,460	\$ 3,074,049	\$ (7,411)
Other taxes and licenses	2,165,590	2,165,590	2,123,562	(42,028)
Unrestricted intergovernmental revenues	450,200	450,200	455,172	4,972
Restricted intergovernmental revenues	189,382	664,382	927,246	262,864
Permits and fees	129,000	129,000	136,261	7,261
Investment earnings	100,000	100,000	80,355	(19,645)
Other revenue	9,600	47,674	58,362	10,688
<u>Total Revenues</u>	<u>6,125,232</u>	<u>6,638,306</u>	<u>6,855,007</u>	<u>216,701</u>
EXPENDITURES:				
General government	1,346,179	1,351,329	1,120,081	231,248
Public safety	2,764,048	2,822,652	2,281,298	541,354
Public works and transportation	2,594,536	3,127,476	2,075,972	1,051,504
Environmental protection	726,083	742,863	719,960	22,903
<u>Total Expenditures</u>	<u>7,430,846</u>	<u>8,044,320</u>	<u>6,197,311</u>	<u>1,847,009</u>
<u>REVENUES OVER (UNDER) EXPENDITURES</u>	<u>(1,305,614)</u>	<u>(1,406,014)</u>	<u>657,696</u>	<u>2,063,710</u>
OTHER FINANCING SOURCES (USES):				
Fund balance appropriated	1,325,614	1,426,014	-	(1,426,014)
Transfer (to) from capital reserve fund	(20,000)	(20,000)	(20,000)	-
	<u>1,305,614</u>	<u>1,406,014</u>	<u>(20,000)</u>	<u>(1,426,014)</u>
<u>REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</u>	<u>\$ -</u>	<u>\$ -</u>	<u>637,696</u>	<u>\$ 637,696</u>
FUND BALANCES:				
Beginning			<u>6,324,514</u>	
Ending			<u>\$ 6,962,210</u>	
A legally adopted Capital Reserve Fund is consolidated into the General Fund for reporting purposes:				
Interest income			3,279	
Transfer from general fund			20,000	
Fund Balance, Beginning			164,114	
Fund Balance, Ending (Exhibit 4)			<u>\$ 7,149,603</u>	

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2020

I. Summary of Significant Accounting Policies

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

A. Reporting Entity

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

B. Basis of Presentation

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

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

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

The Town reports the following major governmental funds:

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

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

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2020

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2020

D. Budgetary Data

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund, Capital Reserve Fund and Cemetery Fund. All annual appropriations lapse at the fiscal-year end. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the department level for all annually budgeted funds. The Town Manager can reallocate departmental appropriations among objects of expenditure and is authorized to make inter-departmental transfers within the same fund not to exceed 10% of the appropriated monies for the department whose allocation is reduced. During the year, several amendments to the original budget were necessary. The primary changes to the adopted budget were increases of \$ 29,017 to carry over outstanding commitments from the June 30, 2019 fiscal year and \$ 475,000 from FEMA reimbursements for storm damage from Hurricane Dorian. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

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

1. Deposits and Investments

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

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

The Town's investments are reported at fair value. The NCCMT is a SEC-registered money market mutual fund allowable by G.S. 159-30(c)(8). The NCCMT Government Portfolio is a 2a-7 money market mutual fund is measured at fair value. The NCCMT Term Portfolio is a bond fund, has no rating and is measured at fair value. As of June 30, 2020, the Term Portfolio has a duration of .15 years. Because the NCCMT Government and Term Portfolios have a weighted average of less than 90 days, they are presented as an investment with a maturity of less than 6 months.

2. Cash and Cash Equivalents

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

3. Restricted Assets

Money in the Capital Reserve Fund is classified as restricted assets because its use is restricted to the Capital Reserve Fund per G.S. 159-18. Powell Bill funds are also classified as restricted

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2020

cash because it can be expended only for the purposes of maintaining, repairing, constructing, or reconstructing or widening of streets per G.S. 136-41.1 through 136-41.4. Additionally, drug forfeiture funds are classified as restricted cash because its use is restricted for purposes that enhance law enforcement activities.

Town of Southern Shores Restricted Cash:

Governmental Activities:

General Fund:

Capital reserve fund	\$ 187,393
Public Safety	<u>9,491</u>
Total General Fund	<u>196,884</u>

Total Restricted Cash \$ 196,884

4. Ad-Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad-valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2019.

5. Allowances for Doubtful Accounts

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

6. Prepaid Items

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

7. Capital Assets

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

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

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2020

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

8. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town has several items that meet this criterion, contributions made to the pension plans and OPEB plan in the 2020 fiscal year and other pension and OPEB deferrals. In addition to liabilities, the statements of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Town has several items that meet the criterion for this category – property taxes receivable, prepaid grants, pension and OPEB deferrals.

9. Long-Term Obligations

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

10. Compensated Absences

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

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

11. Net Position/Fund Balances

Net Position

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

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2020

Fund Balances

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

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

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

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

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

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

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

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

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

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

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2020

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

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

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

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

12. Pensions

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

II. Stewardship, Compliance, and Accountability

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

No items to report.

B. Deficit Fund Balance or Retained Earnings of Individual Funds

No items to report.

C. Excess of Expenditures over Appropriations

No items to report.

III. Detail Notes on All Funds

A. Assets

1. Deposits

All the deposits of the Town are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Town's agents in these units' names. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town of Southern Shores, these deposits are considered to be held by the Town's agents in their names. The amount of the pledged

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2020

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, 2020, the Town's deposits had a carrying amount of \$ 855,196 and a bank balance of \$ 882,581. Of the bank balance, \$ 250,000 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. At June 30, 2020, the Town's petty cash fund totaled \$ 700.

2. Investments

At June 30, 2020, the Town's investments were as follows:

	<u>Valuation</u> <u>Measurement Method</u>	<u>Book Value</u> <u>At 6/30/20</u>	<u>Maturity</u>	<u>Rating</u>
NC Capital Management Trust:				
Government Portfolio	Fair Value Level 1	\$ 4,156,019	N/A	AAAm
Term Portfolio	Fair Value Level 1	<u>1,868,869</u>	.15 years	Unrated
Total Investments		<u>\$ 6,024,888</u>		

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

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

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

Credit Risk. The Town's cash management policy does not address credit risk but has internal management procedures that limits the Town's investments to the provisions of G.S. 159-30. The Town's investment in the NC Capital Management Trust Government Portfolio carried a credit rating of AAAM by Standard & Poor's as of June 30, 2020. The Town's investment in the NC Capital Management Trust Term Portfolio is unrated. The Term Portfolio is authorized to invest in obligations of the U.S. government and agencies, and in high grade money market instruments as permitted under North Carolina General Statutes 159-30 as amended.

TOWN OF SOUTHERN SHORES
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2020

3. Capital Assets

Primary Government

Capital asset activity for the primary government for the year ended June 30, 2020 was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 467,905	\$ -	\$ -	\$ 467,905
Construction in process	8,569	47,404	8,569	47,404
	<u>476,474</u>	<u>47,404</u>	<u>8,569</u>	<u>515,309</u>
Capital assets being depreciated:				
Buildings	1,315,252	-	-	1,315,252
Equipment	270,501	-	-	270,501
Infrastructure	13,309,101	978,593	-	14,287,694
Vehicles	844,632	126,647	107,472	863,807
Total capital assets being depreciated	<u>15,739,486</u>	<u>1,105,240</u>	<u>107,472</u>	<u>16,737,254</u>
Less accumulated depreciation for:				
Buildings	677,294	34,252	-	711,546
Equipment	141,418	27,989	-	169,407
Infrastructure	3,792,609	783,391	-	4,576,000
Vehicles	554,109	105,443	76,134	583,418
Total accumulated depreciation	<u>5,165,430</u>	<u>\$ 951,075</u>	<u>\$ 76,134</u>	<u>6,040,371</u>
Total capital assets being depreciated (net)	<u>10,574,056</u>			<u>10,696,883</u>
Governmental activity capital assets, net	<u><u>\$11,050,530</u></u>			<u><u>\$11,212,192</u></u>

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

General Government	\$ 34,567
Public Safety	103,997
Public works and transportation	<u>812,511</u>
	<u>\$ 951,075</u>

B. Liabilities

1. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

Plan Description

The Town of Southern Shores is a participating employer in the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS membership is comprised of general employees and local law enforcement officers (LEOs) of participating local government entities. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial

TOWN OF SOUTHERN SHORES
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Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 707-0500 or at www.osc.nc.gov.

Benefits Provided

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

Increases are contingent upon actuarial gains of the plan. LGERS plan members who are LEOs are eligible to retire with full retirement benefits at age 55 with five years of creditable service as an officer, or at any age with 30 years of creditable service. LEO plan members are eligible to retire with partial retirement benefits at age 50 with 15 years of creditable service as an officer. Survivor benefits are available to eligible beneficiaries of LEO members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed 15 years of service as a LEO and have reached age 50, or have completed five years of creditable service as a LEO and have reached age 55, or have completed 15 years of creditable service as a LEO if killed in the line of duty. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions.

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. The Town of Southern Shores' employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town of Southern Shores' contractually required contribution rate for the year ended June 30, 2020, was 9.56% of compensation for law enforcement officers and 8.68% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town of Southern Shores were \$ 142,895 for the year ended June 30, 2020.

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

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

At June 30, 2020, the Town reported a liability of \$664,706 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2018. The total pension liability was then rolled forward to the measurement date of June 30, 2019 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension asset was based on a projection of the Town's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2019, the Town's proportion was 0.02434%, which was a decrease of 0.00143% from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the Town recognized pension expense of \$286,818. At June 30, 2020, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 113,815	\$ -
Changes of assumptions	108,336	-
Net difference between projected and actual earnings on pension plan investments	16,213	-
Changes in proportion and differences between Town Contributions and proportionate share of contributions	-	25,404
Town contributions subsequent to the measurement date	142,895	-
Total	\$ 381,259	\$ 25,404

\$142,895 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2021	\$ 109,687
2022	28,188
2023	58,627
2024	16,459
2025	-
Thereafter	-
	\$ 212,961

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Actuarial Assumptions. The total pension liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.50 to 8.10 percent, including 3.5% inflation and productivity factor
Investment rate of return	7.00 percent, net of pension plan investment expense, including inflation

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

The actuarial assumptions used in the December 31, 2018 valuation were based on the results of an actuarial experience study as of December 31, 2014.

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2019 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	29.0%	1.4%
Global Equity	42.0%	5.3%
Real Estate	8.0%	4.3%
Alternatives	8.0%	8.9%
Credit	7.0%	6.0%
Inflation Protection	6.0%	4.0%
Total	100%	

The information above is based on 30-year expectations developed with the consulting actuary for the 2018 asset liability and investment policy study for the North Carolina Retirement

TOWN OF SOUTHERN SHORES
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Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

Discount rate. The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Town's proportionate share of the net pension asset to changes in the discount rate. The following presents the Town's proportionate share of the net pension asset calculated using the discount rate of 7.00 percent, as well as what the Town's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00 percent) or one percentage point higher (8.00 percent) than the current rate:

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Town's proportionate share of the net pension liability (asset)	\$ 1,520,305	\$ 664,706	(\$ 46,469)

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

b. Law Enforcement Officers Special Separation Allowance

1. *Plan Description.*

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

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

All full-time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2018 (the valuation date), the Separation Allowance's membership consisted of:

TOWN OF SOUTHERN SHORES
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Retirees receiving benefits	1
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	11
Total	12

2. Summary of Significant Accounting Policies:

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

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

3. Actuarial Assumptions

The entry age actuarial cost method was used in the December 31, 2018 valuation. The total pension liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5 percent
Salary increases	3.50 to 7.35 percent, including inflation and productivity factor
Discount rate	3.26 percent

The discount rate used to measure the total pension liability is the S&P Municipal Bond 20 Year High Grade Rate Index.

Mortality rates are based on the RP-2014 Mortality table base rates projected to the valuation date using the MP-2015.

4. Contributions.

The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned on a pay as you go basis through appropriations in the General Fund operating budget. There were no contributions made by employees. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. The Town paid \$ 21,908 as benefits came due for the reporting period.

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

At June 30, 2020, the Town reported a total pension liability of \$ 550,207. The total pension liability was measured as of December 31, 2019 based on a December 31, 2018 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2019 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2020, The Town recognized pension expense of \$ 65,820. At June 30, 2020, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 90,950	\$ -
Changes of assumptions	28,239	15,252
Town benefit payments subsequent to the measurement date	11,792	-
Total	\$ 130,981	\$ 15,252

\$ 11,792 reported as deferred outflows of resources related to pension resulting from benefits payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ended June 30, 2021. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2021	\$ 29,928
2022	29,928
2023	30,776
2024	8,251
2025	5,054
Thereafter	0
Total	\$ 103,937

Sensitivity of the Town's total pension liability to changes in the discount rate. The following presents the Town's total pension liability calculated using the discount rate of 3.26 percent, as well as what the Town's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (2.26 percent) or one percentage point higher (4.26 percent) than the current rate:

	1% Decrease (2.26%)	Discount Rate (3.26%)	1% Increase (4.26%)
Town's pension liability	\$ 592,424	\$ 550,207	\$ 510,807

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

Total pension liability December 31, 2018	\$ 484,544
Changes for the year:	
Service cost at end of year	18,478
Interest	17,239
Change in benefit terms	0
Differences between expected and actuarial experience	36,552
Changes of assumptions and other inputs	15,302
Benefit payments	(21,908)
Other changes	0
Net changes	\$ 65,663
Total Pension liability December 31, 2019	\$ 550,207

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

The actuarial assumptions used in the December 31, 2018 valuation were based on the results of an experience study completed by the Actuary for the Local Government Employees' Retirement System for the five-year period ended December 31, 2014.

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

	<u>LGERS</u>	<u>LEOSSA</u>	<u>TOTAL</u>
Pension expense	\$ 286,818	\$ 65,820	\$ 352,638
Pension liability	664,706	550,207	1,214,913
Proportionate share of pension liability	.02434%	N/A	

Deferred of Outflows of Resources

Differences between expected and actual experience	113,815	90,950	204,765
Change of assumptions	108,336	28,239	136,575
Net difference between projected and actual earnings on plan investments	16,213	-	16,213
Changes in proportion and differences between contributions and proportionate share of contributions	-	-	-
Benefit payments and administrative costs paid subsequent to the measurement date	142,895	11,792	154,687

Deferred of Inflows of Resources

Differences between expected and actual experience	-	-	-
Change of assumptions	-	15,252	15,252
Net difference between projected and actual earnings on plan investments	-	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	25,404	-	25,404

c. Supplemental Retirement Income Plan for Law Enforcement Officers

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

Funding Policy. Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan.

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Contributions for the year ended June 30, 2020, were \$ 58,509, which consisted of \$ 39,596 from the Town and \$ 18,913 from law enforcement officers.

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

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

Funding Policy. Beginning July 1, 2002, the Town began making a contribution of five percent for non-law enforcement officers and all amounts are vested immediately. These employees may make voluntary contributions to the plan. Contributions for the year ended June 30, 2020, were \$ 74,565, which consisted of \$ 37,536 from the Town and \$ 37,030 from employees.

e. 457 Deferred Compensation

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

Funding policy. The Town does not match contributions to the 457 deferred compensation plan. Total contributions for the year ended June 30, 2020 were \$ 19,800 which consisted of \$ 19,200 from regular employees and \$ 600 for law enforcement employees.

f. Other Postemployment Benefit - Healthcare Benefits

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

Membership of the HCB Plan consisted of the following at June 30, 2019, the date of the latest actuarial valuation:

Inactive Members or Beneficiaries Currently Receiving Benefits	4
Inactive Members Entitled To, But Not Yet Receiving Benefits	0
Active Members	<u>20</u>
Total Membership	24

TOTAL OPEB LIABILITY

The Town's total OPEB liability of \$ 1,267,601 was measured as of June 30, 2019 and was determined by an actuarial valuation as of that date.

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Actuarial assumptions and other inputs. The total OPEB liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Inflation	2.50%
Real wage growth	1.00%
Wage inflation	3.50%
Salary increases, including wage inflation:	
General Employees	3.50%-7.75%
Law Enforcement Officers	3.50%-7.35%
Municipal Bond Index Rate:	
Prior measurement date	3.89%
Measurement date	3.50%
Health Care Cost Trends:	
Pre-Medicare	7.00% for 2019 decreasing to an ultimate rate of 4.50% by 2026
Medicare	5.00% for 2019 decreasing to an ultimate rate of 4.50% by 2021

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

Changes in Total OPEB Liability

Total OPEB liability June 30, 2018	\$ 1,276,099
Changes for the year:	
Service cost at end of year	38,709
Interest on TOL and Cash Flows	49,150
Change in benefit terms	0
Differences between expected and actuarial experience	(68,623)
Changes of assumptions and other inputs	(2,271)
Benefit payments	(25,463)
Other changes	0
Net changes	<u>\$ (8,498)</u>
Total OPEB liability June 30, 2019	<u>\$ 1,267,601</u>

Mortality rates were based on the RP-2014 mortality tables, with adjustments for LGERS experience and generational mortality improvements using Scale MP-2015.

The demographic actuarial assumptions for retirement, disability incidence, withdrawal, and salary increases used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period January 1, 2010 – December 31, 2014, adopted by LGERS.

The remaining actuarial assumptions (e.g. initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2019 valuation were based on a review of recent plan experience done concurrently with the June 30, 2019 valuation.

Sensitivity of the Town's total OPEB liability to changes in the discount rate. The following presents the Town's total OPEB liability calculated using the discount rate of 3.50 percent, as well as what the Town's total OPEB liability would be if it were calculated using a discount rate that is

TOWN OF SOUTHERN SHORES
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one percentage point lower (2.50 percent) or one percentage point higher (4.50 percent) than the current rate:

	1% Decrease (2.50%)	Discount Rate (3.50%)	1% Increase (4.50%)
Town's total OPEB liability	\$ 1,497,636	\$ 1,267,601	\$ 1,085,383

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

	1% Decrease	Current	1% Increase
Town's total OPEB liability	\$ 1,067,669	\$ 1,267,601	\$ 1,523,796

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

For the year ended June 30, 2020, the Town recognized OPEB expense of \$58,905. At June 30, 2020, the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 61,741
Changes of assumptions	-	129,936
Benefit payments and administrative costs subsequent to the measurement date	27,538	-
Total	\$ 27,538	\$ 191,677

\$ 27,538 reported as deferred outflows of resources related to OPEB resulting from benefits payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ended June 30, 2021. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2021	\$ (32,454)
2022	(32,454)
2023	(32,454)
2024	(32,454)
2025	(32,454)
Thereafter	(29,407)
Total	\$ (191,677)

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

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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, 2020 the Town made contributions to the State for death benefits of \$ 1,334. The Town's required contributions for employees not engaged in law enforcement and for law enforcement officers represented 0.03% and 0.14% of covered payroll respectively.

3. Deferred Outflows and Inflows of Resources

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

	<u>Statement of Net Position</u>
Contributions to pension plan in the current fiscal year LGERS	\$ 142,895
Benefit payments made for LEOSSA subsequent to measurement date	11,792
Benefit payments made for OPEB subsequent to measurement date	27,538
Differences between expected and actual experience	204,765
Changes of assumptions	136,575
Net difference between projected and actual earnings on plan investments	16,213
Changes in proportion and difference between contributions and proportionate share of contributions	<u>-</u>
Total	<u>\$ 539,778</u>

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

	<u>Statement of Net Position</u>	<u>General Fund Balance Sheet</u>
Taxes receivable (General Fund)	\$ -	\$ 11,459
Special assessment receivable (General Fund)	-	60,000
Prepaid grant	12,637	12,637
Differences between expected and actual experience	61,741	-
Changes of assumptions	145,188	-
Net difference between projected and actual earnings on plan investments	-	-
Changes in proportion and difference between contributions and proportionate share of contributions	<u>25,404</u>	<u>-</u>
Total	<u>\$ 244,970</u>	<u>\$ 84,096</u>

TOWN OF SOUTHERN SHORES
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4. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in two self-funded risk-financing pools administered by the North Carolina League of Municipalities. Through these pools, the Town obtains general liability and auto liability coverage of \$1 million per occurrence and property coverage up to the total insurance values of the property policy, and workers' compensation coverage up to statutory limits. The liability and property exposures are reinsured through commercial carriers for claims in excess of retentions as selected by the Board of Trustees each year. Specific information on the limits of the reinsurance, excess and stop loss policies purchased by the Board of Trustees can be obtained by contacting the Risk Management Services Department of the NC League of Municipalities. The pools are audited annually by certified public accountants, and the audited financial statements are available to the Town upon request.

The Town carries commercial coverage for all other risks of loss including employee health coverage. There have been no significant reductions in insurance coverage in the prior year, and settled claims have not exceeded coverage in any of the past three fiscal years.

The Town carries flood insurance only on its public works building which is located in a flood zone with coverage amounts of \$ 449,700 for the building and \$ 147,500 for contents.

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

5. Long-Term Obligations

At June 30, 2020 the Town had a legal debt margin of \$ 110,723,717.

Changes in Long-Term Liabilities

	Balance <u>July 1,</u> <u>2019</u>	<u>Increase</u>	<u>Decreases</u>	Balance <u>June 30,</u> <u>2020</u>	Current Portion <u>of Balance</u>
Governmental activities:					
Compensated absences	\$ 97,782	\$ -	\$ 6,285	\$ 91,497	\$ 25,000
Net pension liability (LGRS)	611,353	53,353	-	664,706	-
Total pension liability (LEO)	484,544	65,663	-	550,207	-
Total OPEB liability	<u>1,276,099</u>	<u>-</u>	<u>8,498</u>	<u>1,267,601</u>	<u>-</u>
Governmental Activity Long-Term Liabilities	\$2,469,778	\$ 119,016	\$ 14,783	\$ 2,574,011	\$ 25,000

C. Inter-fund Balances and Activity

Transfers to/from other funds at June 30, 2020, consist of the following:

From the General Fund to the Capital Reserve Fund (for canal maintenance)	\$ 20,000
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TOWN OF SOUTHERN SHORES
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D. Fund Balance

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

Total fund balance – General Fund		\$ 7,149,603
Less:		
Prepaid expenses	\$ 20,129	
Stabilization by State Statute	692,112	
Drug enforcement	9,492	
Capital reserve fund	187,393	
LEO Special Separation Allowance	244,931	
Appropriated in 2020-2021 budget	-	
Working capital/fund balance policy	<u>1,750,000</u>	
Total Reductions	<u>\$ 2,904,057</u>	
Remaining Fund Balance		<u>\$ 4,245,546</u>

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

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

General Fund \$ 64,109

IV. Southern Shores Cemetery Perpetual Care Fund

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

V. Summary Disclosure of Contingencies

Federal and State Assisted Programs

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

Subsequent Events

Management has evaluated subsequent events through September 22, 2020, the date on which the financial statements were available to be issued.

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

	2020	2019	2018	2017	2016	2015
Town of Southern Shores' proportion of the net pension liability (asset) (%)	0.02434%	0.02577%	0.02781%	0.02816%	0.02707%	0.02669%
Town of Southern Shores' proportion of the net pension liability (asset) (\$)	\$ 664,706	\$ 611,353	\$ 424,860	\$ 597,650	\$ 121,489	\$ (157,403)
Town of Southern Shores' covered-employee payroll	\$ 1,665,533	\$ 1,600,258	\$ 1,548,998	\$ 1,539,393	\$ 1,467,530	\$ 1,442,114
Town of Southern Shores' proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	39.91%	38.20%	27.43%	38.82%	8.28%	-10.91%
Plan fiduciary net position as a percentage of the total pension liability **	91.63%	94.18%	91.47%	98.09%	99.07%	102.64%

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

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

TOWN OF SOUTHERN SHORES, NORTH CAROLINA

Town of Southern Shores' Contributions

Required Supplementary Information

Last Six Fiscal Years

Local Government Employees' Retirement System

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

TOWN OF SOUTHERN SHORES, NORTH CAROLINA

Schedule of Changes in Total Pension Liability

Law Enforcement Officers' Special Separation Allowance

June 30, 2020

	2020	2019	2018	2017
Beginning Balance	\$ 484,544	\$ 480,837	\$ 332,069	\$ 333,992
Service Cost	18,478	19,927	16,907	17,349
Interest on the total pension liability	17,239	14,848	12,395	11,532
Changes of benefit terms	-	-	-	-
Differences between expected and actual experience in the measurement of the total pension liability	36,552	8,942	110,030	-
Changes of assumptions or other inputs	15,302	(18,102)	31,344	(8,896)
Benefit payments	(21,908)	(21,908)	(21,908)	(21,908)
Other changes	-	-	-	-
Ending balance of the total pension liability	<u>\$ 550,207</u>	<u>\$ 484,544</u>	<u>\$ 480,837</u>	<u>\$ 332,069</u>

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

TOWN OF SOUTHERN SHORES, NORTH CAROLINA

Schedule of Total Pension Liability as a Percentage of Covered Payroll

Law Enforcement Officers' Special Separation Allowance

June 30, 2020

	2020	2019	2018	2017
Total pension liability	\$ 550,207	\$ 484,544	\$ 480,837	\$ 332,069
Covered payroll	\$ 826,177	\$ 871,700	\$ 846,392	\$ 829,465
Total pension liability as a percentage of covered payroll	66.60%	55.59%	56.81%	40.03%

Notes to the schedules:

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

TOWN OF SOUTHERN SHORES, NORTH CAROLINA

Schedule of Changes in Total OPEB Liability and Related Ratios

June 30, 2020

Total OPEB Liability

	2020	2019	2018
Service Cost	\$ 38,709	\$ 40,623	\$ 45,130
Interest on the total OPEB liability	49,150	45,268	40,142
Changes of benefit terms	-	-	-
Differences between expected and actual experience in the measurement of the total pension liability	(68,623)	(1,087)	(905)
Changes of assumptions or other inputs	(2,271)	(67,870)	(122,633)
Benefit payments	(25,463)	(24,575)	(23,065)
Other changes	-	-	-
Net change in total OPEB liability	(8,498)	(7,641)	(61,331)
Total OPEB liability - beginning	1,276,099	1,283,740	1,345,071
Total OPEB liability - ending	<u>\$ 1,267,601</u>	<u>\$ 1,276,099</u>	<u>\$ 1,283,740</u>
Covered payroll	\$ 1,185,533	\$ 1,342,769	\$ 1,342,769
Total OPEB liability as a percentage of covered payroll	106.92%	95.03%	95.60%

Notes to Schedule

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

Discount rates used in each period	3.50%	3.89%	3.56%
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TOWN OF SOUTHERN SHORES, NORTH CAROLINA

GENERAL FUND

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

For the Year Ended June 30, 2020

With Comparative Actual Amounts for the Year Ended June 30, 2019

	2020		Variance Favorable (Unfavorable)	2019
	Budget	Actual		Actual
<u>REVENUES</u>				
<u>AD VALOREM TAXES:</u>				
Current year	\$ 3,041,160	\$ 3,038,049	(3,111)	\$ 3,021,298
Prior year	7,300	3,624	(3,676)	9,833
Penalties and interest	3,000	3,555	555	4,303
Late list to Dare County Schools	-	(1,179)	(1,179)	(989)
Special assessments	30,000	30,000	-	30,000
	<u>3,081,460</u>	<u>3,074,049</u>	<u>(7,411)</u>	<u>3,064,445</u>
<u>OTHER TAXES AND LICENSES:</u>				
Local option sales tax	961,619	940,848	(20,771)	948,993
Occupancy tax	958,000	936,756	(21,244)	1,001,880
Land transfer tax	245,971	245,958	(13)	249,211
	<u>2,165,590</u>	<u>2,123,562</u>	<u>(42,028)</u>	<u>2,200,084</u>
<u>UNRESTRICTED INTERGOVERNMENTAL REVENUES:</u>				
ABC Revenue	58,000	61,794	3,794	58,947
Utilities franchise/telecommunications tax	286,000	288,810	2,810	294,393
Video programming tax	65,000	62,075	(2,925)	66,316
Peg Channel Revenue	26,000	27,307	1,307	26,893
Solid waste disposal tax	2,200	2,279	79	2,077
Beer and wine tax	13,000	12,907	(93)	12,837
	<u>450,200</u>	<u>455,172</u>	<u>4,972</u>	<u>461,463</u>
<u>RESTRICTED INTERGOVERNMENTAL REVENUES:</u>				
Federal:				
FEMA reimbursement	356,250	386,520	30,270	-
State:				
FEMA reimbursement	118,750	128,840	10,090	-
Powell Bill allocation	118,000	117,507	(493)	117,888
Public safety grants	37,382	-	(37,382)	-
Controlled substance tax	-	32	32	922
Other:				
Government Access Channel grant	10,000	9,354	(646)	6,000
Dare County Tourist Bureau		260,993	260,993	86,938
Contribution from Dare Cty - Sand Fencing	24,000	24,000	-	24,000
	<u>664,382</u>	<u>927,246</u>	<u>262,864</u>	<u>235,748</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, 2020

With Comparative Actual Amounts for the Year Ended June 30, 2019

	2020		Variance Favorable (Unfavorable)	2019
	Budget	Actual		Actual
PERMITS AND FEES:				
Building permits and plan review	115,000	127,508	12,508	127,977
CAMA permits	2,500	2,170	(330)	3,415
Planning fees	3,000	1,360	(1,640)	3,050
Parking fines	7,500	4,250	(3,250)	4,000
Court costs and fees	1,000	973	(27)	882
	<u>129,000</u>	<u>136,261</u>	<u>7,261</u>	<u>139,324</u>
INVESTMENT EARNINGS	<u>100,000</u>	<u>80,355</u>	<u>(19,645)</u>	<u>126,608</u>
OTHER REVENUES:				
Rents	2,400	1,850	(550)	1,600
Sale of fixed assets	4,280	18,235	13,955	31,700
Insurance claims	33,294	34,614	1,320	11,014
Outer Banks Community Foundation	1,000	1,000	-	1,000
Body armor grant	1,200	1,000	(200)	-
Miscellaneous	5,500	1,663	(3,837)	66,203
	<u>47,674</u>	<u>58,362</u>	<u>10,688</u>	<u>111,517</u>
<u>TOTAL REVENUES</u>	<u>\$ 6,638,306</u>	<u>\$ 6,855,007</u>	<u>\$ 216,701</u>	<u>\$ 6,339,189</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, 2020

With Comparative Actual Amounts for the Year Ended June 30, 2019

	2020		Variance Favorable (Unfavorable)	2019
	Budget	Actual		Actual
<u>EXPENDITURES</u>				
<u>GENERAL GOVERNMENT:</u>				
Administration:				
Salaries		276,773		375,442
Council compensation		18,600		18,600
Payroll taxes		20,896		26,820
Retirement		38,766		48,057
Health insurance		38,595		47,119
Unemployment		195		761
Training		6,893		7,267
Council travel and training		2,311		3,123
Utilities		19,966		22,592
Travel		7,431		8,860
Legal service		62,680		102,702
Audit services		17,000		17,000
Payroll services		5,877		7,017
Equipment lease and maintance		14,330		14,091
Telephone		28,633		30,842
Postage		1,818		1,754
Supplies		9,163		6,443
Vehicle operations		815		438
Municipal elections		5,902		-
Advertising		926		1,616
Dues and subscriptions		7,037		8,191
Insurance and bonds		74,757		73,681
Contracted services		29,873		3,580
Computer service		71,158		61,512
Municipal code publishing		3,650		1,175
Dare County and NCVTS tax collection fees		48,470		48,168
Government Access Channel membership		1,000		1,000
Government Access Channel PEG revenues to Dare County		27,307		26,893
Employee recognition and appreciation		6,365		6,841
Wellness initiative		1,244		1,935
Cleaning		1,000		15,200
Technology upgrade - Pitts Center		9,639		6,000
Recording of meetings		3,805		4,437
Miscellaneous		4,504		4,905
	<u>1,080,656</u>	<u>867,379</u>	<u>213,277</u>	<u>1,004,062</u>
Planning and Inspections:				
Salaries		182,625		177,390
Payroll taxes		13,539		13,141
Retirement		21,522		19,675
Health insurance		25,384		22,677
Training		188		4,050
Printing		832		1,337
Travel		171		4,829
Supplies		355		990
Advertising		1,068		1,562
Dues and subscriptions		170		170
Contracted Services		3,600		9,800
Vehicles operations		452		565

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, 2020

With Comparative Actual Amounts for the Year Ended June 30, 2019

	2020		Variance Favorable (Unfavorable)	2019
	Budget	Actual		Actual
Miscellaneous		-		1,094
Homeowner recovery fund		810		495
Town Code Update		-		11,717
Historic landmarks designation		377		1,728
Flood zone map mailing		1,609		1,602
Capital outlay-vehicles		-		27,775
	<u>270,673</u>	<u>252,702</u>	<u>17,971</u>	<u>300,597</u>
TOTAL GENERAL GOVERNMENT	<u>1,351,329</u>	<u>1,120,081</u>	<u>231,248</u>	<u>1,304,659</u>
<u>PUBLIC SAFETY:</u>				
Police:				
Salaries		867,462		893,975
Payroll taxes		64,366		66,923
Retirement		127,106		118,746
Health insurance		115,932		117,529
Training		3,187		9,562
Travel		4,798		3,931
Equipment lease and maintenance		4,238		-
Supplies		26,940		20,984
Printing		-		100
Advertising		1,748		1,712
Dues and subscriptions		532		566
Computer service		8,756		675
Contracted services		21,581		22,767
Vehicle maintenance		20,633		28,404
Vehicle operations		27,992		31,626
Uniforms		12,867		10,602
Medical testing		706		676
Miscellaneous		2,250		67
Separation allowance		23,584		23,584
Capital outlay		216,676		269,284
	<u>1,768,688</u>	<u>1,551,354</u>	<u>217,334</u>	<u>1,621,713</u>
Fire:				
Contracted services		545,914		545,914
Architectural services		20,530		87,326
	<u>890,464</u>	<u>566,444</u>	<u>324,020</u>	<u>633,240</u>
Ocean Rescue:				
Contracted services	<u>163,500</u>	<u>163,500</u>		<u>163,500</u>
	<u>163,500</u>	<u>163,500</u>	<u>-</u>	<u>163,500</u>
TOTAL PUBLIC SAFETY	<u>2,822,652</u>	<u>2,281,298</u>	<u>541,354</u>	<u>2,418,453</u>
<u>PUBLIC WORKS AND TRANSPORTATION</u>				
Public Works:				
Salaries		268,192		272,355
Payroll taxes		20,004		20,579
Retirement		35,068		32,249
Health insurance		24,555		31,274
Medical testing		-		168
Printing		-		72

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, 2020

With Comparative Actual Amounts for the Year Ended June 30, 2019

	2020		Variance Favorable (Unfavorable)	2019
	Budget	Actual		Actual
Training		224		1,485
Travel		43		1,031
Equipment lease and maintenance		5,806		5,368
Advertising		1,035		985
Supplies		7,005		6,609
Contracted services		3,700		-
Vehicles maintenance		3,328		2,306
Vehicles operations		7,276		8,537
Uniforms		2,080		3,292
Beautification		4,855		3,750
Town buildings maintenance and repairs		13,930		22,230
Safety compliance		1,375		905
Street sign maintenance		35		205
Miscellaneous		910		328
Facilities assessment		-		26,370
Sand fencing and grass planting		24,000		24,000
Town building upgrades		6,914		-
Capital outlay-equipment		21,884		49,624
	<u>759,869</u>	<u>452,219</u>	<u>307,650</u>	<u>513,722</u>
Streets, bridges and canals:				
Street sign maintenance		896		1,586
Miscellaneous engineering services		3,769		7,408
Street maintenance		4,371		10,605
Waterway maintenance		400		400
Brush trimming		11,000		8,300
Bridge maintenance		1,044		-
Storm debris clean up		494,267		11,880
Street construction-E Dogwood		287,810		-
E Dogwood bike path		1,392		181,733
S Dogwood bike path		682,214		8,624
Street construction-Yaupon		-		461,687
Street construction-Juniper Trail		187		315,501
Street construction-Hillcrest Drive		21,368		-
Street construction-Sea Oats Trail		15,734		-
Street construction-Dewberry Lane		10,303		-
Beach nourishment		88,998		70,557
	<u>2,367,607</u>	<u>1,623,753</u>	<u>743,854</u>	<u>1,078,281</u>
TOTAL PUBLIC WORKS AND TRANSPORTATION	3,127,476	2,075,972	1,051,504	1,592,003

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, 2020

With Comparative Actual Amounts for the Year Ended June 30, 2019

	2020		Variance Favorable (Unfavorable)	2019
	Budget	Actual		Actual
ENVIRONMENTAL PROTECTION				
Solid Waste:				
Residential collection		181,408		177,976
Commercial collection		44,766		43,889
Recycling collection		172,512		152,833
Chipping		132,600		130,000
Miscellaneous		628		689
Tipping fees		188,046		179,659
	<u>742,863</u>	<u>719,960</u>	<u>22,903</u>	<u>685,046</u>
TOTAL ENVIRONMENTAL PROTECTION	<u>742,863</u>	<u>719,960</u>	<u>22,903</u>	<u>685,046</u>
TOTAL EXPENDITURES	<u>8,044,320</u>	<u>6,197,311</u>	<u>1,847,009</u>	<u>6,000,161</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(1,406,014)</u>	<u>657,696</u>	<u>2,063,710</u>	<u>339,028</u>
OTHER FINANCING SOURCES (USES):				
Fund balance appropriated	1,426,014	-	(1,426,014)	-
Transfer (to) from capital reserve fund	(20,000)	(20,000)	-	262,828
Transfer from capital project fund	-	-	-	-
	<u>1,406,014</u>	<u>(20,000)</u>	<u>(1,426,014)</u>	<u>262,828</u>
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER)				
EXPENDITURES AND OTHER USES	<u>\$ -</u>	637,696	637,696	601,856
FUND BALANCE:				
Beginning of year, July 1		<u>6,324,514</u>		<u>5,722,658</u>
End of year, June 30		<u>\$ 6,962,210</u>		<u>\$ 6,324,514</u>

TOWN OF SOUTHERN SHORES, NORTH CAROLINA

CAPITAL RESERVE FUND

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

For the year ended June 30, 2020

With Comparative Actual Amounts for the Year Ended June 30, 2019

	2020		Variance Favorable (Unfavorable)	2019
	Budget	Actual		Actual
<u>REVENUES:</u>				
Interest income	\$ -	\$ 3,279	\$ 3,279	\$ 5,333
	-	3,279	3,279	5,333
<u>OTHER FINANCING SOURCES (USES):</u>				
Transfer from general fund	20,000	20,000	-	20,000
Appropriated fund balance	-	-	-	-
Reserve for future projects	(20,000)	-	20,000	-
Transfer to general fund	-	-	-	(282,828)
	-	20,000	20,000	(262,828)
<u>REVENUES OVER (UNDER) OTHER FINANCING SOURCES (USES)</u>				
	\$ -	23,279	\$ 23,279	(257,495)
<u>FUND BALANCE:</u>				
Beginning of year, July 1		164,114		421,609
End of year, June 30		\$ 187,393		\$ 164,114

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, 2020

With Comparative Actual Amounts for the Year Ended June 30, 2019

	2020		Variance Favorable (Unfavorable)	2019
	Budget	Actual		Actual
REVENUES:				
Cemetery revenues	\$ 1,240	\$ 3,920	\$ 2,680	\$ 3,610
	<u>\$ 1,240</u>	<u>\$ 3,920</u>	<u>\$ 2,680</u>	<u>\$ 3,610</u>
EXPENDITURES:				
Cemetery operations	1,240	1,200	\$ 40	1,200
	<u>1,240</u>	<u>1,200</u>	<u>40</u>	<u>1,200</u>
REVENUES OVER (UNDER) EXPENDITURES				
	<u>-</u>	<u>2,720</u>	<u>2,720</u>	<u>2,410</u>
OTHER FINANCING SOURCES:				
Fund Balance Appropriated	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES				
	<u>\$ -</u>	<u>2,720</u>	<u>2,720</u>	<u>2,410</u>
FUND BALANCE:				
Beginning of year, July 1		<u>58,378</u>		<u>55,968</u>
End of year, June 30		<u>\$ 61,098</u>		<u>\$ 58,378</u>

TOWN OF SOUTHERN SHORES, NORTH CAROLINA
SCHEDULE OF AD VALOREM TAXES RECEIVABLE
June 30, 2020

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2019</u>	<u>Additions</u>	<u>Releases/ Adjustments</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2020</u>
2019-2020	\$ -	\$ 3,046,143	\$ (4)	\$ 3,038,049	\$ 8,090
2018-2019	3,269	-	-	2,924	345
2017-2018	172	-	146	4	314
2016-2017	328	-	-	-	328
2015-2016	189	-	-	-	189
2014-2015	683	-	-	674	9
2013-2014	901	-	-	-	901
2012-2013	597	-	-	-	597
2011-2012	444	-	-	22	422
2010-2011	250	-	-	-	250
2009-2010	340	-	-	326	14
	<u>\$ 7,173</u>	<u>\$ 3,046,143</u>	<u>\$ 142</u>	<u>\$ 3,041,999</u>	<u>\$ 11,459</u>

Reconciliation of collections and credits to revenues:

Ad valorem taxes - Schedule 1	\$ 3,074,049
Special assessment	(30,000)
Write offs and adjustments	326
Penalties and interest	(2,376)
	<u>\$ 3,041,999</u>

TOWN OF SOUTHERN SHORES, NORTH CAROLINA
ANALYSIS OF CURRENT TAX LEVY
June 30, 2020

	0				
	Property Valuation	Rate	Total Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed at current year's rate	\$ 1,384,017,273	0.2200	\$ 3,044,838	\$ 2,943,682	\$ 101,156
Discoveries	\$ 30,559	0.2200	67	67	-
Releases	\$ (1,364)	0.2200	(3)	(3)	-
Late list penalties			1,237	1,237	-
Total property valuation	<u>\$ 1,384,046,468</u>				
Net levy			<u>3,046,139</u>	<u>2,944,983</u>	<u>101,156</u>
Uncollected taxes at June 30, 2020			<u>(8,090)</u>	<u>(8,090)</u>	<u>-</u>
Current year's taxes collected			<u>\$ 3,038,049</u>	<u>\$ 2,936,893</u>	<u>\$ 101,156</u>
Current levy collection percentage			<u>99.73%</u>	<u>99.73%</u>	<u>100.00%</u>

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregated remaining fund information of the Town of Southern Shores, North Carolina, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Town of Southern Shores' basic financial statements, and have issued our report thereon dated September 22, 2020.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Dowdy & Osborne, LLP

Dowdy & Osborne, LLP
Certified Public Accountants

Nags Head, North Carolina

September 22, 2020