

CITY OF SOUTHPORT

Southport, North Carolina

AUDITED FINANCIAL STATEMENTS

June 30, 2011

BOARD OF ALDERMEN

Robert D. Howard, Mayor  
Mary Ellen Poole, Mayor Pro Tem  
Nelson E. Adams  
Richard "Ed" Boguskie  
Jwantana G. Frink  
Kenneth W. Karn  
Vickie L. Potter

ADMINISTRATIVE AND FINANCIAL STAFF

Regina W. Alexander, Interim City Manager  
Patty D. Miller, Finance Director  
Mary L. Russ, Tax Collector

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## FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the  
Board of Aldermen  
City of Southport, North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Southport, North Carolina as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Southport's management. Our responsibility is to express an opinion on these financial statements based on our audit.

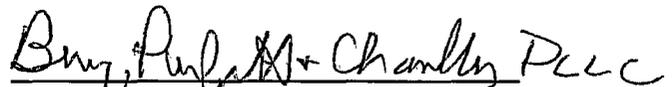
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. The financial statements of the City of Southport Board of Alcoholic Beverage Control were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Southport, North Carolina as of June 30, 2011, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2011 on our consideration of the City of Southport's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements of the City of Southport, North Carolina. The individual fund statements, budgetary schedules and other schedules, as well as the accompanying schedule of expenditures of federal and State awards as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State Single Audit Implementation Act, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The individual fund financial statements, budgetary schedules, other schedules and the accompanying schedule of expenditures of federal and State awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

  
Certified Public Accountants

November 28, 2011

## MANAGEMENT'S DISCUSSION AND ANALYSIS



# City of Southport

## Management's Discussion and Analysis

As management of the City of Southport, we offer readers of the City of Southport's financial statements this narrative overview and analysis of the financial activities of the City of Southport for the fiscal year ended June 30, 2011. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the City's financial statements, which follow this narrative.

### Financial Highlights

- The assets of the City of Southport exceeded its liabilities at the close of the fiscal year by \$38,879,828 (*net assets*).
- The government's total net assets increased by \$3,830,230 primarily due to increases in the business-type activities net assets.
- As of the close of the current fiscal year, the City of Southport's governmental funds reported combined ending fund balances of \$3,882,784 with a net change of \$89,404 in fund balance. Approximately 56.96% of this total amount, or \$2,211,516, is restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,671,268, or 42.34 % of total general fund expenditures for the fiscal year.
- The City of Southport's total debt decreased by \$1,129,774 (14.43%) during the current fiscal year. The key factor in this decrease was the restatement of a Principal Forgiveness Grant reported as debt in a prior year. (See note below)
- In a prior fiscal year, the City of Southport entered into an inter-local agreement with Brunswick County to help finance the construction and operation of an elevated water storage tank. The City agreed to participate in the project by contributing a total of \$375,000 over a five-year period with no interest charged. The original contract was amended during the current fiscal year assigning 236,800 gallons or 23.68% of capacity in the tank to the City. There were no additional charges for this change.
- During the current fiscal year, the City determined that 50% of a federal loan received in prior years for the enhancement of the wastewater system should have been shown as a grant. Under the terms of the loan, upon completion of the loan 50% of the balance is forgiven. In prior years, \$834,925 had been received and shown as loan proceeds. The beginning of the year net assets in the Water and Sewer Fund have been restated showing an increase of \$417,462 in net assets and a decrease in debt outstanding by the same amount.
- The City was awarded a grant from the Clean Water Management Trust (CWMT) for the purchase of a 400 acre tract of land which was to be used as a spray irrigation site. Since the City has decided to contract with Brunswick County for the treatment of wastewater, this site will not currently be used as planned and for the purpose that the grant was awarded. The CWMT required the City to refund the entire \$1,686,000 award. The City and CWMT agreed that the repayment will be made in equal annual payments of \$562,000.

## Management Discussion and Analysis City of Southport

- During the current fiscal year, the City annexed the Rivermist Subdivision into the City. As a part of the annexation, the City received streets valued at \$1,112,020, storm water improvements valued at \$444,808, and sewer improvements valued at \$736,644.
- With the completion of the Wastewater Enhancement Project, the City began pumping all wastewater to the Brunswick County West Region Water Reclamation Facility. The treatment

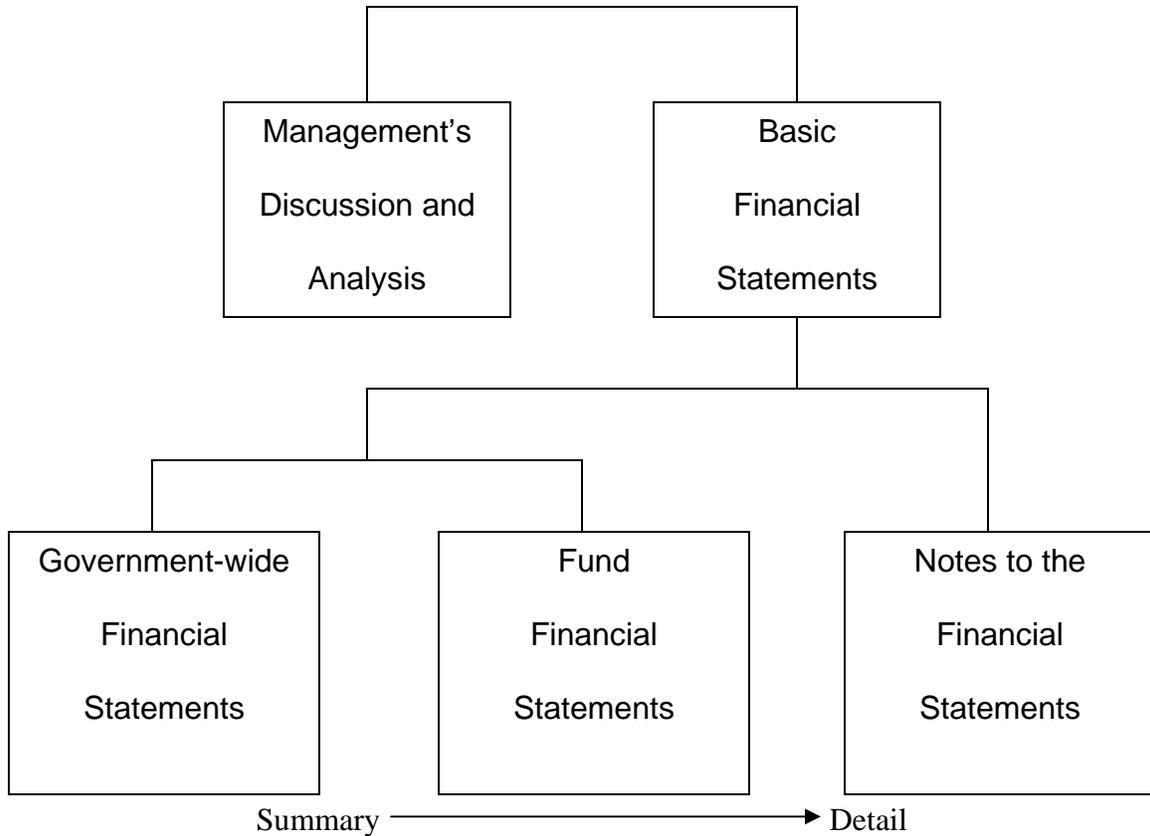
plant owned and operated by the City was decommissioned. These actions were required in the financing of the Enhancement project. With the closing of the plant, the remaining book value of the plant was removed from the system. This resulted in a loss on the closing of \$1,061,470.

### **Overview of the Financial Statements**

This discussion and analysis are intended to serve as an introduction to City of Southport's basic financial statements. The City'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 City 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 City of Southport.

### 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 City's financial status.

The next statements (Exhibits 3 through 9) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the City'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; 3) the proprietary fund statements; and 4) the fiduciary 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 City's individual funds. Budgetary information required by the General Statutes also can be found in this part of the statements.

## **Government-Wide Financial Statements**

The government-wide financial statements are designed to provide the reader with a broad overview of the City'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 City's financial status as a whole.

The two government-wide statements report the City's net assets and how they have changed. Net assets are the difference between the City's total assets and total liabilities. Measuring net assets is one way to gauge the City'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 City'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 business-type activities are those that the City charges customers to provide. These include the water and sewer and electric services offered by the City of Southport. The final category is the component unit. Although legally separate from the City, the ABC Board is important to the City. The City exercises control over the Board by appointing its members and because the Board is required to distribute its profits to the City.

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

## **Fund Financial Statements**

The fund financial statements (see Figure 1) provide a more detailed look at the City'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 City of Southport, 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 City's budget ordinance. All of the funds of City of Southport can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental Funds** – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the City's 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* which 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 City's programs. The relationship between government activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

## Management Discussion and Analysis City of Southport

The City of Southport adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the City, the management of the City, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the City to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the City complied with the budget ordinance and whether or not the City 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.

**Proprietary Funds** – The City of Southport has two different kinds of proprietary funds. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Southport uses enterprise funds to account for its water and sewer activity and for its electric operations. These funds are the same as those functions shown in the business-type activities in the Statement of Net Assets and the Statement of Activities. *Internal Service Funds* are an accounting device used to accumulate and allocate costs internally among the functions of City of Southport. The City uses an internal service fund to account for one activity – its central garage operations. Because this operation benefits predominantly governmental rather than business-type activities, the internal service fund has been included within the governmental activities in the government-wide financial statements.

**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 presented as Exhibit 9 in this report.

**Other Information** – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the City of Southport's progress in funding its obligation to provide pension benefits and retiree health insurance to its employees. Required supplementary information can be found beginning on Exhibit A-1 of this report.

**THE CITY OF SOUTHPORT'S NET ASSETS  
FIGURE 2**

|  | Government Activities |              | Business-Type Activities |               | Totals        |              |
|--|-----------------------|--------------|--------------------------|---------------|---------------|--------------|
|  | 2011                  | 2010         | 2011                     | 2010          | 2011          | 2010         |
| <b>Current and other assets</b>          | \$ 4,079,138          | \$ 4,575,663 | 6,646,505                | \$ 5,994,394  | \$ 10,725,643 | \$10,570,057 |
| <b>Capital assets</b>                    | 11,527,333            | 9,861,010    | 20,124,900               | 20,514,831    | 31,652,233    | 30,375,841   |
| <b>Total assets</b>                      | 15,606,471            | 14,436,673   | 26,771,405               | 26,509,225    | 42,377,876    | 40,945,898   |
| <b>Long-term liabilities outstanding</b> | 4,287,176             | 4,412,357    | 3,248,645                | 4,052,021     | 7,535,821     | 8,464,378    |
| <b>Other liabilities</b>                 | 55,076                | 661,086      | 907,151                  | 1,770,836     | 962,227       | 2,431,922    |
| <b>Total liabilities</b>                 | 4,342,252             | 5,073,443    | 4,155,796                | 5,822,857     | 8,498,048     | 10,896,300   |
| <b>Net assets:</b>                       |                       |              |                          |               |               |              |
| <b>Invested in capital assets, net</b>   |                       |              |                          |               |               |              |
| <b>of related debt</b>                   | 8,070,932             | 5,968,347    | 17,187,221               | 16,577,615    | 25,258,153    | 22,545,962   |
| <b>Restricted</b>                        | 1,388,225             | 1,553,831    | 0                        | 1,490,030     | 1,388,225     | 3,043,861    |
| <b>Unrestricted</b>                      | 1,805,062             | 1,841,052    | 5,428,388                | 2,618,723     | 7,233,450     | 4,459,775    |
| <b>Total net assets</b>                  | \$ 11,264,219         | \$ 9,363,230 | 22,615,609               | \$ 20,686,368 | \$ 33,879,828 | \$30,049,598 |

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of the City of Southport exceeded liabilities by 33,879,828 as of June 30, 2011. The City's net assets increased by \$3,830,230 for the fiscal year ended June 30, 2011. However, the largest portion \$25,258,153 (74.55%) reflects the City'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. The City of Southport uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Southport's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the City of Southport's net assets, \$1,388,225 (4.10%), represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$7,233,450(21.35%) is unrestricted.

Aspects of the City's financial operations positively influenced the total unrestricted governmental net assets:

- The City annexed the Rivermist Subdivision into the City. The City received streets valued at \$1,112,000, storm water improvements valued at \$444,808, and sewer system improvements valued at \$736,644.

Management Discussion and Analysis  
City of Southport

- Net Assets in the Water and Sewer Fund has been restated showing an increase of \$417,462 in net assets and a decrease in debt outstanding by the same amount. The City determined that fifty percent of the federal loan received in prior years for the enhancement of the wastewater system should have been shown as a grant.

THE CITY OF SOUTHPORT'S CHANGES IN NET ASSETS

FIGURE 3

|  | Government Activities |                  | Business-Type Activities |                   | Totals            |                   |
|--|-----------------------|------------------|--------------------------|-------------------|-------------------|-------------------|
|  | 2011                  | 2010             | 2011                     | 2010              | 2011              | 2010              |
| <b>Revenues:</b>   |                       |                  |                          |                   |                   |                   |
| <b>Program revenues:</b>                                     |                       |                  |                          |                   |                   |                   |
| Charges for services   | 1,134,099             | 1,033,885        | 9,590,242                | 9,015,772         | 10,724,341        | 10,049,657        |
| Operating grants and contributions                           | 173,677               | 193,025          | 1,394                    | 2,589             | 175,071           | 195,614           |
| Capital grants and contributions                             | 1,717,291             | 28,410           | 2,045,813                | 1,239,317         | 3,763,104         | 1,267,727         |
| <b>General Revenues:</b>                                     |                       |                  |                          |                   |                   |                   |
| Property taxes   | 1,714,198             | 1,702,945        |                          |                   | 1,714,198         | 1,702,945         |
| Other taxes  | 672,163               | 645,393          |                          |                   | 672,163           | 645,393           |
| Grants and contributions not restricted to specific programs | 564,894               | 524,853          |                          |                   | 564,894           | 524,853           |
| Other  | 16,896                | 12,998           | 12,314                   | 14,383            | 29,210            | 27,381            |
| <b>Total revenues</b>  | <b>5,993,218</b>      | <b>4,141,509</b> | <b>11,649,763</b>        | <b>10,272,061</b> | <b>17,642,981</b> | <b>14,413,570</b> |
| <b>Expenses:</b>   |                       |                  |                          |                   |                   |                   |
| General government   | 1,212,742             | 1,274,153        |                          |                   | 1,212,742         | 1,274,153         |
| Public Safety  | 1,851,810             | 1,709,865        |                          |                   | 1,851,810         | 1,709,865         |
| Highways/streets   | 351,761               | 243,208          |                          |                   | 351,761           | 243,208           |
| Environmental Protection                                     | 119,833               | 93,708           |                          |                   | 119,833           | 93,708            |
| Culture and recreation                                       | 390,589               | 334,035          |                          |                   | 390,589           | 334,035           |
| Interest on long-term debt                                   | 165,494               | 175,296          |                          |                   | 165,494           | 175,296           |
| Water and sewer  |                       |                  | 2,243,262                | 2,089,945         | 2,243,262         | 2,089,945         |
| Electric   |                       |                  | 6,833,252                | 6,690,142         | 6,833,252         | 6,690,142         |
| <b>Total expenses</b>  | <b>4,092,229</b>      | <b>3,830,265</b> | <b>9,076,514</b>         | <b>8,780,087</b>  | <b>13,168,743</b> | <b>12,610,352</b> |
| <b>Increase in net assets before extraordinary items</b>     | <b>1,900,989</b>      | <b>311,244</b>   | <b>2,573,249</b>         | <b>1,491,974</b>  | <b>4,474,238</b>  | <b>1,803,218</b>  |
| Extraordinary item – loss on plant closing                   |                       |                  | (1,061,470)              |                   | (1,061,470)       |                   |
| <b>Increase in net assets</b>                                | <b>1,900,989</b>      | <b>311,244</b>   | <b>1,511,779</b>         | <b>1,491,974</b>  | <b>3,412,768</b>  | <b>1,803,218</b>  |
| <b>Net assets, July 1 (before adjustment)</b>                | <b>9,363,230</b>      | <b>9,051,986</b> | <b>20,686,368</b>        | <b>19,194,394</b> | <b>20,686,368</b> | <b>28,246,380</b> |
| <b>Prior period adjustment</b>                               |                       |                  | <b>417,462</b>           |                   | <b>417,462</b>    |                   |
| <b>Net assets, July 1 (as restated)</b>                      | <b>9,363,230</b>      | <b>9,051,986</b> | <b>21,103,830</b>        | <b>19,194,394</b> | <b>21,103,830</b> | <b>28,246,380</b> |
| <b>Net assets, June 30</b>                                   | <b>11,264,219</b>     | <b>9,363,230</b> | <b>22,615,609</b>        | <b>20,686,368</b> | <b>33,879,828</b> | <b>30,049,598</b> |

Management Discussion and Analysis  
City of Southport

**Governmental activities.** Governmental activities increased the City's net assets by \$1,900,989. Key elements of this increase are as follows:

- Increase in property taxes due to new construction added to tax base
- Increase in charges for services such as Community Building Rentals, Rescue Squad collection fees, Parks & Receptions fees, and Accommodation Taxes.
- Reduction in expenses in Board & Administration and Tourism Departments
- Increase in Grant Contributions

**Business-type activities.** Business-type activities increased the City of Southport's net assets by \$1,511,779. Key elements of this increase are as follows:

- Increase in Charges for Service
- Increase in Capital Grants and Contributions due to the Wastewater Project

### **Financial Analysis of the City's Funds**

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

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

The general fund is the chief operating fund of the City of Southport. At the end of the current fiscal year, the City of Southport's fund balance available in the General Fund was \$3,230,548, while total fund balance reached \$3,645,936. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Available fund balance represents 81.85% of total General Fund expenditures, while total fund balance represents 92.37% of that same amount.

At June 30, 2011, the governmental funds of City of Southport reported a combined fund balance of \$3,882,784. This combination includes \$3,645,936 for the General Fund and \$236,848 for the Fire Department Capital Project Fund.

**General Fund Budgetary Highlights.** During the fiscal year, the City 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.

Management Discussion and Analysis  
City of Southport

Revenues were more than the budgeted amounts primarily because the City did not expect to receive some of the unrestricted intergovernmental funds that became available. Expenditures were controlled to comply with its budgetary requirements.

**Proprietary Funds.** The City of Southport's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net assets of the Water and Sewer Fund at the end of the fiscal year amounted to \$2,292,936, and those for the Electric Fund amounted to \$3,225,452. The total change in net assets for both funds was \$795,516 and \$716,263 respectively.

**Capital Asset and Debt Administration**

**Capital Assets.** The City of Southport's investment in capital assets for its governmental and business-type activities as of June 30, 2011, totals \$31,652,233 (net of accumulated depreciation). These assets include buildings, roads and bridges, land, machinery and equipment, park facilities, and vehicles.

Management Discussion and Analysis  
City of Southport

THE CITY OF SOUTHPORT'S CAPITAL ASSETS

FIGURE 4

|                          | Government Activities |                  | Business-Type Activities |                   | Totals            |                   |
|--------------------------|-----------------------|------------------|--------------------------|-------------------|-------------------|-------------------|
|                          | 2011                  | 2010             | 2011                     | 2010              | 2011              | 2010              |
| Land                     | 1,878,373             | 1,873,373        | 2,762,465                | 2,762,465         | 4,640,838         | 4,635,838         |
| Buildings and systems    | 7,299,812             | 3,584,267        | 54,388                   | 54,388            | 7,354,200         | 3,638,655         |
| Water Tank Usage         |                       |                  |                          | 375,000           | 0                 | 375,000           |
| Improvements other than  |                       |                  |                          |                   |                   |                   |
| Buildings                | 870,528               | 870,528          |                          |                   | 870,528           | 870,528           |
| Utility Systems          |                       |                  | 23,106,024               | 19,762,277        | 23,106,024        | 19,762,277        |
| Furniture and equipment  | 571,346               | 488,124          | 414,610                  | 414,610           | 985,956           | 902,734           |
| Infrastructure           | 2,352,272             | 773,927          |                          |                   | 2,352,272         | 773,927           |
| Vehicles and motorized   |                       |                  |                          |                   |                   |                   |
| equipment                | 2,263,630             | 2,215,244        | 396,793                  | 396,793           | 2,660,423         | 2,612,037         |
| Other non-depreciable    |                       |                  |                          | 1,087,000         | 0                 | 1,087,000         |
| Construction in progress |                       | 3,384,579        |                          | 2,933,665         | 0                 | 6,318,244         |
| <b>Subtotal</b>          | <b>15,235,961</b>     | <b>13,190,42</b> | <b>26,734,280</b>        | <b>27,786,198</b> | <b>41,970,241</b> | <b>40,976,240</b> |
| Less: Accumulated depr   | 3,708,628             | 3,329,032        | 6,590,630                | 7,271,367         | 10,299,258        | 10,600,399        |
| <b>Total</b>             | <b>11,527,333</b>     | <b>9,861,010</b> | <b>20,143,650</b>        | <b>20,514,831</b> | <b>31,670,983</b> | <b>30,375,841</b> |

Additional information on the City's capital assets can be found in Note III.A.4 of the Basic Financial Statements.

**Long-term Debt.** As of June 30, 2011, the City of Southport had total General Obligation Bonded Debt outstanding of \$57,500; Revolving Loan Debt of \$1,726,599; Obligation for Water Tank Agreement for \$150,000; Grant Repayment of \$1,124,000 and Installment Notes Payable for \$3,594,800. All of this debt is backed by the full faith and credit of the City.

Management Discussion and Analysis  
City of Southport

CITY OF SOUTHPORT'S OUTSTANDING LONG-TERM LIABILITIES  
FIGURE 5

|                                      | Government       |                  | Business-Type    |                  | Totals           |                  |
|--------------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
|                                      | Activities       |                  | Activities       |                  |                  |                  |
|                                      | 2011             | 2010             | 2011             | 2010             | 2011             | 2010             |
| General Obligation Bonds             | 7,929            | 10,596           | 49,571           | 68,904           | 57,500           | 79,500           |
| Revolving Loan Debt                  |                  |                  | 1,726,599        | 1,509,998        | 1,726,599        | 1,509,998        |
| Grant Re-Payment                     |                  |                  | 1,124,000        | 1,686,000        | 1,124,000        | 1,686,000        |
| Water Tank Agreement                 |                  |                  | 150,000          | 225,000          | 150,000          | 225,000          |
| Installment Notes Payable            | 3,594,800        | 3,784,000        |                  |                  | 3,594,800        | 3,784,000        |
| Capitalized Leases                   | 47,206           | 98,067           |                  | 29,852           | 47,206           | 127,919          |
| Accrued Interest                     | 162,473          | 177,563          | 4,079            | 5,354            | 166,552          | 182,917          |
| Compensated Absences                 | 118,197          | 128,655          | 22,552           | 22,171           | 140,749          | 150,826          |
| Other Postemployment Benefits        | 341,858          | 187,576          | 171,844          | 87,280           | 513,702          | 274,856          |
| Net Pension Obligations              | 14,713           | 25,900           |                  |                  | 14,713           | 25,900           |
| Principal Forgiveness                |                  |                  |                  |                  |                  |                  |
| Grant Reported as Debt in Prior Year |                  |                  |                  | 417,462          |                  | 417,462          |
| <b>Total</b>                         | <b>4,287,176</b> | <b>4,412,357</b> | <b>3,248,645</b> | <b>4,052,021</b> | <b>7,535,821</b> | <b>8,464,378</b> |

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to eight (8) percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for City of Southport is \$54,223,233.

Additional information regarding the City of Southport's long-term debt can be found in Note III.B.6 of this report.

### Economic Factors and Next Year's Budgets and Rates

Significant factors considered in preparing the City of Southport's budget for Fiscal Year 2011-2012 were:

- As noted last year, the state of the National, State and Local economy were major considerations in the development of the City of Southport's FY2011-2012 budget. Revenues and expenditures were very closely scrutinized and a conservative approach was taken in the formulation of revenue projections. Expenditures were limited to what was deemed necessary to continue to maintain a high standard of public service delivery.

Management Discussion and Analysis  
City of Southport

- Current and anticipated debt was carefully considered in the preparation of the FY2011-2012 Fiscal Year budget. Staff and the board of Aldermen have placed a priority upon maintaining public debt levels at manageable levels.
- The five-year Capital Improvement Plan continues to be a useful tool in planning capital projects and their funding. This will continue to be updated on an annual basis and as the needs of the City changes.

All of these factors were considered in preparing the City of Southport's budget for the 2011-2012 Fiscal Year.

**Request for Information**

This financial report is designed to provide a general overview of the City of Southport's finances for all those with an interest in the City's finances. Questions concerning any of the information found in this report or requests for additional information should be directed to the City of Southport, Office of Finance Director, 201 East Moore Street, Southport, NC 28461.

## BASIC FINANCIAL STATEMENTS

**CITY OF SOUTHPORT, NORTH CAROLINA**  
**STATEMENT OF NET ASSETS**  
**June 30, 2011**

**EXHIBIT 1**

|   | <u>Primary Government</u>          |                                     |                   | <u>Component Unit</u>          |
|---|------------------------------------|-------------------------------------|-------------------|--------------------------------|
|   | <u>Governmental<br/>Activities</u> | <u>Business-type<br/>Activities</u> | <u>Total</u>      | <u>Southport ABC<br/>Board</u> |
| <b>ASSETS</b>   |                                    |                                     |                   |                                |
| Current assets  |                                    |                                     |                   |                                |
| Cash and cash equivalents   | 2,960,933                          | 3,730,480                           | 6,691,413         | 302,645                        |
| Taxes receivable (net)  | 118,573                            | -                                   | 118,573           |                                |
| Accounts receivable   | 37,617                             | 1,857,910                           | 1,895,527         | -                              |
| Accrued interest receivable on taxes                                | 22,705                             |                                     | 22,705            |                                |
| Accrued interest receivable on savings                              | -                                  | 1,058                               | 1,058             |                                |
| Due from other governments  | 282,277                            | -                                   | 282,277           |                                |
| Due from component unit   | 126,033                            |                                     | 126,033           |                                |
| Inventories   | -                                  | -                                   | -                 | 155,621                        |
| Prepaid expenses  |                                    |                                     |                   | 7,827                          |
| Restricted cash and cash equivalent:                                | 531,000                            | 810,647                             | 1,341,647         |                                |
| Restricted accounts receivable                                      | -                                  | 246,410                             | 246,410           |                                |
|   | <u>4,079,138</u>                   | <u>6,646,505</u>                    | <u>10,725,643</u> | <u>466,093</u>                 |
| Total current assets  |                                    |                                     |                   |                                |
| Capital assets  |                                    |                                     |                   |                                |
| Land, non-depreciable improvements, and<br>construction in progress | 1,878,373                          | 2,762,465                           | 4,640,838         | 4,600                          |
| Other capital assets, net of depreciation                           | 9,648,960                          | 17,362,435                          | 27,011,395        | 18,492                         |
|   | <u>11,527,333</u>                  | <u>20,124,900</u>                   | <u>31,652,233</u> | <u>23,092</u>                  |
| Total capital assets  |                                    |                                     |                   |                                |
| Total Assets  | <u>15,606,471</u>                  | <u>26,771,405</u>                   | <u>42,377,876</u> | <u>489,185</u>                 |
| <b>LIABILITIES</b>  |                                    |                                     |                   |                                |
| Current liabilities   |                                    |                                     |                   |                                |
| Accounts payable and accrued expenses                               | 53,577                             | 602,251                             | 655,828           | 179,764                        |
| Unearned income   | 1,499                              | -                                   | 1,499             | -                              |
| Customer deposits   | -                                  | 67,419                              | 67,419            |                                |
| Due to primary government   |                                    |                                     |                   | 126,033                        |
| Payable from restricted asset:                                      | -                                  | 237,481                             | 237,481           |                                |
| Current portion of long-term liabilities                            | 448,478                            | 778,813                             | 1,227,291         | -                              |
|   | <u>503,554</u>                     | <u>1,685,964</u>                    | <u>2,189,518</u>  | <u>305,797</u>                 |
| Total current liabilities   |                                    |                                     |                   |                                |
| Long-term liabilities   |                                    |                                     |                   |                                |
| Due in more than one year   | 3,838,698                          | 2,469,832                           | 6,308,530         | 53,388                         |
|   | <u>4,342,252</u>                   | <u>4,155,796</u>                    | <u>8,498,048</u>  | <u>359,185</u>                 |
| Total liabilities   |                                    |                                     |                   |                                |
| <b>NET ASSETS</b>   |                                    |                                     |                   |                                |
| Invested in capital assets, net of related debt                     | 8,070,932                          | 17,187,221                          | 25,258,153        | 23,092                         |
| Restricted for:   |                                    |                                     |                   |                                |
| Stabilization by State Statute                                      | 415,388                            |                                     | 415,388           |                                |
| Streets-Powell Bill   | 300,625                            | -                                   | 300,625           | -                              |
| Fire protector  | 672,212                            | -                                   | 672,212           | -                              |
| Unrestricted  | 1,805,062                          | 5,428,388                           | 7,233,450         | 106,908                        |
|   | <u>11,264,219</u>                  | <u>22,615,609</u>                   | <u>33,879,828</u> | <u>130,000</u>                 |
| Total net assets  |                                    |                                     |                   |                                |

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

**CITY OF SOUTHPORT, NORTH CAROLINA  
STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2011**

EXHIBIT 2

Net (Expense) Revenue and Changes in Net Assets

| <u>Functions/Programs</u>                                    | <u>Expenses</u>   | <u>Program Revenue</u>      |   |   | <u>Primary Government</u>      |                                 |                    | <u>Component Unit</u>      |
|--|-------------------|-----------------------------|---|---|--------------------------------|---------------------------------|--------------------|----------------------------|
|  |                   | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | <u>Capital Grants and Contributions</u> | <u>Governmental Activities</u> | <u>Business-type Activities</u> | <u>Total</u>       | <u>Southport ABC Board</u> |
| <b>Primary government</b>                                    |                   |                             |   |   |                                |                                 |                    |                            |
| Governmental Activities                                      |                   |                             |   |   |                                |                                 |                    |                            |
| General Government   | 1,212,742         | 119,434                     | 4,813                                     | -                                       | (1,088,495)                    |                                 | (1,088,495)        |                            |
| Public Safety  | 1,851,810         | 852,309                     | 69,472                                    | 500                                     | (929,529)                      |                                 | (929,529)          |                            |
| Transportation   | 351,761           | -                           | 99,392                                    | 1,561,828                               | 1,309,459                      |                                 | 1,309,459          |                            |
| Culture and Recreation                                       | 390,589           | 46,856                      | -   | 154,963                                 | (188,770)                      |                                 | (188,770)          |                            |
| Environmental Protection                                     | 119,833           | 115,500                     | -   | -                                       | (4,333)                        |                                 | (4,333)            |                            |
| Interest on Long-term debt                                   | 165,494           | -                           | -   | -                                       | (165,494)                      |                                 | (165,494)          |                            |
| Total governmental activities                                | <u>4,092,229</u>  | <u>1,134,099</u>            | <u>173,677</u>                            | <u>1,717,291</u>                        | <u>(1,067,162)</u>             |                                 | <u>(1,067,162)</u> |                            |
| Business-type activities                                     |                   |                             |   |   |                                |                                 |                    |                            |
| Electric Operations  | 6,833,252         | 7,538,379                   | 1,394                                     | -                                       |                                | 706,521                         | 706,521            |                            |
| Water and Sewer Operations                                   | 2,243,262         | 2,051,863                   | -   | 2,045,813                               |                                | 1,854,414                       | 1,854,414          |                            |
| Total business-type activities                               | <u>9,076,514</u>  | <u>9,590,242</u>            | <u>1,394</u>                              | <u>2,045,813</u>                        |                                | <u>2,560,935</u>                | <u>2,560,935</u>   |                            |
| Total primary government                                     | <u>13,168,743</u> | <u>10,724,341</u>           | <u>175,071</u>                            | <u>3,763,104</u>                        | <u>(1,067,162)</u>             | <u>2,560,935</u>                | <u>1,493,773</u>   |                            |
| <b>Component Unit</b>  |                   |                             |   |   |                                |                                 |                    |                            |
| Southport ABC Board  | 1,991,265         | 1,991,016                   | -   | -                                       |                                |                                 |                    | (249)                      |
| Total component units  | <u>1,991,265</u>  | <u>1,991,016</u>            | <u>-</u>                                  | <u>-</u>                                |                                |                                 |                    | <u>(249)</u>               |
| General revenues:  |                   |                             |   |   |                                |                                 |                    |                            |
| Taxes:   |                   |                             |   |   |                                |                                 |                    |                            |
| Property taxes, levied for general purposes                  |                   |                             |   |   | 1,714,198                      | -                               | 1,714,198          | -                          |
| Other taxes  |                   |                             |   |   | 672,163                        | -                               | 672,163            | -                          |
| Grants and contributions not restricted to specific programs |                   |                             |   |   | 564,894                        | -                               | 564,894            | -                          |
| Unrestricted investment earnings                             |                   |                             |   |   | 6,787                          | 12,314                          | 19,101             | 249                        |
| Miscellaneous  |                   |                             |   |   | 10,109                         | -                               | 10,109             | -                          |
| Special item - loss on plant closing                         |                   |                             |   |   | -                              | (1,061,470)                     | (1,061,470)        | -                          |
| Total general revenues and special item                      |                   |                             |   |   | <u>2,968,151</u>               | <u>(1,049,156)</u>              | <u>1,918,995</u>   | <u>249</u>                 |
| Change in net assets   |                   |                             |   |   | 1,900,989                      | 1,511,779                       | 3,412,768          | -                          |
| Net assets - beginning as previously reported                |                   |                             |   |   | 9,363,230                      | 20,686,368                      | 30,049,598         | 130,000                    |
| Prior period adjustment                                      |                   |                             |   |   |                                | 417,462                         | 417,462            |                            |
| Net assets - beginning as restated                           |                   |                             |   |   | <u>9,363,230</u>               | <u>21,103,830</u>               | <u>30,467,060</u>  | <u>130,000</u>             |
| Net assets - ending  |                   |                             |   |   | <u>11,264,219</u>              | <u>22,615,609</u>               | <u>33,879,828</u>  | <u>130,000</u>             |

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

CITY OF SOUTHPORT, NORTH CAROLINA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2011

EXHIBIT 3  
Page 1 of 2

|                                      | <u>Major Funds</u>  | <u>Non-Major Funds</u>                  |   |
|--------------------------------------|---------------------|---|---|
|                                      | <u>General Fund</u> | <u>Fire Station<br/>Capital Project</u> | <u>Total<br/>Governmental<br/>Funds</u> |
| <b>ASSETS</b>                        |                     |   |   |
| Cash and cash equivalents            | 2,960,933           | -                                       | 2,960,933                               |
| Taxes receivable, net                | 118,573             | -                                       | 118,573                                 |
| Receivable from other governments    | 238,963             | -                                       | 238,963                                 |
| Receivable from other component unit | 126,033             | -                                       | 126,033                                 |
| Other receivables                    | 37,617              | 43,314                                  | 80,931                                  |
| Restricted cash and cash equivalents | 337,466             | 193,534                                 | 531,000                                 |
| Total assets                         | <u>3,819,585</u>    | <u>236,848</u>                          | <u>4,056,433</u>                        |
| <b>LIABILITIES AND FUND BALANCES</b> |                     |   |   |
| Liabilities:                         |                     |   |   |
| Accounts payable                     | 46,132              | -                                       | 46,132                                  |
| Deferred revenue                     | 118,573             | -                                       | 118,573                                 |
| Unearned Income                      | 1,499               | -                                       | 1,499                                   |
| Other accrued expenses               | 7,445               | -                                       | 7,445                                   |
| Total liabilities                    | <u>173,649</u>      | <u>-</u>                                | <u>173,649</u>                          |
| Fund balances:                       |                     |   |   |
| Non Spendable                        |                     |   |   |
| Inventories                          |                     |   |   |
| Restricted                           |                     |   |   |
| Stabilization by State Statute       | 415,388             | -                                       | 415,388                                 |
| Streets                              | 300,625             | -                                       | 300,625                                 |
| Fire protection                      | 435,364             | 236,848                                 | 672,212                                 |
| Committed                            |                     |   |   |
| Fire protection                      | 36,791              | -                                       | 36,791                                  |
| Assigned                             |                     |   |   |
| Designated for subsequent year       | 786,500             | -                                       | 786,500                                 |
| Unassigned                           | 1,671,268           | -                                       | 1,671,268                               |
| Total fund balances                  | <u>3,645,936</u>    | <u>236,848</u>                          | <u>3,882,784</u>                        |
| Total liabilities and fund balances  | <u>3,819,585</u>    | <u>236,848</u>                          | <u>4,056,433</u>                        |

**CITY OF SOUTHPORT, NORTH CAROLINA  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
June 30, 2011**

**EXHIBIT 3  
Page 2 of 2**

|   |             |             |
|---|-------------|-------------|
| Total fund balance, governmental fund:  |             | 3,882,784   |
| Amounts reported for governmental activities in the Statement of Net Assets are different because:  |             |             |
| Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets. |             | 11,527,333  |
| Certain other long-term assets (accrued interest receivable from taxes) are not available to pay current period expenditures and therefore are deferred in the funds.   |             | 22,705      |
| Liabilities for earned but deferred revenues in fund statement  |             | 118,573     |
| Some liabilities are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets.                                |             |             |
| Accrued interest payable  | (162,473)   |             |
| Capital leases payable  | (47,207)    |             |
| Installment notes payable   | (3,594,800) |             |
| General obligation bonds payable  | (7,928)     |             |
| Compensated absences  | (118,197)   |             |
| Other postemployment benefits   | (341,858)   |             |
| Net pension obligation  | (14,713)    |             |
|   | (4,287,176) | (4,287,176) |
| Net Assets of Governmental Activities in the Statement of Net Asset   |             | 11,264,219  |

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

**CITY OF SOUTHPORT, NORTH CAROLINA**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**For the Year Ended June 30, 2011**

**EXHIBIT 4**  
**Page 1 of 2**

|   | <u>Major Funds</u>  | <u>Non-Major Funds</u>                  | <u>Total</u>                  |
|---|---------------------|---|-------------------------------|
|   | <u>General Fund</u> | <u>Fire Station<br/>Capital Project</u> | <u>Governmental<br/>Funds</u> |
| <b>REVENUES</b>                                   |                     |   |                               |
| Property taxes                                    | 1,694,117           | -                                       | 1,694,117                     |
| Other taxes                                       | 74,293              | -                                       | 74,293                        |
| Unrestricted intergovernmental revenue            | 1,162,764           | -                                       | 1,162,764                     |
| Restricted intergovernmental revenue:             | 914,186             | -                                       | 914,186                       |
| Licenses and permits                              | 92,063              | -                                       | 92,063                        |
| Sales and services                                | 431,044             | -                                       | 431,044                       |
| Investment earnings                               | 6,226               | 561                                     | 6,787                         |
| Miscellaneous                                     | 36,055              | 43,314                                  | 79,369                        |
| Total revenues                                    | 4,410,748           | 43,875                                  | 4,454,623                     |
| <b>EXPENDITURES</b>                               |                     |   |                               |
| Current:  |                     |   |                               |
| General government                                | 1,121,524           | -                                       | 1,121,524                     |
| Public safety                                     | 1,651,970           | 457,502                                 | 2,109,472                     |
| Transportation                                    | 274,428             | -                                       | 274,428                       |
| Environmental protection                          | 119,833             | -                                       | 119,833                       |
| Culture and recreation                            | 316,650             | -                                       | 316,650                       |
| Debt Service:                                     |                     |   |                               |
| Principal   | 281,938             | -                                       | 281,938                       |
| Interest and other charges                        | 180,584             | -                                       | 180,584                       |
| Total expenditures                                | 3,946,927           | 457,502                                 | 4,404,429                     |
| Excess (deficiency) of revenues over expenditures | 463,821             | (413,627)                               | 50,194                        |
| <b>OTHER FINANCING SOURCES (USES)</b>             |                     |   |                               |
| Proceeds from capital leases                      | 39,210              | -                                       | 39,210                        |
| Total other financing sources and use             | 39,210              | -                                       | 39,210                        |
| Net change in fund balances                       | 503,031             | (413,627)                               | 89,404                        |
| Fund balances - beginning                         | 3,142,905           | 650,475                                 | 3,793,380                     |
| Fund balances - ending                            | 3,645,936           | 236,848                                 | 3,882,784                     |

**CITY OF SOUTHPORT, NORTH CAROLINA**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
**For the Year Ended June 30, 2011**

Net change in fund balances - total governmental funds: 89,404

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period. This is the amount by which capital outlays \$527,405 are exceeded by depreciation \$379,596 in the current period. 147,809

Governmental funds report sales tax refunds on construction projects as a revenue in the project. The statement of activities reduces the cost of the assets constructed by the sales tax refunded. (43,314)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.  
Amount of donated assets 1,561,828  
Change in deferred revenue for tax revenue 20,081

Governmental funds report debt proceeds as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of bond principal as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities.  
Principal paid on debt 281,938  
Proceeds of long-term debt (39,210) 242,728

Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:  
Accrued interest 15,090  
Compensated absences 10,458  
Net pension obligation 11,187  
Other postemployment benefits (154,282)

Change in net assets of governmental activities: 1,900,989

CITY OF SOUTHPORT, NORTH CAROLINA  
**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE-BUDGET AND ACTUAL**  
For the Year Ended June 30, 2011

EXHIBIT 5

|   | <u>Budgeted Amounts</u> |                  | <u>Actual Amounts</u>   | <u>Variance with<br/>Final Budget -<br/>Positive<br/>(Negative)</u> |
|---|-------------------------|------------------|-------------------------|---|
|   | <u>Original</u>         | <u>Final</u>     |                         |   |
| <b>REVENUES</b>                                   |                         |                  |                         |   |
| Ad valorem taxes                                  | 1,648,000               | 1,648,000        | 1,694,117               | 46,117  |
| Other taxes                                       | 77,000                  | 77,000           | 74,293                  | (2,707)   |
| Unrestricted intergovernmental revenues           | 1,163,000               | 1,163,000        | 1,162,764               | (236)   |
| Restricted intergovernmental revenues             | 745,500                 | 745,500          | 914,186                 | 168,686   |
| Licenses and permits                              | 84,500                  | 86,100           | 92,063                  | 5,963   |
| Sales and services                                | 345,500                 | 386,300          | 431,044                 | 44,744  |
| Investment earnings                               | 8,100                   | 8,100            | 6,226                   | (1,874)   |
| Miscellaneous                                     | 36,950                  | 42,675           | 36,055                  | (6,620)   |
| Total revenues                                    | <u>4,108,550</u>        | <u>4,156,675</u> | <u>4,410,748</u>        | <u>254,073</u>  |
| <b>EXPENDITURES</b>                               |                         |                  |                         |   |
| Current:  |                         |                  |                         |   |
| General government                                | 1,175,941               | 1,216,360        | 1,121,524               | 94,836  |
| Public safety                                     | 1,769,336               | 1,867,446        | 1,651,970               | 215,476   |
| Transportation                                    | 286,413                 | 298,000          | 274,428                 | 23,572  |
| Environmental protection                          | 98,500                  | 110,500          | 119,833                 | (9,333)   |
| Culture and recreation                            | 306,560                 | 320,360          | 316,650                 | 3,710   |
| Debt Service:                                     |                         |                  |                         |   |
| Principal   | 283,700                 | 282,706          | 281,938                 | 768   |
| Interest and other charges                        | 180,600                 | 180,600          | 180,584                 | 16  |
| Contingency                                       | 7,500                   | -                | -                       | -   |
| Total expenditures                                | <u>4,108,550</u>        | <u>4,275,972</u> | <u>3,946,927</u>        | <u>329,045</u>  |
| Excess (deficiency) of revenues over expenditures | -                       | (119,297)        | 463,821                 | 583,118   |
| <b>OTHER FINANCING SOURCES (USES)</b>             |                         |                  |                         |   |
| Proceeds from capital leases                      | -                       | 39,210           | 39,210                  | -   |
| Total other financing sources and uses            | <u>-</u>                | <u>39,210</u>    | <u>39,210</u>           | <u>-</u>  |
| Fund balance appropriated                         | -                       | 80,087           | -                       | (80,087)  |
| Net change in fund balance                        | <u>-</u>                | <u>-</u>         | 503,031                 | <u>503,031</u>  |
| Fund balance - beginning                          |                         |                  | <u>3,142,905</u>        |   |
| Fund balance - ending                             |                         |                  | <u><u>3,645,936</u></u> |   |

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

**CITY OF SOUTHPORT, NORTH CAROLINA**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**June 30, 2011**

**EXHIBIT 6**

|   | <b>Major Enterprise Funds</b> |                                    |                     |
|---|-------------------------------|------------------------------------|---------------------|
|   | <b><u>Electric Fund</u></b>   | <b><u>Water and Sewer Fund</u></b> | <b><u>Total</u></b> |
| <b>ASSETS</b>                                   |                               |                                    |                     |
| Current assets:                                 |                               |                                    |                     |
| Cash and cash equivalents                       | 3,387,935                     | 342,545                            | 3,730,480           |
| Accounts receivable, net                        | 481,143                       | 289,767                            | 770,910             |
| Receivables from other governments              | -                             | 1,087,000                          | 1,087,000           |
| Other receivables                               | 1,058                         | -                                  | 1,058               |
| Total current assets                            | 3,870,136                     | 1,719,312                          | 5,589,448           |
| Non-current assets:                             |                               |                                    |                     |
| Restricted assets                               |                               |                                    |                     |
| Cash and cash equivalents                       | -                             | 810,647                            | 810,647             |
| Accounts receivable                             | -                             | 246,410                            | 246,410             |
| Capital assets:                                 |                               |                                    |                     |
| Land and improvements                           | -                             | 2,762,465                          | 2,762,465           |
| Utility system                                  | 8,361,023                     | 14,745,001                         | 23,106,024          |
| Buildings                                       | 54,388                        | -                                  | 54,388              |
| Equipment and furniture                         | 76,496                        | 338,114                            | 414,610             |
| Vehicles  | 57,548                        | 339,245                            | 396,793             |
| Less: Accumulated depreciation                  | (2,478,711)                   | (4,130,669)                        | (6,609,380)         |
| Total non-current assets                        | 6,070,744                     | 15,111,213                         | 21,181,957          |
| Total assets                                    | 9,940,880                     | 16,830,525                         | 26,771,405          |
| <b>LIABILITIES</b>                              |                               |                                    |                     |
| Current liabilities:                            |                               |                                    |                     |
| Accounts payable                                | 538,292                       | 62,616                             | 600,908             |
| Salaries payable                                | 651                           | 692                                | 1,343               |
| Customer deposits                               | 67,419                        | -                                  | 67,419              |
| Accounts payable from restricted assets         | -                             | 237,481                            | 237,481             |
| Compensated absences                            | 8,000                         | 7,000                              | 15,000              |
| Accrued interest payable                        | -                             | 4,079                              | 4,079               |
| Grant repayment                                 | -                             | 562,000                            | 562,000             |
| Bonds, notes and loans payable                  | -                             | 197,734                            | 197,734             |
| Total current liabilities                       | 614,362                       | 1,071,602                          | 1,685,964           |
| Non-current liabilities:                        |                               |                                    |                     |
| Compensated absences                            | 6,732                         | 820                                | 7,552               |
| Other postemployment benefits                   | 23,590                        | 148,254                            | 171,844             |
| Grant repayment                                 | -                             | 562,000                            | 562,000             |
| Bonds, notes and loans payable                  | -                             | 1,728,436                          | 1,728,436           |
| Total non-current liabilities                   | 30,322                        | 2,439,510                          | 2,469,832           |
| Total liabilities                               | 644,684                       | 3,511,112                          | 4,155,796           |
| <b>NET ASSETS</b>                               |                               |                                    |                     |
| Invested in capital assets, net of related debt | 6,070,744                     | 11,116,477                         | 17,187,221          |
| Unrestricted                                    | 3,225,452                     | 2,202,936                          | 5,428,388           |
| Total net assets                                | 9,296,196                     | 13,319,413                         | 22,615,609          |

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

**CITY OF SOUTHPORT, NORTH CAROLINA**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**For the Year Ended June 30, 2011**

**EXHIBIT 7**

|   | <b>Major Enterprise Funds</b> |                                    |                     |
|---|-------------------------------|------------------------------------|---------------------|
|   | <u><b>Electric Fund</b></u>   | <u><b>Water and Sewer Fund</b></u> | <u><b>Total</b></u> |
| <b>REVENUES</b>                                     |                               |                                    |                     |
| Charges for services                                | 7,538,379                     | 2,051,863                          | 9,590,242           |
| Miscellaneous                                       | 1,394                         | -                                  | 1,394               |
| Total operating revenues                            | 7,539,773                     | 2,051,863                          | 9,591,636           |
| <b>OPERATING EXPENSES</b>                           |                               |                                    |                     |
| Electric operations                                 | 6,617,455                     | -                                  | 6,617,455           |
| Water and sewer operations                          | -                             | 1,840,573                          | 1,840,573           |
| Depreciation  | 215,797                       | 375,256                            | 591,053             |
| Total operating expenses                            | 6,833,252                     | 2,215,829                          | 9,049,081           |
| Operating income (loss)                             | 706,521                       | (163,966)                          | 542,555             |
| <b>NON-OPERATING REVENUES (EXPENSES)</b>            |                               |                                    |                     |
| Interest and investment revenue                     | 9,742                         | 2,572                              | 12,314              |
| Interest expense                                    | -                             | (27,433)                           | (27,433)            |
| Total non-operating revenue (expenses)              | 9,742                         | (24,861)                           | (15,119)            |
| Income (loss) before contributions                  | 716,263                       | (188,827)                          | 527,436             |
| Capital contributions - customers                   | -                             | 865,219                            | 865,219             |
| Capital contributions - State grant                 |                               | 895,709                            | 895,709             |
| Capital contributions - federal grant               |                               | 284,885                            | 284,885             |
| Special item - Loss on plant closing                | -                             | (1,061,470)                        | (1,061,470)         |
| Change in net assets                                | 716,263                       | 795,516                            | 1,511,779           |
| Total net assets - beginning as previously reported | 8,579,933                     | 12,106,435                         | 20,686,368          |
| Prior period adjustment                             |                               | 417,462                            | 417,462             |
| Total net assets - beginning as restated            | 8,579,933                     | 12,523,897                         | 21,103,830          |
| Total net assets - ending                           | 9,296,196                     | 13,319,413                         | 22,615,609          |

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

**CITY OF SOUTHPORT, NORTH CAROLINA**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**For the Year Ended June 30, 2011**

**EXHIBIT 8**  
**Page 1 of 2**

|  | <u>Major Enterprise Funds</u> |                                       | <u>Total</u>     |
|--|-------------------------------|---------------------------------------|------------------|
|  | <u>Electric<br/>Fund</u>      | <u>Water &amp;<br/>Sewer<br/>Fund</u> |                  |
| <b>Cash flows from operating activities:</b>                             |                               |                                       |                  |
| Cash received from customers   | 7,547,360                     | 2,027,633                             | 9,574,993        |
| Cash paid for goods and services   | (6,507,888)                   | (1,392,095)                           | (7,899,983)      |
| Cash paid to employees   | (191,033)                     | (344,523)                             | (535,556)        |
| Customer deposits received   | 49,587                        |                                       | 49,587           |
| Customer deposits returned   | (29,829)                      |                                       | (29,829)         |
| Other operating revenues   | <u>1,394</u>                  | <u>-</u>                              | <u>1,394</u>     |
| Net cash provided (used)<br>by operating activities                      | <u>869,591</u>                | <u>291,015</u>                        | <u>1,160,606</u> |
| <br><b>Cash flows from capital and related<br/>financing activities:</b> |                               |                                       |                  |
| Proceeds from debt   | -                             | 482,067                               | 482,067          |
| Acquisition of capital assets  | (149,904)                     | (2,282,858)                           | (2,432,762)      |
| Principal paid on long-term debt   | -                             | (754,469)                             | (754,469)        |
| Interest paid on long-term debt  | -                             | (28,708)                              | (28,708)         |
| Capital contribution-State grants  |                               | 1,684,099                             | 1,684,099        |
| Contributions from customers   | <u>-</u>                      | <u>128,575</u>                        | <u>128,575</u>   |
| Net cash provided (used) for capital and<br>related financing activities | <u>(149,904)</u>              | <u>(771,294)</u>                      | <u>(921,198)</u> |
| <br><b>Cash flows from investing activities:</b>                         |                               |                                       |                  |
| Interest on investments  | <u>10,375</u>                 | <u>2,572</u>                          | <u>12,947</u>    |
| <br>Net increase (decrease) in cash and<br>cash equivalents              | 730,062                       | (477,707)                             | 252,355          |
| <br>Cash and cash equivalents, beginning                                 | <u>2,657,873</u>              | <u>1,630,899</u>                      | <u>4,288,772</u> |
| <br>Cash and cash equivalents, ending                                    | <u>3,387,935</u>              | <u>1,153,192</u>                      | <u>4,541,127</u> |

**CITY OF SOUTHPORT, NORTH CAROLINA**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**For the Year Ended June 30, 2011**

**EXHIBIT 8**  
**Page 2 of 2**

|   | <b>Major Enterprise Funds</b> |                                       |              |
|---|-------------------------------|---------------------------------------|--------------|
|   | <b>Electric<br/>Fund</b>      | <b>Water &amp;<br/>Sewer<br/>Fund</b> | <b>Total</b> |
| Reconciliation of operating income to net cash provided by operating activities:        |                               |                                       |              |
| Operating income (loss)   | 706,521                       | (163,966)                             | 542,555      |
| Adjustments to reconcile operating income to net cash provided by operating activities: |                               |                                       |              |
| Depreciation  | 215,797                       | 375,256                               | 591,053      |
| Changes in assets and liabilities   |                               |                                       |              |
| (Increase) decrease in accounts receivable  | 10,154                        | (24,230)                              | (14,076)     |
| Increase (decrease) in accounts payable   | (93,411)                      | 29,612                                | (63,799)     |
| Increase (decrease) in accrued wages  | 651                           | 692                                   | 1,343        |
| Increase (decrease) in collected in advance   | (1,173)                       | -                                     | (1,173)      |
| Increase (decrease) in customer deposits  | 19,758                        | -                                     | 19,758       |
| Increase (decrease) in accrued vacation   | 861                           | (480)                                 | 381          |
| Increase (decrease) in OPEB accrual   | 10,433                        | 74,131                                | 84,564       |
| Total adjustments   | 163,070                       | 454,981                               | 618,051      |
| Net cash provided (used) by operating activities  | 869,591                       | 291,015                               | 1,160,606    |
| Non-cash investing, capital and financing activities:                                   |                               |                                       |              |
| Assets received from developers   |                               | 736,644                               | 736,644      |
| Capital assets retired  |                               | (1,061,470)                           | (1,061,470)  |
| Total non-cash investing, capital and financing activities                              |                               | (324,826)                             | (324,826)    |

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

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the City of Southport, North Carolina and its discretely presented component unit 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 City of Southport is a municipal corporation that is governed by an elected mayor and a six-member Board of Aldermen. As required by generally accepted accounting principles, these financial statements present the City and its component unit, a legally separate entity for which the City is financially accountable. The discretely presented component unit presented below is reported in a separate column in the City's financial statements in order to emphasize that it is legally separate from the City.

City of Southport ABC Board

The members of the ABC Board's governing board are appointed by the City. In addition, the ABC Board is required by State statute to distribute 100% of its surpluses to the General Fund of the City. The ABC Board, which has a June 30 year-end, is presented as if it were a proprietary fund (discrete presentation). Complete financial statements for the ABC Board may be obtained from the entity's administrative offices at Southport ABC Board, 714 North Howe Street, Southport, NC 28461.

**B. Basis of Presentation**

*Government-wide Statements:* The statement of net assets and the statement of activities display information about the primary government and its component unit. 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 City. 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 statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City'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 City'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.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies result from non-exchange transactions. Other non-operating revenues are ancillary activities such as investment earnings.

The City reports the following major governmental fund:

**General Fund.** The General Fund is the general operating fund of the City. 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 public safety, street maintenance and construction, and recreational facilities and programs.

The City reports the following non-major governmental fund:

**Fire Station Capital Project Fund.** This fund is used to account for the construction of a new fire station.

The City reports the following major enterprise funds:

**Electric Fund.** This fund is used to account for the City's electric fund operations.

**Water and Sewer Fund.** This fund is used to account for the City's water and sewer operations.

**Wastewater Enhancement Phase II Capital Project Fund.** This fund is used to account for the second phase of the wastewater enhancement construction.

C. Measurement Focus and Basis of Accounting

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

*Government-wide and Proprietary Fund Financial Statements.* The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary 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. Nonexchange transactions, in which the City 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.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, service, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City enterprise funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the water and sewer system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

*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 City 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 revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of January 1, 1993, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, Brunswick County is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts in the County, including the City of Southport. For motor vehicles registered under the staggered system, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, the City's vehicle taxes for vehicles registered in Brunswick County from March 2010 through February 2011 apply to the fiscal year ended June 30, 2011. Uncollected taxes that were billed during this period are shown as a receivable in these financial statements and are offset by deferred revenues.

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

As permitted by generally accepted accounting principles, the City has elected to apply only applicable FASB Statements and Interpretations issued on or before November 30, 1989 that do not contradict GASB pronouncements in its accounting and reporting practices for its proprietary operations.

#### D. Budgetary Data

The City's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund and the Enterprise Funds. All annual appropriations lapse at the fiscal-year end. Project ordinances are adopted for the Fire Station Capital Project and the Wastewater Enhancement Capital Project. The enterprise fund projects are consolidated with their respective operating fund for reporting purposes. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the object level for the multi-year funds. The City Manager is authorized to transfer appropriations within a fund as he sees necessary; however, the governing board must approve any revisions that alter the total expenditures of any fund by \$1,500. During the year, several amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers the time until the annual ordinance can be adopted.

#### E. Assets, Liabilities, and Fund Equity

##### 1. Deposits and Investments

All deposits of the City and of the ABC Board are made in board-designated official depositories and are secured as required by State law (G.S. 15-31). The City and the ABC Board may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the City and the ABC Board 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 City and the ABC Board 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 nonguaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust (NCCMT). The City's and the ABC Board's

investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT Cash Portfolio, a SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price.

2. Cash and Cash Equivalents

The City 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. The ABC Board considers all highly liquid investments (including restricted assets) with maturity of three months or less when purchased to be cash and cash equivalents.

3. Restricted Assets

Unexpended debt proceeds in the Fire Station Capital Project Fund and the Wastewater Enhancement Project Fund and the unexpended impact fee proceeds of the Water and Sewer Fund are classified as restricted assets for the enterprise fund because their use is completely restricted to the purpose of water and sewer line expansion. Customer deposits held by the City before any services are supplied are restricted to the service for which the deposit was collected. Powell Bill funds are classified as restricted cash because it can be expended only for the purposed of maintaining, repairing, constructing, reconstructing or widening of local streets per G. S. 136-41.1 through 136-41.4. The balance of funds on hand from the fire fees are also classified as restricted because these funds can only be used for fire and rescue purposes per the statutes authorizing their collection.

4. Ad Valorem Taxes Receivable

In accordance with State law (G.S. 105-347 and G.S. 159-13(a)), the City levies ad valorem taxes on property other than motor vehicles on July 1st, the beginning of the fiscal year. The taxes are due on September 1st (lien date); however, interest does not accrue until the following January 6th. These taxes are based on the assessed values as of January 1, 2010.

5. Allowances for Doubtful Accounts

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

6. Inventory

The inventories of the ABC Board are valued at cost (first-in, first-out), which approximates market. The inventory consists of products for resale to customers. The cost of these inventories is expensed when sold rather than when purchased.

7. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization cost is \$5,000. 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, consisting mainly of road networks, are not reported, because the City is a Phase III city under GASB 34, and not required to report those assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

| <u>Asset Class</u>               | <u>Estimated Useful Lives</u> |
|----------------------------------|-------------------------------|
| Infrastructure                   | 25-30                         |
| Utility systems                  | 40                            |
| Intangible assets                | 40                            |
| Buildings                        | 50                            |
| Improvements                     | 25                            |
| Vehicles and motorized equipment | 5-10                          |

The City has a collection of art work and historical artifacts for public exhibition and education that is being preserved for future generations. This collection was donated and has restrictions on both its use and disposal. The collection is not capitalized or depreciated as part of capital assets.

Property, plant and equipment of the ABC Board are depreciated over their useful lives on a straight-line basis as follows:

| <u>Asset Class</u>      | <u>Estimated Useful Lives</u> |
|-------------------------|-------------------------------|
| Buildings               | 25                            |
| Furniture and equipment | 10                            |
| Leasehold improvements  | 10-20                         |

**8. Long-Term Obligations**

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net assets. The debt service requirements for fund revenues are meeting the debt, but the taxing power of the City is pledged to make these payments if fund revenues should ever be insufficient.

**9. Compensated Absences**

The vacation policy of the City provides for the accumulation of up to two hundred forty (240) hours earned vacation leave with such leave being fully vested when earned. For the City's government-wide and proprietary funds, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned. The City 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 ABC Board employees may earn two weeks vacation each year. This must be taken before the end of the year and does not accumulate. The current portion is not material and is not recorded in these financial statements.

Both the City and the ABC Board's sick leave policies provide 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 neither the City nor the ABC Board has any obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

10. Net Assets/Fund Balances

Net Assets

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

Fund Balances

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

The governmental fund types classify fund balances as follows:

**Nonspendable 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.

**Inventories** – Portion of fund balance that is not an available resource because it represents the year-end balance of ending inventories, which are not spendable resources.

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

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

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

**Restricted for Fire Protection** – portion of fund balance that is restricted by revenue source for fire protection expenditures. This amount represents the unexpended balance of fire district fees.

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

**Committed for fire protection** – portion of fund balance allowed by Board to be used at the discretion of the leadership of the fire department. This balance represents balance of funds raised by the department through various fund raising programs.

**Assigned fund balance** – portion of fund balance that City of Southport 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; however the budget ordinance authorizes the manager to modify the appropriations by resource or appropriation within funds up to \$1,500.

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

The City of Southport has a revenue spending policy that provides guidance for programs with multiple revenue sources. The Finance Officer will use resources in the following hierarchy: bond proceeds, federal funds, State funds, local non-city funds, city funds. For purposes of fund balance classification expenditures are to be spent from restricted fund balance first, followed in order by committed fund balance, assigned fund balance and lastly unassigned fund balance. The Finance Officer has the authority to deviate from this policy if it is in the best interest of the City.

## II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

There were no noted violations of state statutes, or contractual obligations during the year ended June 30, 2011.

## III. DETAIL NOTES ON ALL FUNDS

### A. Assets

#### 1. Deposits

All the deposits of the City and the ABC Board 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 City's or the ABC Board'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 City and the ABC Board, these deposits are considered to be held by the City's and the ABC Board's agents in their names. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the City, The ABC Board or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the City or the ABC Board 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. The City has no formal policy regarding custodial credit risk for deposits, and relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The City complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured. The ABC Board has no formal policy regarding custodial credit risk for deposits.

At June 30, 2011, the City's deposits had a carrying amount of \$8,031,475 and a bank balance of \$8,085,060. The carrying amount of deposits of the ABC Board was \$301,945 and the bank balance was \$293,164. \$250,000 of the ABC Board and \$529,245 of the City was covered by federal depository insurance. The balances of the deposits \$7,555,815 for the City and \$43,164 by the ABC Board were collateralized by institutions using the Pooling Method. At June 30, 2011, the City's cash on hand totaled \$350.

#### 2. Investments

At June 30, 2011, the City of Southport had \$1,235 invested with the North Carolina Capital Management Trust's Cash Portfolio which accrued a credit rating of AAAM by Standard and Poor's. The City has no policy regarding credit risk.

3 Receivable – Southeast Brunswick Sanitary District

The City had a contractual disagreement with the Southeast Brunswick Sanitary District (SBSD) over the treatment of the City’s wastewater for a forty year period. In November 2007 SBSB presented the City with a new contract to sign, which increased the cost of the original agreement. The City refused to sign the new contract and requested that the SBSB honor their original agreement. Because of the uncertainty of the situation, the City began to explore alternative solutions for treatment of wastewater because SBSB could not honor the original agreement. SBSB filed suit against the City for violation of the contract and the City filed suit against SBSB for refund of funds paid under the contract. The suit of SBSB was dismissed before trial while the suit of the City was allowed to proceed. Through June 30, 2010 the City had paid SBSB \$1,087,000 in impact fees for the future treatment of the wastewater. That amount had been capitalized and was to be amortized over the term of the contract. On September 27, 2011, the court awarded the City of Southport refund of the \$1,087,000 plus costs and interest. As of the date of these statements the final amount of the costs and interest are being discussed with final settlement of these items not yet determined. In these financial statements, the total of the \$1,087,000 in future treatment rights has been replaced with a receivable of the same amount in the Water and Sewer Fund. No gain or loss on the settlement has been recognized. Income from interest and costs will be recognized when determined.

4. Receivables - Allowances for Doubtful Accounts

The amounts presented in the Balance Sheet and the Statement of Net Assets are net of the following allowances for doubtful accounts:

| <u>Fund</u>          | <u>6/30/11</u>    |
|----------------------|-------------------|
| General Fund:        |                   |
| Taxes receivable     | 20,925            |
| Solid waste accounts | <u>653</u>        |
| Total                | <u>21,578</u>     |
| Enterprise Funds:    |                   |
| Electric Fund        | 42,008            |
| Water and Sewer Fund | <u>12,106</u>     |
| Total                | <u>54,114</u>     |
| <br>Total            | <br><u>75,692</u> |

5, Capital Assets

Primary Government

Capital asset activity for the Primary Government for the year ended June 30, 2011, was as follows:

|   | Beginning |                  |           |           | Ending     |
|---|-----------|------------------|-----------|-----------|------------|
|   | Balances  | Reclassification | Increases | Decreases | Balances   |
| Governmental activities:                    |           |                  |           |           |            |
| Capital assets not being depreciated:       |           |                  |           |           |            |
| Land  | 1,873,373 | -                | 5,000     | -         | 1,878,373  |
| Construction in progress                    | 3,384,579 | (3,798,767)      | 414,188   |           | -          |
| Total capital assets not being depreciated  | 5,257,952 | (3,798,767)      | 419,188   | -         | 1,878,373  |
| Capital assets being depreciated            |           |                  |           |           |            |
| Buildings                                   | 3,584,267 | 3,715,545        |           | -         | 7,299,812  |
| Other improvements                          | 870,528   |                  |           | -         | 870,528    |
| Infrastructure                              | 773,927   | -                | 1,578,345 | -         | 2,352,272  |
| Vehicles and motorized equipment            | 2,215,244 | -                | 48,386    |           | 2,263,630  |
| Furniture and equipment                     | 488,124   | 83,222           |           | -         | 571,346    |
| Total capital assets being depreciated      | 7,932,090 | 3,798,767        | 1,626,731 | -         | 13,357,588 |
| Less accumulated depreciation for:          |           |                  |           |           |            |
| Buildings                                   | 781,166   | -                | 102,435   | -         | 883,601    |
| Other improvements                          | 200,710   | -                | 33,307    | -         | 234,017    |
| Infrastructure                              | 211,175   | -                | 79,923    |           | 291,098    |
| Vehicles and motorized equipment            | 1,821,145 | -                | 128,887   |           | 1,950,032  |
| Furniture and equipment                     | 314,836   | -                | 35,044    |           | 349,880    |
| Total accumulated depreciation              | 3,329,032 | -                | 379,596   | -         | 3,708,628  |
| Total capital assets being depreciated, net | 4,603,058 |                  |           |           | 9,648,960  |
| Governmental activity capital assets, net   | 9,861,010 |                  |           |           | 11,527,333 |

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

|                            |         |
|----------------------------|---------|
| General government         | 77,540  |
| Public safety              | 160,458 |
| Transportation             | 87,600  |
| Cultural and recreational  | 53,998  |
| Total depreciation expense | 379,596 |

|  | Beginning  |                  |           |           | Ending     |
|--|------------|------------------|-----------|-----------|------------|
|  | Balances   | Reclassification | Increases | Decreases | Balances   |
| Business-type activities:                    |            |                  |           |           |            |
| <i>Electric Fund</i>                         |            |                  |           |           |            |
| Capital assets not being depreciated:        | -          | -                | -         | -         | -          |
| Capital assets being depreciated             |            |                  |           |           |            |
| Buildings                                    | 54,388     | -                | -         | -         | 54,388     |
| Utility systems                              | 8,211,119  | -                | 149,904   | -         | 8,361,023  |
| Vehicles and motorized equipment             | 57,548     | -                | -         | -         | 57,548     |
| Furniture and equipment                      | 76,496     | -                | -         | -         | 76,496     |
| Total capital assets being depreciated       | 8,399,551  |                  | 149,904   | -         | 8,849,455  |
| Less accumulated depreciation for:           |            |                  |           |           |            |
| Buildings                                    | 6,319      | -                | 1,088     | -         | 7,407      |
| Utility systems                              | 2,160,643  | -                | 207,152   | -         | 2,367,795  |
| Vehicles and motorized equipment             | 48,229     | -                | 3,022     | -         | 51,251     |
| Furniture and equipment                      | 47,723     | -                | 4,535     | -         | 52,258     |
| Total accumulated depreciation               | 2,262,914  |                  | 215,797   | -         | 2,478,711  |
| Total capital assets being depreciated, net  | 6,136,637  |                  |           |           | 6,070,744  |
| Electric fund capital assets, net            | 6,136,637  |                  |           |           | 6,070,744  |
| <br><i>Water and Sewer Fund</i>              |            |                  |           |           |            |
| Capital assets not being depreciated:        |            |                  |           |           |            |
| Land   | 2,762,465  | -                | -         | -         | 2,762,465  |
| Construction in progress                     | 2,933,665  | (4,307,445)      | 1,373,780 | -         | -          |
| Other nondepreciable                         | 1,087,000  | -                | -         | 1,087,000 | -          |
| Total capital assets not being depreciated   | 6,783,130  | (4,307,445)      | 1,373,780 | 1,087,000 | 2,762,465  |
| Capital assets being depreciated             |            |                  |           |           |            |
| Utility systems                              | 11,551,158 | 4,682,445        | 825,908   | 2,314,510 | 14,745,001 |
| Water tank usage                             | 375,000    | (375,000)        | -         | -         | -          |
| Vehicles and motorized equipment             | 339,245    | -                | -         | -         | 339,245    |
| Furniture and equipment                      | 338,114    | -                | -         | -         | 338,114    |
| Total capital assets being depreciated       | 12,603,517 | 4,307,445        | 825,908   | 2,314,510 | 15,422,360 |
| Less accumulated depreciation for:           |            |                  |           |           |            |
| Utility systems                              | 4,469,470  | 18,750           | 328,845   | 1,253,040 | 3,564,025  |
| Water tank usage                             | 18,750     | (18,750)         | -         | -         | -          |
| Vehicles and motorized equipment             | 240,560    | -                | 29,668    | -         | 270,228    |
| Furniture and equipment                      | 279,673    | -                | 16,743    | -         | 296,416    |
| Total accumulated depreciation               | 5,008,453  | -                | 375,256   | 1,253,040 | 4,130,669  |
| Total capital assets being depreciated, net  | 7,595,064  |                  |           |           | 11,291,691 |
| Water and Sewer fund capital assets, net     | 14,378,194 |                  |           |           | 14,054,156 |
| Business-type activities capital assets, net | 20,514,831 |                  |           |           | 20,124,900 |

Construction commitments

The government has no active construction commitments as of June 30, 2011.

Annexation of Rivermist Subdivision

On October 14, 2010, the City annexed the Rivermist Subdivision into the City. As a part of the annexation the City received streets valued at \$1,112,020 and storm water improvements valued at \$444,808. These were to infrastructure in the governmental funds. Also received were sewer system improvements valued at \$736,644. These were added to the sewer system.

Closing of Treatment Plant

As reported in Note III E, the City closed its wastewater treatment plant. This resulted in the remaining book value of the plant and treatment equipment being removed from the system. A summary of the assets removed from the system is presented below:

|                               |                         |
|-------------------------------|-------------------------|
| Cost of assets no longer used | 2,314,510               |
| Accumulated depreciation      | <u>1,253,040</u>        |
| Loss on closing               | <u><u>1,061,470</u></u> |

Discretely presented component unit

Activity for the ABC Board for the year ended June 30, 2011, was as follows:

|   | Beginning<br>Balances | Increases    | Decreases | Ending<br>Balances   |
|---|-----------------------|--------------|-----------|----------------------|
| Capital assets not being depreciated:       |                       |              |           |                      |
| Land  | 4,600                 | -            | -         | 4,600                |
| Capital assets being depreciated            |                       |              |           |                      |
| Buildings                                   | 58,755                | -            | -         | 58,755               |
| Other improvements                          | 33,497                | 2,812        | -         | 36,309               |
| Furniture and equipment                     | 36,291                |              |           | 36,291               |
| Total capital assets being depreciated      | <u>128,543</u>        | <u>2,812</u> |           | <u>131,355</u>       |
| Less accumulated depreciation for:          |                       |              |           |                      |
| Buildings                                   | 58,755                | -            | -         | 58,755               |
| Other improvements                          | 28,240                | 731          |           | 28,971               |
| Furniture and equipment                     | 23,306                | 1,831        |           | 25,137               |
| Total accumulated depreciation              | <u>110,301</u>        | <u>2,562</u> |           | <u>112,863</u>       |
| Total capital assets being depreciated, net | <u>18,242</u>         |              |           | <u>18,492</u>        |
| ABC capital assets, net                     | <u><u>22,842</u></u>  |              |           | <u><u>23,092</u></u> |

B. Liabilities

1. Pension Plan and Postemployment Obligations

a. Local Government Employees' Retirement System

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

Funding Policy – Plan members are required to contribute six percent of their annual covered salary. The City and the ABC Board are required to contribute at an actuarially determined rate. For the City, the current rate for employees not engaged in law enforcement and for law enforcement officers is 6.35% and 6.27%, respectively, of annual covered payroll. For the ABC Board, the current rate for employees not engaged in law enforcement is 6.55% of annual covered payroll. The contribution requirements of members and of the City of Southport and the ABC Board are established and may be amended by the North Carolina General Assembly. The City's contributions to the LGERS for the years ended June 30, 2011, 2010 and 2009 were \$104,633, \$84,574, and \$84,910, respectively. The ABC Board's contributions to LGERS for the years ended June 30, 2011, 2010 and 2009 were \$4,908, \$3,699, and \$4,386, respectively. The contributions made by the City and the ABC Board equaled the required contribution for each year.

b. Law Enforcement Officers Special Separation Allowance

(1) Plan Description

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

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

|   |           |
|---|-----------|
| Retirees receiving benefits   | 2         |
| Terminated plan members entitled<br>to but not yet receiving benefits | 0         |
| Active plan members   | <u>10</u> |
| Total   | <u>12</u> |

A separate report was not issued for the plan.

(2) Summary of Significant Accounting Policies

Basis of Accounting – The City 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.

Method Used to Value Investments – No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

(3) Contributions

The City is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the benefit payments on a pay as you go basis through appropriations made in the General Fund operating budget. The City's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. There were no contributions made by employees.

The annual required contribution for the current year was determined as part of the December 31, 2010 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 5.00% investment rate of return (net of administrative expenses) and (b) projected salary increases of 4.25% - 7.85% per year. Both (a) and (b) included an inflation component of 3.00%. The assumptions did not include postretirement benefit increases.

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

|   |               |
|---|---------------|
| Employer annual required contribution         | 10,784        |
| Interest on net pension obligation            | 1,295         |
| Adjustment to annual required contribution    | ( 1,387)      |
| Annual pension cost                           | 10,692        |
| Contributions made                            | <u>21,879</u> |
| Increase (decrease) in net pension obligation | ( 11,187)     |
| Net pension obligation beginning of year      | <u>25,900</u> |
| Net pension obligation end of year            | <u>14,713</u> |

3 Year Trend Information

| <u>For Year Ended</u><br><u>June 30</u> | <u>Annual Pension</u><br><u>Cost (APC)</u> | <u>Percentage of</u><br><u>APC Contributed</u> | <u>Net Pension</u><br><u>Obligation</u> |
|---|--|--|---|
| 2009                                    | 10,639                                     | 135.90%  | 30,201                                  |
| 2010                                    | 10,157                                     | 142.35%  | 25,900                                  |
| 2011                                    | 10,692                                     | 204.62%  | 14,713                                  |

(4) Funded Status and Funding Progress.

As of December 31, 2010, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and the unfunded actuarial accrued liability (UAAL) was \$104,168. The covered payroll (annual payroll of active employees covered by the plan) was \$396,761, and the ratio of the UAAL to the covered payroll was 26.25%.

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

c. Supplemental Retirement Income Plan

Plan Description – The City 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 all employees of the City. 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 Supplemental Retirement Income Plan for Law Enforcement Officers. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy – Article 12E of G.S. Chapter 143 requires the City to contribute each month an amount equal to five percent of each employee's salary engaged in law enforcement and the City has elected to contribute five percent on non law enforcement employees. All amounts contributed are vested immediately. Also, the employees may make voluntary contributions to the plan. Contributions for the year ended June 30, 2011 were \$127,037, which consisted of \$80,805 from the City and \$46,232 from the employees.

d. Other Post-Employment Benefits – Retiree's Health Care Plan

Plan Description - According to City personnel policy and City resolution on September 11, 2003, the City provides postretirement health and dental care benefits to retirees of the City who meet the following requirements:

- (1) Employees retiring with ten years of continuous service with Southport may continue in the City's group health and dental plan, if allowed by the plan provider, with the premium for the employee's coverage paid at 50% by the City, and 50% by the employee. Family or spouse coverage premiums shall be paid 100% by the employee.
- (2) Employees retiring with twenty years of continuous service with Southport may continue in the City's group health and dental plan, if allowed by the plan provider, with the City paying 100% of the premium for the employee's coverage and the employee paying 100% of the premium for family or spouse coverage.

When the employee becomes eligible for Medicare, such coverage in the City's group plan will be the Medicare supplement, if offered by the plan provider.

Membership in the HCB Plan consisted of the following at December 31, 2008, the date of the latest actuarial valuation:

|                          |           |
|--------------------------|-----------|
| Law enforcement officers | 11        |
| General Employees        | 33        |
| Retirees                 | <u>12</u> |
| Total                    | <u>56</u> |

Funding Policy - The City has chosen to fund the healthcare benefits on a pay as you go basis. The current annual required contribution (ARC) is 19.93% of covered payroll. For the current year, the City contributed \$146,007 or 7.79%. The City's obligation to contribute to the HCB Plan is established and may be amended by the Board of Aldermen.

Summary of Significant Accounting Policies - Postemployment expenditures are made from the fund from which a retiree is retired. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

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

|  |                |
|--|----------------|
| Annual require contribution                | 383,344        |
| Interest on net OPEB obligation            | 10,994         |
| Adjustment to annual required contribution | <u>(9,485)</u> |
| Annual OPEB cost                           | 384,853        |
| Contributions made                         | <u>146,007</u> |
| Increase (decrease) in net OPEB obligation | 238,846        |
| Net OPEB obligation, beginning of year     | <u>274,856</u> |
| OPEB obligation, end of year               | <u>513,702</u> |

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

| <u>For Year Ended</u><br><u>June 30</u> | <u>Annual</u><br><u>OPEB Cost</u> | <u>% of Annual OPEB</u><br><u>Cost Contributed</u> | <u>Net OPEB</u><br><u>Obligation</u> |
|---|-----------------------------------|--|--------------------------------------|
| 2010                                    | 383,344                           | 28.3%  | 274,856                              |
| 2011                                    | 384,853                           | 37.9%  | 513,702                              |

Funded Status and Funding Progress – As of December 31, 2008, the most recent actuarial valuation date, the plan was not funded. The actuarial liability for benefits and, this, the unfunded actuarial accrued liability (UAAL) was \$4,658,103. The covered payroll (annual payroll of active employees covered by the plan) was \$1,873,089, and the ratio of the UAAL to covered payroll was 248.6%. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

At December 31, 2008 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.00 percent investment rate of return (net of administrative expenses), which is the expected long-term investment returns on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual medical cost trend increase of 12 to 6 percent annually. The investment rate included a 3.75% inflation assumption. The actuarial value of assets, if any, was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2008 was 30 years.

2. Other Employment Benefits

The City has also elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest month's salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$50,000 or be less than \$25,000. All death benefit payments are made from the Death Benefit Plan. The City has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. The City considers these contributions to be immaterial.

3. Deferred Revenues/Unearned Revenues

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

|                                 | <u>Deferred<br/>Revenue</u> | <u>Unearned<br/>Revenue</u> |
|---------------------------------|-----------------------------|-----------------------------|
| Prepaid taxes (General Fund)    | -                           | 1,499                       |
| Taxes receivable (General Fund) | <u>118,573</u>              | <u>-</u>                    |
| Total                           | <u>118,573</u>              | <u>1,499</u>                |

4. Risk Management

The City 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 City participates in three self-funded risk-financing pools administered by the North Carolina League of Municipalities. Through these pools, the City obtains general liability and auto liability coverage of \$2 million per occurrence, property coverage up to the total insurance values of the property policy, workers' compensation coverage up to the statutory limits, and employee health coverage up to a \$5 million lifetime limit. The pools are reinsured through commercial companies for single occurrence claims against general liability and auto liability and property in excess of \$500,000 and \$300,000 statutory limits for workers' compensation. The pools are reinsured for annual employee health claims in excess of \$150,000. The property liability pool has an aggregate limit of for the total property losses in a single year, with the reinsurance limit based upon a percentage of the total insurance values.

The City carries commercial coverage for all other risks of loss. 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 City does not carry flood insurance. There are only three structures in the flood plain, the sewer plant and two pump stations. The pump stations have been elevated and made flood proof. The sewer plant is below ground and cannot be insured. The City does not believe that separate flood insurance is necessary.

In accordance with G.S. 159-29, the City's employees that have access to \$100 or more at any time of the City's funds are performance bonded through a commercial surety bond. The finance officer and tax collector are each individually bonded for \$100,000 and \$50,000 respectively. The remaining employees that have access to funds are bonded under a blanket bond of \$25,000.

The City of Southport ABC Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The ABC Board has property, general liability, auto liability, workers' compensation, and employee health coverage. The ABC Board also has liquor legal liability coverage. Claims have not exceeded coverage in any of the past three fiscal years.

5. Claims, Judgments and Contingent Liabilities

According to the City Attorney and City Management at June 30, 2011, the City was not a defendant in any lawsuit whose outcome could affect the City's ability to pay obligations as they become due.

6. Long-Term Obligations

a. Capital Leases

The City has entered into agreements to lease certain equipment. The lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception.

Below is a summary of the provisions of these leases:

| <u>Date of Lease</u> | <u>Property Leased</u> | <u>Total of Lease</u> | <u>Payment Amount</u> | <u>Remaining of Payments</u> | <u>Frequency of Payments</u> |
|----------------------|------------------------|-----------------------|-----------------------|------------------------------|------------------------------|
| 9-28-09              | 3-Ford Police Cars     | 64,227                | 22,088                | 1                            | Annual                       |
| 10-5-10              | 2-Dodge Police Cars    | 39,210                | 13,406                | 2                            | Annual                       |

In all agreements, title passes to the City at the end of the lease term.

The following is an analysis of the leased property under capital leases by fund and major classes:

| <u>Fund</u>  | <u>Class of Property</u>         | <u>Cost</u> | <u>Accumulated Depreciation</u> | <u>Net Book Value</u> |
|--------------|----------------------------------|-------------|---------------------------------|-----------------------|
| General Fund | Vehicles and motorized equipment | 128,799     | 19,665                          | 109,134               |

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2011 were as follows:

| Year Ending<br><u>June 30</u>              | <u>Total</u>  | Governmental<br><u>Activities</u> |
|--|---------------|-----------------------------------|
| 2012                                       | 35,493        | 35,493                            |
| 2013                                       | <u>13,405</u> | <u>13,405</u>                     |
|  |               |                                   |
| Total minimum<br>lease payments            | 48,898        | 48,898                            |
| Less: Amount representing<br>interest      | <u>1,692</u>  | <u>1,692</u>                      |
|  |               |                                   |
| Present value of minimum<br>lease payments | <u>47,206</u> | <u>47,206</u>                     |

b. Installment Purchase

In June 2009, the City entered into \$3,784,000 in installment notes to finance the construction of a new fire station. The installment agreements require principal payments beginning in the fiscal year 2011 with an interest rate of 4.490%.

Annual debt service payments of the installment purchase as of June 30, 2011, including \$1,613,475 of interest is as follows:

| Year<br>Ending<br><u>June 30</u> | Governmental Activities |                  |
|----------------------------------|-------------------------|------------------|
|                                  | <u>Principal</u>        | <u>Interest</u>  |
| 2012                             | 189,200                 | 161,407          |
| 2013                             | 189,200                 | 152,911          |
| 2014                             | 189,200                 | 144,416          |
| 2015                             | 189,200                 | 135,921          |
| 2016                             | 189,200                 | 127,426          |
| 2017-2021                        | 946,000                 | 509,705          |
| 2022-2026                        | 946,000                 | 297,328          |
| 2027-2031                        | <u>756,800</u>          | <u>84,361</u>    |
|                                  | <u>3,594,800</u>        | <u>1,613,475</u> |

c. Revolving Loans

In March 2005, the City entered into a \$1,377,975 revolving loan from the North Carolina Environmental Management Commission for the improvement of the City's wastewater treatment facilities. The revolving loan requires biannual interest payments due on November 1 and May 1 and an annual principal payment due on May 1; interest is at 2.205%.

On December 7, 2009, the City received a federal revolving loan (ARRA) from the Water Infrastructure Fund and Grant Program through the North Carolina Department of Environmental and Natural Resources for enhancement of the wastewater collection system. The total of this loan is \$1,404,695. There is principal forgiveness of fifty percent of this loan totaling \$702,347. Equal payments of \$35,117 are to be made on the balance annually starting on May 1, 2012. There is no interest on this loan.

Annual debt service requirements to maturity for the revolving loans are as follows:

| <u>Year Ending</u><br><u>June 30</u> | <u>Business-type Activities</u> |                 |
|--------------------------------------|---------------------------------|-----------------|
|                                      | <u>Principal</u>                | <u>Interest</u> |
| 2012                                 | 103,401                         | 22,585          |
| 2013                                 | 103,401                         | 21,079          |
| 2014                                 | 103,401                         | 19,573          |
| 2015                                 | 103,401                         | 18,068          |
| 2016                                 | 103,401                         | 16,562          |
| 2017-2021                            | 517,004                         | 60,227          |
| 2022-2026                            | 517,004                         | 22,585          |
| 2027-2031                            | <u>175,586</u>                  | <u>-</u>        |
|                                      | <u>1,726,599</u>                | <u>180,679</u>  |

d. General Obligation Indebtedness

The City's general obligation bonds serviced by the governmental funds were issued to finance storm drainage improvements. Those general obligation bonds issued to finance the construction of facilities utilized in the operations of the water and sewer system and which are being retired by its resources are reported as long-term debt in the Water and Sewer Fund. All general obligation bonds are collateralized by the full faith, credit, and taxing power of the City. Principal and interest requirements are appropriated when due.

Bonds payable at June 30, 2011 are comprised of the following individual issues:

|   |               |
|---|---------------|
| \$60,000 1975 bonds due in annual installments of \$3,609 through June 1, 2014; interest at 5.00%   | 7,929         |
| Serviced by the Water and Sewer Fund:   |               |
| \$435,000 1975 bonds due in annual installments of \$23,916 through June 1, 2014; interest at 5.00% | <u>49,571</u> |
| Total   | <u>57,500</u> |

Annual debt service requirements to maturity for long-term obligations are as follows:

| <u>Years Ending</u><br><u>June 30</u> | <u>Governmental Activities</u> |                 | <u>Business-type Activities</u> |                 |
|---------------------------------------|--------------------------------|-----------------|---------------------------------|-----------------|
|                                       | <u>Principal</u>               | <u>Interest</u> | <u>Principal</u>                | <u>Interest</u> |
| 2012                                  | 2,667                          | 348             | 19,333                          | 2,527           |
| 2013                                  | 2,667                          | 215             | 19,333                          | 1,560           |
| 2014                                  | <u>2,595</u>                   | <u>200</u>      | <u>10,905</u>                   | <u>593</u>      |
|                                       | <u>7,929</u>                   | <u>763</u>      | <u>49,571</u>                   | <u>4,680</u>    |

At June 30, 2011, the City of Southport had a legal debt margin of \$75,721,326.

e. Water Tank Agreement

On November 15, 2004, the City entered into an inter-local agreement with Brunswick County to help finance the construction and operation of an elevated water storage tank. The City agreed to participate in the project by contributing a total of \$375,000 over a five year period with no interest charged. The first payment was to be made on July 1<sup>st</sup> of the first fiscal year following the completion of construction. The storage tank was completed on December 18, 2007 and the City made the first payment of \$75,000 on July 1, 2009. During the current year, the agreement was amended assigning 236,800 gallons or 23.68% of capacity in the tank to the City. There were no additional charges for this change, but the City agrees to pay 23.68% of the annual cost of maintaining the tank. As a result of these changes, the cost in the tank was reclassified as part of the utility system rather than the intangible future storage rights as reported in prior years.

Annual debt service payments on the water tank agreement as of June 30, 2011 were as follows:

| <u>Years Ending</u><br><u>June 30</u> | <u>Business-type Activities</u> |                 |
|---------------------------------------|---------------------------------|-----------------|
|                                       | <u>Principal</u>                | <u>Interest</u> |
| 2012                                  | 75,000                          | 0               |
| 2013                                  | <u>75,000</u>                   | <u>0</u>        |
| Total                                 | <u>150,000</u>                  | <u>0</u>        |

f. Grant Repayment

In 2006 the City was awarded a grant from the Clean Water Management Trust for the purchase of a 400 acre tract of land which was to be used as a spray irrigation site. Since the City has decided to contract with Brunswick County for the treatment of wastewater, this site will not currently be used as planned and for the purpose that the grant was awarded. The Clean Water Management Trust required the City to refund the entire \$1,686,000 award. The City and the Clean Water Management Trust agreed that the repayment will be made in equal annual payments of \$562,000, with the first payment due on July 1, 2010. This obligation is recorded as long-term debt in the Water and Sewer Enterprise Fund.

Annual payments on this agreement as of June 30, 2011 were as follows:

| <u>Year</u><br><u>Ending</u><br><u>June 30</u> | <u>Principal</u> | <u>Interest</u> |
|--|------------------|-----------------|
|  | 2012             | 562,000         |
| 2013   | <u>562,000</u>   | <u>0</u>        |
| Total  | <u>1,124,000</u> | <u>0</u>        |

g. Changes in Long - Term Liabilities

|   | Balance          |                  |                  | Balance          | Current        |
|---|------------------|------------------|------------------|------------------|----------------|
|   | <u>6/30/10</u>   | <u>Increases</u> | <u>Decreases</u> | <u>6/30/11</u>   | Portion of     |
|   |                  |                  |                  |                  | <u>Balance</u> |
| Governmental activities:                |                  |                  |                  |                  |                |
| General obligation bonds                | 10,596           |                  | 2,667            | 7,929            | 2,667          |
| Installment notes payable               | 3,784,000        |                  | 189,200          | 3,594,800        | 189,200        |
| Capitalized leases                      | 98,067           | 39,210           | 90,071           | 47,206           | 34,138         |
| Accrued interest                        | 177,563          | 162,473          | 177,563          | 162,473          | 162,473        |
| Compensated absences                    | 128,655          | 100,755          | 111,213          | 118,197          | 60,000         |
| Other postemployment benefits           | 187,576          | 262,298          | 108,016          | 341,858          |                |
| Net pension obligation                  | <u>25,900</u>    | <u>10,692</u>    | <u>21,879</u>    | <u>14,713</u>    | <u>-</u>       |
|   | <u>4,412,357</u> | <u>575,428</u>   | <u>700,609</u>   | <u>4,287,176</u> | <u>448,478</u> |
| Business-type activities:               |                  |                  |                  |                  |                |
| General obligation bonds                | 68,904           |                  | 19,333           | 49,571           | 19,333         |
| Revolving loans                         | 1,509,998        | 284,885          | 68,284           | 1,726,599        | 103,401        |
| Capitalized leases                      | 29,852           |                  | 29,852           | -                | -              |
| Water tank agreement                    | 225,000          |                  | 75,000           | 150,000          | 75,000         |
| Grant repayment                         | 1,686,000        |                  | 562,000          | 1,124,000        | 562,000        |
| Accrued interest                        | 5,354            | 4,079            | 5,354            | 4,079            | 4,079          |
| Compensated absences                    | 22,171           | 21,839           | 21,458           | 22,552           | 15,000         |
| Other postemployment benefits           | <u>87,280</u>    | <u>122,555</u>   | <u>37,991</u>    | <u>171,844</u>   | <u>-</u>       |
|   | <u>3,634,559</u> | <u>433,358</u>   | <u>819,272</u>   | <u>3,248,645</u> | <u>778,813</u> |
| Principal Forgiveness Grant reported as |                  |                  |                  |                  |                |
| debt in prior year                      | <u>417,462</u>   | <u>-</u>         | <u>417,462</u>   | <u>-</u>         | <u>-</u>       |
|   | <u>4,052,021</u> | <u>433,358</u>   | <u>1,236,734</u> | <u>3,248,645</u> | <u>778,813</u> |

Compensated absences for governmental activities have typically been liquidated in the General Fund.

C. Interfund Balances and Activity

Balances Due to/from Other Funds

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

|   |                |
|---|----------------|
| Due from component unit for City's share of quarterly profits | <u>126,033</u> |
| Total   | <u>126,033</u> |

D. Prior Period Adjustment

During the fiscal year ended June 30, 2011 the City determined that fifty percent of the federal loan received in prior years for the enhancement of the wastewater system should have been shown as a grant. Under the terms of the loan, upon completion of the loan fifty percent of the balance is forgiven. In prior years \$834,925 had been received and shown as loan proceeds. Beginning of the year net assets in the Water and Sewer Fund has been restated showing an increase of \$417,462 in net assets and a decrease in debt outstanding by the same amount.

E. Closing of Wastewater Treatment Plant

With the completion of the Wastewater Enhancement Project, the City began pumping all wastewater to the Brunswick County West Regional Water Reclamation Facility. The influent force mains were blocked and the treatment plant owned and operated by the City was decommissioned. These actions were required in the financing of the Enhancement Project. With the closing of the plant, the remaining book value of the plant was removed from the system, resulting in a loss on the closing of \$1,061,470.

F. On-Behalf Payments for Fringe Benefits and Salaries

The City has recognized as a revenue and an expenditure on-behalf payments for fringe benefits and salaries of \$1,542 for the salary supplement and stipend benefits paid to eligible firemen by the local board of trustees of the Firemen's Relief Fund during the fiscal year ended June 30, 2011. Under State law the local board of trustees for the Fund receives an amount each year which the board may use at its own discretion for eligible firemen or their departments.

G. Contracts

1. Electric Maintenance Contract

On July 21, 2006, the City of Southport awarded a contract to Brunswick Electric Membership Corporation for the operation and maintenance of the Electric Distribution System of the City of Southport. The contract was for a five year term beginning on July 1, 2006. This contract expired on June 30, 2011 and was replaced by a new contract for five years beginning on July 1, 2011. The initial cost to the City under the contract is \$327,026 for the twelve months ending on June 30, 2012. Effective each July 1, under the contract the annual fee will be adjusted based on the increase in the Consumer Price Index and City customer growth. For the year ending June 30, 2012, this shall be made in monthly payments of \$27,252. Non-basic operations and maintenance service such as power restoration after catastrophic events, system improvements and upgrades, and system extension are to be provided on a cost plus basis. The cost of non-basic service will be based on cost of materials, equipment and labor. System additions and extensions are to be approved by the City.

The minimum payments on the contract are:

| <u>Year Ending June 30,</u> |                  |
|-----------------------------|------------------|
| 2012                        | 327,026          |
| 2013                        | 327,026          |
| 2014                        | 327,026          |
| 2015                        | 327,026          |
| 2016                        | <u>327,026</u>   |
| Total                       | <u>1,635,130</u> |

For the year ended June 30, 2011, the City paid basic operation and maintenance fees in the amount of \$313,785.

2. Solid Waste Collection Contract

The City has a contract with Waste Industries, Inc. to provide solid waste collection to the City and its residents. This contract, expiring in December 2013, bases fees on the number of residents and frequency of collection. The expense to the City for the year ended June 30, 2011 was \$113,630.

H. 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        | <u>3,645,936</u> |
| Less:                                    |                  |
| Stabilization by State Statute           | 415,388          |
| Streets – Powell Bill                    | 300,625          |
| Fire protection – Fire fees              | 435,364          |
| Fire protection – Firemen’s account      | 36,791           |
| Appropriated Fund Balance in 2012 Budget | <u>786,500</u>   |
| Remaining Fund Balance                   | <u>1,671,268</u> |

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

| <u>Encumbrances</u> | <u>General Fund</u> | <u>Non-Major Fund</u> |
|---------------------|---------------------|-----------------------|
|                     | 12,775              | 5,549                 |

**III. JOINT VENTURES**

The City and the members of the City's fire department each appoint two members to the five-member local board of trustees for the Firemen's Relief Fund. The State Insurance Commissioner appoints one additional member to the local board of trustees. The Fireman's Relief Fund is funded by a portion of the fire and lightning insurance premiums that insurers remit to the State. The State passes these moneys to the local board of the Firemen's Relief Fund. The funds are used to assist fire fighters in various ways. The City obtains an ongoing financial benefit from the Fund for the on-behalf of payments for salaries and fringe benefits made to members of the City's fire department by the board of trustees. During the fiscal year ended June 30, 2011, the City reported revenues and expenditures for the payments of \$1,542 made through the Firemen's Relief Fund. The participating governments do not have any equity interest in the joint venture, so no equity has been reflected in the financial statements at June 30, 2011. The Firemen's Relief Fund does not issue separate audited financial statements. Instead, the local board of trustees files an annual financial report with the State Firemen's Association. This report can be obtained from the Association at 323 West Jones Street, Suite 401, Raleigh, North Carolina 27603.

**IV. JOINTLY GOVERNED ORGANIZATIONS**

A. North Carolina Eastern Municipal Power Agency

The City is a member of the North Carolina Eastern Municipal Power Agency (Agency). The Agency was formed to enable municipalities that own electric distribution systems to finance, construct, own, operate, and maintain generation and transmission facilities. Each participating government appoints one commissioner to the Agency's governing board. The thirty-two members, who receive power from the Agency, have signed power sales agreements to purchase a specified share of the power generated by the Agency. Except for the power purchase requirements, no local government participant has any obligation, entitlement, or residual interest. The City's purchases of power for the fiscal year ended June 30, 2011 were \$5,715,424.

B. Cape Fear Council of Governments

The City, in conjunction with four counties and forty other municipalities established the Cape Fear Council of Governments (Council). The participating governments established the Council to coordinate various funding received from federal and State agencies. Each participating government appoints one member to the Council's governing board. The City paid membership fees of \$815 to the Council during the fiscal year ended June 30, 2011.

C. Brunswick County Airport Commission

The City in conjunction with Brunswick County and the Town of Oak Island established the Brunswick County Airport Commission. The purpose of the Commission is to acquire land, establish, construct, own, control, lease, equip, improve, maintain, operate, and regulate airports or landing fields within the County and to provide and maintain an airport facility for the use of the general aviation public and to promote the economic development of Brunswick County. The City of Southport appoints one member to the Commission. The Town of Oak Island appoints two members as the result of the merger of the Town of Long Beach and the Town of Yaupon Beach. Brunswick County appoints a total of four members. The City is not obligated to furnish any funds to the Commission but has made contributions in prior years. During the year ended June 30, 2011, the City made no contributions to the Commission. The participating governments do not have any equity interest in the Commission, so no equity interest has been reflected in the financial statements at June 30, 2011. Complete financial information for the Airport Commission can be obtained from the Airport's administrative offices at 380 Long Beach Road, Southport, North Carolina 28461.

V. **SUMMARY OF DISCLOSURE OF SIGNIFICANT CONTINGENCIES**

Federal and State Assisted Programs

The City 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 moneys.

REQUIRED SUPPLEMENTARY  
FINANCIAL DATA

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This section contains additional information required by generally accepted accounting principles.

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- Schedule of Funding Progress for the Law Enforcement Officers' Special Separation Allowance.
- Schedule of Employer Contributions for the Law Enforcement Officers' Special Separation Allowance.
- Notes to the Required Schedules for the Law Enforcement Officers' Special Separation Allowance.
- Schedule of Funding Progress for Other Postemployment Benefits
- Schedule of Employer Contributions for Other Postemployment Benefits
- Notes to the Required Schedules for the Other Postemployment Benefits

**CITY OF SOUTHPORT, NORTH CAROLINA  
 LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF FUNDING PROGRESS**

**EXHIBIT A-1**

| <b>Actuarial<br/>Valuation<br/>Date</b> | <b>Actuarial<br/>Value of<br/>Assets<br/>(a)</b> | <b>Actuarial Accrued<br/>Liability (AAL)<br/>Projected Unit<br/>Credit<br/>(b)</b> | <b>Unfunded<br/>AAL<br/>(UAAL)<br/>(b-a)</b> | <b>Funded<br/>Ratio<br/>(a/b)</b> | <b>Covered<br/>Payroll<br/>(c)</b> | <b>UAAL as a<br/>% of Covered<br/>Payroll<br/>((b-a)/c)</b> |
|---|--|--|--|-----------------------------------|------------------------------------|---|
| 12/31/2001                              | 0  | 68,510   | 68,510                                       | 0.00%                             | 281,686                            | 24.32%  |
| 12/31/2002                              | 0  | 78,299   | 78,299                                       | 0.00%                             | 238,891                            | 32.76%  |
| 12/31/2003                              | 0  | 96,898   | 96,898                                       | 0.00%                             | 320,308                            | 30.25%  |
| 12/31/2004                              | 0  | 39,719   | 39,719                                       | 0.00%                             | 223,535                            | 17.77%  |
| 12/31/2005                              | 0  | 115,142  | 115,142                                      | 0.00%                             | 311,662                            | 36.94%  |
| 12/31/2006                              | 0  | 103,801  | 103,801                                      | 0.00%                             | 341,857                            | 30.36%  |
| 12/31/2007                              | 0  | 102,803  | 102,803                                      | 0.00%                             | 386,336                            | 26.61%  |
| 12/31/2008                              | 0  | 84,913   | 84,913                                       | 0.00%                             | 481,273                            | 17.64%  |
| 12/31/2009                              | 0  | 84,792   | 84,792                                       | 0.00%                             | 458,371                            | 18.50%  |
| 12/31/2010                              | 0  | 104,168  | 104,168                                      | 0.00%                             | 396,761                            | 26.25%  |

**CITY OF SOUTHPORT, NORTH CAROLINA  
LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF EMPLOYER CONTRIBUTION**

EXHIBIT A-2

| <b><u>Year Ended<br/>June 30</u></b> | <b><u>Annual Required<br/>Contribution</u></b> | <b><u>Percentage<br/>Contributed</u></b> |
|--------------------------------------|--|--|
| 2001                                 | 5,590  | 0.00%                                    |
| 2002                                 | 7,405  | 0.00%                                    |
| 2003                                 | 8,982  | 0.00%                                    |
| 2004                                 | 9,227  | 0.00%                                    |
| 2005                                 | 12,430   | 106.62%                                  |
| 2006                                 | 6,633  | 217.99%                                  |
| 2007                                 | 11,306   | 127.88%                                  |
| 2008                                 | 10,682   | 135.35%                                  |
| 2009                                 | 10,639   | 135.90%                                  |
| 2010                                 | 9,869  | 146.50%                                  |
| 2011                                 | 10,784   | 202.88%                                  |

Notes to the Required Schedules:

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

|                               |                             |
|-------------------------------|-----------------------------|
| Valuation date                | December 31, 2010           |
| Actuarial cost method         | Projected unit credit       |
| Amortization method           | Level percent of pay closed |
| Remaining amortization period | 20 years                    |
| Asset valuation method        | Market value                |
| Actuarial assumptions:        |                             |
| Investment rate of return*    | 5.00%                       |
| Projected salary increases*   | 4.5%-7.85%                  |
| *Includes inflation at        | 3.00%                       |
| Cost of living adjustments    | N/A                         |

During the current year the inflation rate of return was decreased from 7.25% to 5.0%.

**CITY OF SOUTHPORT, NORTH CAROLINA**  
**OTHER POSTEMPLOYMENT BENEFITS**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FUNDING PROGRESS**

EXHIBIT A-3

| Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets<br>(a) | Actuarial Accrued<br>Liability (AAL)<br>Projected Unit<br>Credit<br>(b) | Unfunded<br>AAL<br>(UAAL)<br>(b-a) | Funded<br>Ratio<br>(a/b) | Covered<br>Payroll<br>(c) | UAAL as a<br>% of Covered<br>Payroll<br>((b-a)/c) |
|--------------------------------|--|---|------------------------------------|--------------------------|---------------------------|---|
| 12/31/2008                     | 0                                      | 4,658,103   | 4,658,103                          | 0.00%                    | 1,873,089                 | 248.60%   |

**CITY OF SOUTHPORT, NORTH CAROLINA  
OTHER POSTEMPLOYMENT BENEFITS  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF EMPLOYER CONTRIBUTION**

**EXHIBIT A-4**

| <b>Year Ended<br/><u>June 30</u></b> | <b>Annual Required<br/><u>Contribution</u></b> | <b>Percentage<br/><u>Contributed</u></b> |
|--------------------------------------|--|--|
| 2010                                 | 383,344  | 0.00%                                    |
| 2011                                 | 383,344  | 0.00%                                    |

Notes to the Required Schedules:

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

|                               |                            |
|-------------------------------|----------------------------|
| Valuation date                | December 31, 2008          |
| Actuarial cost method         | Projected unit credit      |
| Amortization method           | Level percent of pay, open |
| Remaining amortization period | 29 years                   |
| Asset valuation method        | Market value of assets     |
| Actuarial assumptions:        |                            |
| Investment rate of return*    | 4.00%                      |
| Medical cost trend rate       | 10.50%-5.00%               |
| Year of ultimate trend rate   | 2016                       |
| *Includes inflation at        | 3.75%                      |

## GOVERNMENTAL FUNDS

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The General Fund accounts for resources traditionally associated with government that are not required legally or by sound financial management to be accounted for in other funds.

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Included in the Governmental Funds in these statements are:

- The General Fund
- Fire Station Capital Project Fund

**CITY OF SOUTHPORT, NORTH CAROLINA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
For the Year Ended June 30, 2011**

**EXHIBIT B-1  
Page 1 of 8**

|   | <u>Budget</u>    | <u>Actual</u>    | <u>Variance<br/>Positive<br/>(Negative)</u> |
|---|------------------|------------------|---|
| <b>Revenues</b>                         |                  |                  |   |
| Ad valorem taxes                        |                  |                  |   |
| Current year                            | 1,580,000        | 1,598,125        | 18,125                                      |
| Prior years                             | 18,000           | 42,448           | 24,448                                      |
| Motor vehicle taxes                     | 40,000           | 39,388           | (612)                                       |
| Penalties and interest                  | 10,000           | 14,156           | 4,156                                       |
| Total                                   | <u>1,648,000</u> | <u>1,694,117</u> | <u>46,117</u>                               |
| Other taxes                             |                  |                  |   |
| Dog tags                                | 2,000            | 1,530            | (470)                                       |
| Privilege licenses                      | 20,000           | 20,600           | 600   |
| Accommodation tax                       | 55,000           | 52,163           | (2,837)                                     |
| Total                                   | <u>77,000</u>    | <u>74,293</u>    | <u>(2,707)</u>                              |
| Unrestricted intergovernmental revenues |                  |                  |   |
| Local option sales tax                  | 625,000          | 597,870          | (27,130)                                    |
| Beer and wine tax                       | 13,000           | 13,852           | 852   |
| ABC Profit distribution                 | 250,000          | 246,752          | (3,248)                                     |
| Utility franchise tax                   | 275,000          | 304,290          | 29,290                                      |
| Total                                   | <u>1,163,000</u> | <u>1,162,764</u> | <u>(236)</u>                                |
| Restricted intergovernmental revenues   |                  |                  |   |
| State street-aid allocation             | 95,000           | 99,392           | 4,392                                       |
| On-behalf of payments - fire and rescue | -                | 1,542            | 1,542                                       |
| Solid waste disposal tax                | -                | 2,813            | 2,813                                       |
| PARTF Grant-Lowe White Park             | -                | 154,363          | 154,363                                     |
| ABC Revenue for law enforcement         | 12,000           | 10,089           | (1,911)                                     |
| Brunswick County rescue contributions   | 36,000           | 36,000           | -   |
| Fire district fees                      | 602,500          | 609,987          | 7,487                                       |
| Total                                   | <u>745,500</u>   | <u>914,186</u>   | <u>168,686</u>                              |
| Licenses and permits                    |                  |                  |   |
| Building permits                        | 80,000           | 83,054           | 3,054                                       |
| Re-inspection fees                      | 1,500            | 450              | (1,050)                                     |
| Planning and zoning fees                | 4,600            | 8,559            | 3,959                                       |
| Total                                   | <u>86,100</u>    | <u>92,063</u>    | <u>5,963</u>                                |

**CITY OF SOUTHPORT, NORTH CAROLINA  
GENERAL FUND**

**EXHIBIT B-1  
Page 2 of 8**

**SCHEDULE OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
For the Year Ended June 30, 2011**

|                                   | <u>Budget</u> | <u>Actual</u> | <u>Variance<br/>Positive<br/>(Negative)</u> |
|-----------------------------------|---------------|---------------|---|
| Sales and services                |               |               |   |
| Cemetery lot sales                | 7,000         | 7,905         | 905   |
| Refuse collection fees            | 107,000       | 107,595       | 595   |
| Boat slip rentals                 | 20,000        | 20,800        | 800   |
| Rescue squad fees                 | 103,300       | 132,879       | 29,579                                      |
| Community building rent           | 100,000       | 118,809       | 18,809                                      |
| Annex/Stormwater permit fees      | 1,500         | -             | (1,500)                                     |
| Recreation fees                   | 30,500        | 26,056        | (4,444)                                     |
| Carolina Power & Light            | 17,000        | 17,000        | -   |
| Total                             | 386,300       | 431,044       | 44,744                                      |
| Investment earnings               |               |               |   |
| Interest income                   | 8,100         | 6,226         | (1,874)                                     |
| Miscellaneous                     |               |               |   |
| Insurance reimbursement           | -             | 5,450         | 5,450                                       |
| Donations - Firemen's fund        | 19,950        | 15,927        | (4,023)                                     |
| Donations - Recreation department | -             | 600           | 600   |
| Fire Department Capital Campaign  | -             | 500           | 500   |
| Homeowners recovery fund          | 2,000         | 380           | (1,620)                                     |
| Miscellaneous - Police department | 8,100         | 5,759         | (2,341)                                     |
| Miscellaneous - Fire department   | 1,000         | 140           | (860)                                       |
| Miscellaneous - Rescue squad      | -             | 15            | 15  |
| Forestry Committee - Tree program | 2,000         | 2,000         | -   |
| Beautification Revenue            | 625           | 625           | -   |
| Sales - fixed assets              | 5,000         | -             | (5,000)                                     |
| Sales - promotional items         | 500           | 296           | (204)                                       |
| Miscellaneous                     | 3,500         | 4,363         | 863   |
| Total                             | 42,675        | 36,055        | (6,620)                                     |
| Total revenues                    | 4,156,675     | 4,410,748     | 254,073                                     |
| Expenditures                      |               |               |   |
| General government                |               |               |   |
| Board expense                     |               |               |   |
| Salaries                          | 32,500        | 30,545        |   |
| Travel                            | 4,500         | 4,192         |   |
| Social security                   | 2,500         | 2,312         |   |
| Group insurance                   | 53,200        | 52,297        |   |
| Professional fees                 | 65,000        | 64,729        |   |
| Contract Services                 | 56,000        | 56,487        |   |
| Donations                         | 5,000         | 2,000         | -   |
| Total                             | 218,700       | 212,562       | 6,138                                       |

**CITY OF SOUTHPORT, NORTH CAROLINA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
For the Year Ended June 30, 2011**

**EXHIBIT B-1  
Page 3 of 8**

|                                  | <u>Budget</u> | <u>Actual</u> | <u>Variance<br/>Positive<br/>(Negative)</u> |
|----------------------------------|---------------|---------------|---|
| <b>Administration</b>            |               |               |   |
| Salaries                         | 218,690       | 216,411       |   |
| Social security                  | 16,751        | 16,124        |   |
| Group insurance                  | 69,000        | 64,091        |   |
| Retirement                       | 14,094        | 10,581        |   |
| 401 (k) retirement supplement    | 11,275        | 10,625        |   |
| Computer software upgrade        | 2,000         | -             |   |
| Telephone and postage            | 19,000        | 23,062        |   |
| Utilities                        | 19,500        | 15,018        |   |
| Maintenance of equipment         | 14,200        | 13,331        |   |
| Advertising                      | 10,000        | 9,087         |   |
| Auto expense - manager           | 2,600         | 2,400         |   |
| Administration expense           | 52,000        | 48,211        |   |
| Departmental supplies            | 10,500        | 8,826         |   |
| Miscellaneous equipment          | 1,500         | 480           |   |
| Dues and subscriptions           | 6,500         | 5,753         |   |
| Codification update              | 3,500         | 2,818         |   |
| Insurance and bonding            | 10,000        | 9,804         | -   |
| Total                            | 481,110       | 456,622       | 24,488                                      |
| <b>Buildings and Grounds</b>     |               |               |   |
| Salaries                         | 55,625        | 53,185        |   |
| Salaries - part-time             | 7,500         | 4,590         |   |
| Social security                  | 5,671         | 4,388         |   |
| Group insurance                  | 35,700        | 35,357        |   |
| Retirement                       | 4,304         | 3,361         |   |
| 401 (k) retirement supplement    | 4,000         | 2,603         |   |
| Utilities                        | 12,500        | 6,563         |   |
| Telephone                        | 1,000         | 483           |   |
| Supplies                         | 6,000         | 5,662         |   |
| Building and grounds maintenance | 53,500        | 48,177        |   |
| Beautification projects          | 625           | 571           |   |
| Equipment maintenance            | 3,500         | 3,582         |   |
| Vehicle maintenance              | 1,000         | 463           |   |
| Tires and fuel                   | 4,000         | 3,054         |   |
| Fire fees paid on City property  | 5,000         | 4,910         |   |
| Tree trimming and removal        | 7,500         | 5,395         |   |
| Christmas lights                 | 1,000         | 30            |   |
| Mosquito control supplies        | 2,000         | 948           |   |
| Forestry projects                | 2,000         | 1,395         |   |
| Insurance and bonding            | 7,500         | 7,469         |   |
| OSHA expense                     | 500           | 398           |   |
| Contract services                | 6,000         | 5,353         | -   |
| Total                            | 226,425       | 197,937       | 28,488                                      |

**CITY OF SOUTHPORT, NORTH CAROLINA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
For the Year Ended June 30, 2011**

**EXHIBIT B-1  
Page 4 of 8**

|  | <u>Budget</u>        | <u>Actual</u>        | <u>Variance<br/>Positive<br/>(Negative)</u> |
|--|----------------------|----------------------|---|
| <b>Tourism</b>                               |                      |                      |   |
| Salaries                                     | 4,000                | 876                  |   |
| Part-time salaries - cleaning                | 62,000               | 54,820               |   |
| Social security                              | 7,000                | 4,260                |   |
| Group insurance                              | 500                  | -                    |   |
| Retirement                                   | 650                  | -                    |   |
| 401 (k) retirement supplement                | 1,050                | -                    |   |
| Telephone                                    | 1,750                | 1,654                |   |
| Telephone - Visitor Center                   | 500                  | 327                  |   |
| Utilities                                    | 20,000               | 18,953               |   |
| Utilities - Visitor Center                   | 5,000                | 2,758                |   |
| Travel and training                          | 800                  | -                    |   |
| Maintenance and repairs - Community Building | 7,000                | 6,574                |   |
| Maintenance and repairs - Visitor Center     | 2,000                | 1,014                |   |
| Departmental supplies                        | 7,000                | 4,208                |   |
| Supplies - Visitor Center                    | 5,750                | 3,031                |   |
| Insurance and bonding                        | 3,000                | 2,711                |   |
| Insurance and bonding - Visitor Center       | 3,000                | 2,711                |   |
| Special event expenses                       | 7,000                | 6,969                |   |
| Miscellaneous expenses                       | 1,000                | 400                  |   |
| Contract services                            | <u>3,800</u>         | <u>3,080</u>         | <u>-</u>                                    |
| <b>Total</b>                                 | <u>142,800</u>       | <u>114,346</u>       | <u>28,454</u>                               |
| <b>City Garage</b>                           |                      |                      |   |
| Salaries                                     | 52,141               | 55,212               |   |
| Social security                              | 3,610                | 3,601                |   |
| Group insurance                              | 37,000               | 36,931               |   |
| Retirement                                   | 2,710                | 2,702                |   |
| 401 (k) retirement supplement                | 4,114                | 3,829                |   |
| Travel and training                          | 500                  | 256                  |   |
| Telephone                                    | 1,250                | 768                  |   |
| Utilities                                    | 23,000               | 19,987               |   |
| Equipment maintenance                        | 1,750                | 534                  |   |
| Vehicle maintenance                          | 1,000                | 577                  |   |
| Gas, oil and tires                           | 2,500                | 615                  |   |
| Supplies                                     | 2,000                | 976                  |   |
| Uniform rental                               | 9,000                | 8,117                |   |
| OSHA expense                                 | 250                  | 138                  |   |
| Contracted services                          | 1,500                | 1,176                |   |
| Insurance and bonding                        | <u>5,000</u>         | <u>4,638</u>         | <u>-</u>                                    |
| <b>Total</b>                                 | <u>147,325</u>       | <u>140,057</u>       | <u>7,268</u>                                |
| <br>Total general government                 | <br><u>1,216,360</u> | <br><u>1,121,524</u> | <br><u>94,836</u>                           |

**CITY OF SOUTHPORT, NORTH CAROLINA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
For the Year Ended June 30, 2011**

**EXHIBIT B-1  
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|  | <u>Budget</u> | <u>Actual</u> | <u>Variance<br/>Positive<br/>(Negative)</u> |
|--|---------------|---------------|---|
| Public Safety                                  |               |               |   |
| Police   |               |               |   |
| Salaries                                       | 467,769       | 438,305       |   |
| Separation allowance                           | 22,500        | 21,961        |   |
| Salaries - reserve officers                    | 40,000        | 37,462        |   |
| Social security                                | 38,866        | 36,025        |   |
| Group insurance                                | 139,800       | 138,173       |   |
| Retirement                                     | 29,833        | 27,802        |   |
| 401 (k) retirement supplement                  | 22,639        | 21,698        |   |
| Telephone and postage                          | 5,000         | 5,555         |   |
| Travel and training                            | 14,000        | 9,041         |   |
| Community resource materials                   | 5,000         | 3,775         |   |
| Equipment maintenance                          | 10,000        | 9,156         |   |
| Vehicle maintenance                            | 12,600        | 10,131        |   |
| Gas, oil and tires                             | 26,000        | 28,300        |   |
| Departmental supplies                          | 6,500         | 5,192         |   |
| Miscellaneous small equipment                  | 5,000         | 2,804         |   |
| Uniforms                                       | 12,000        | 12,548        |   |
| Information fund                               | 700           | -             |   |
| P.I.N. rental                                  | 1,000         | 600           |   |
| Contract services - Bell South                 | 1,200         | 975           |   |
| Insurance and bonding                          | 29,500        | 29,026        |   |
| Capital outlay                                 | 48,510        | 48,386        | -   |
| Total  | 938,417       | 886,915       | 51,502                                      |
| Fire Department                                |               |               |   |
| Fees paid to volunteers                        | 69,000        | 68,970        |   |
| Incentives paid to volunteers                  | 14,100        | 13,050        |   |
| Salaries                                       | 2,000         | 1,997         |   |
| Salaries - part-time                           | 25,000        | -             |   |
| Social security                                | 8,000         | 7,627         |   |
| Pension plan                                   | 6,000         | 1,194         |   |
| On behalf payments - fringe                    | 10,000        | 1,542         |   |
| Retirement - City share                        | 21,000        | 20,340        |   |
| Professional fees                              | 900           | 900           |   |
| Inspections                                    | 6,000         | 7,270         |   |
| Telephone and postage                          | 8,000         | 5,376         |   |
| Utilities                                      | 34,500        | 26,175        |   |
| Convention travel                              | 17,000        | 13,444        |   |
| Equipment maintenance                          | 15,000        | 13,076        |   |
| Vehicle maintenance                            | 20,000        | 17,978        |   |
| Gas, oil and tires                             | 9,500         | 5,642         |   |
| Departmental supplies                          | 45,000        | 42,193        |   |
| Uniforms                                       | 15,000        | 11,095        |   |
| Turnout gear                                   | 15,000        | 1,130         |   |
| Fire prevention                                | 3,000         | 2,653         |   |
| Health physicals                               | 5,000         | 4,288         |   |
| Contract services                              | 4,000         | 2,050         |   |
| Insurance and bonding                          | 6,500         | 6,365         |   |
| Equipment purchased under capitalization limit | -             | 3,590         |   |
| Capital outlay                                 | 60,000        | -             | -   |
| Total  | 419,500       | 277,945       | 141,555                                     |

**CITY OF SOUTHPORT, NORTH CAROLINA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
For the Year Ended June 30, 2011**

**EXHIBIT B-1  
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|                                   | <u>Budget</u>        | <u>Actual</u>        | <u>Variance<br/>Positive<br/>(Negative)</u> |
|-----------------------------------|----------------------|----------------------|---|
| Firemen's Fund                    |                      |                      |   |
| Southport firemen's expenses      | <u>20,050</u>        | <u>15,124</u>        | <u>4,926</u>                                |
| Rescue Squad                      |                      |                      |   |
| Fees paid to volunteers           | 79,000               | 78,679               |   |
| Salaries                          | 2,000                | 1,997                |   |
| Social security                   | 7,000                | 6,172                |   |
| Bill collection expense           | 14,500               | 14,009               |   |
| Telephone and postage             | 1,000                | 144                  |   |
| Utilities                         | 10,000               | 8,689                |   |
| Travel and training               | 2,500                | 305                  |   |
| Equipment maintenance             | 13,000               | 9,550                |   |
| Vehicle maintenance               | 5,000                | 3,508                |   |
| Gas, oil and tires                | 5,500                | 5,555                |   |
| Departmental supplies             | 14,300               | 14,288               |   |
| Other equipment                   | 5,000                | 4,501                |   |
| Medical supplies                  | 8,000                | 8,231                |   |
| Uniforms                          | 4,200                | 4,830                |   |
| Insurance and bonding             | <u>6,800</u>         | <u>6,729</u>         | <u>-</u>                                    |
| Total                             | <u>177,800</u>       | <u>167,187</u>       | <u>10,613</u>                               |
| Code Enforcement                  |                      |                      |   |
| Salaries                          | 186,875              | 186,193              |   |
| Salaries - part-time              | 2,500                | 1,179                |   |
| Social security                   | 13,846               | 13,689               |   |
| Group insurance                   | 39,600               | 39,523               |   |
| Retirement                        | 12,064               | 11,858               |   |
| 401 (k) retirement supplement     | 9,244                | 9,187                |   |
| Telephone                         | 1,700                | 2,170                |   |
| Utilities                         | 4,000                | 4,260                |   |
| Travel and training               | 4,000                | 3,874                |   |
| Vehicle maintenance               | 1,750                | 1,215                |   |
| Equipment maintenance             | 5,600                | 5,513                |   |
| Tires and fuel                    | 3,000                | 2,779                |   |
| Supplies                          | 5,500                | 4,483                |   |
| Miscellaneous small equipment     | 2,500                | 2,493                |   |
| Cleanup overgrown lots            | 2,500                | -                    |   |
| Removal of condemned buildings    | 10,000               | 10,000               |   |
| Contracted services - inspections | 1,000                | 450                  |   |
| Insurance                         | <u>6,000</u>         | <u>5,933</u>         | <u>-</u>                                    |
| Total                             | <u>311,679</u>       | <u>304,799</u>       | <u>6,880</u>                                |
| <br>Total public safety           | <br><u>1,867,446</u> | <br><u>1,651,970</u> | <br><u>215,476</u>                          |

**CITY OF SOUTHPORT, NORTH CAROLINA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
For the Year Ended June 30, 2011**

**EXHIBIT B-1  
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|                                | <u>Budget</u>  | <u>Actual</u>  | <u>Variance<br/>Positive<br/>(Negative)</u> |
|--------------------------------|----------------|----------------|---|
| Transportation                 |                |                |   |
| Street                         |                |                |   |
| Salaries                       | 74,050         | 72,985         |   |
| Social security                | 6,430          | 5,544          |   |
| Group insurance                | 24,300         | 23,979         |   |
| Retirement                     | 5,430          | 4,613          |   |
| 401 (k) retirement supplement  | 4,203          | 3,577          |   |
| Telephone                      | 2,000          | 925            |   |
| Utilities-Street lights        | 28,000         | 27,878         |   |
| Equipment maintenance          | 2,500          | 1,676          |   |
| Vehicle maintenance            | 2,500          | 962            |   |
| Gas, oil and tires             | 9,500          | 10,816         |   |
| Departmental supplies          | 1,500          | 2,566          |   |
| OSHA expenses                  | 500            | 421            |   |
| Insurance and bonding          | 13,000         | 11,677         | -   |
| Total                          | <u>173,913</u> | <u>167,619</u> | <u>6,294</u>                                |
| Powell Bill                    |                |                |   |
| Street repairs                 | 8,000          | 6,516          |   |
| Street resurfacing             | 79,000         | 78,776         | -   |
| Capital outlay - sidewalks     | 37,087         | 21,517         | -   |
| Total                          | <u>124,087</u> | <u>106,809</u> | <u>17,278</u>                               |
| Total transportation           | <u>298,000</u> | <u>274,428</u> | <u>23,572</u>                               |
| Environmental Protection       |                |                |   |
| Solid Waste                    |                |                |   |
| Annual cleanup                 | 6,300          | 6,203          |   |
| Collection contract            | 104,200        | 113,630        | -   |
| Total                          | <u>110,500</u> | <u>119,833</u> | <u>(9,333)</u>                              |
| Total environmental protection | <u>110,500</u> | <u>119,833</u> | <u>(9,333)</u>                              |

**CITY OF SOUTHPORT, NORTH CAROLINA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
For the Year Ended June 30, 2011**

**EXHIBIT B-1  
Page 8 of 8**

|                                      | <u>Budget</u>    | <u>Actual</u>    | <u>Variance<br/>Positive<br/>(Negative)</u> |
|--------------------------------------|------------------|------------------|---|
| Cultural and Recreational            |                  |                  |   |
| Parks and recreation                 |                  |                  |   |
| Salaries                             | 107,625          | 107,458          |   |
| Salaries - part-time                 | 46,500           | 46,092           |   |
| Social security                      | 11,800           | 11,353           |   |
| Group insurance                      | 31,300           | 30,946           |   |
| Retirement                           | 6,953            | 6,792            |   |
| 401 (k) retirement supplement        | 5,382            | 5,263            |   |
| Telephone                            | 5,750            | 5,591            |   |
| Travel and training                  | 1,200            | 1,189            |   |
| Fort Johnson expenses                | 45,100           | 43,373           |   |
| Equipment maintenance                | 4,300            | 3,461            |   |
| Vehicle maintenance                  | 2,000            | 2,298            |   |
| Gas, oil and tires                   | 3,950            | 4,464            |   |
| Departmental supplies                | 5,000            | 5,257            |   |
| Youth athletic programs              | 4,000            | 3,778            |   |
| Special events and programs          | 8,000            | 7,954            |   |
| Recreation programs                  | 17,500           | 17,554           |   |
| Senior citizens programs             | 6,500            | 6,358            |   |
| Insurance and bonding                | 7,500            | 7,469            | -   |
| Total cultural and recreational      | <u>320,360</u>   | <u>316,650</u>   | <u>3,710</u>                                |
| Debt service                         |                  |                  |   |
| Principal                            | 282,706          | 281,938          |   |
| Interest                             | <u>180,600</u>   | <u>180,584</u>   | -   |
| Total debt service                   | <u>463,306</u>   | <u>462,522</u>   | <u>784</u>                                  |
| Total expenditures                   | <u>4,275,972</u> | <u>3,946,927</u> | <u>329,045</u>                              |
| Revenues over (under) expenditures   | <u>(119,297)</u> | <u>463,821</u>   | <u>583,118</u>                              |
| Other financing sources (uses)       |                  |                  |   |
| Proceeds of capital leases           | <u>39,210</u>    | <u>39,210</u>    | -   |
| Total other financing sources (uses) | 39,210           | 39,210           | -   |
| Appropriated fund balance            | <u>80,087</u>    | -                | <u>(80,087)</u>                             |
| Net change in fund balance           | <u>-</u>         | 503,031          | <u>503,031</u>                              |
| Fund Balance                         |                  |                  |   |
| Beginning of year                    |                  | <u>3,142,905</u> |   |
| End of year                          |                  | <u>3,645,936</u> |   |

CITY OF SOUTHPORT, NORTH CAROLINA  
 FIRE STATION CAPITAL PROJECT  
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
 IN FUND BALANCE - BUDGET AND ACTUAL  
 For the Year Ended June 30, 2011

EXHIBIT B-2

|  | <u>Project<br/>Authorization</u> | <u>Prior<br/>Years</u> | <u>Actual<br/>Current<br/>Year</u> | <u>Total<br/>To Date</u> | <u>Variance<br/>Favorable<br/>(Unfavorable)</u> |
|--|----------------------------------|------------------------|------------------------------------|--------------------------|---|
| Revenues   |                                  |                        |                                    |                          |   |
| Investment earnings                                    |                                  |                        |                                    |                          |   |
| Interest earned  | -                                | 3,555                  | 561                                | 4,116                    | 4,116   |
| Miscellaneous  |                                  |                        |                                    |                          |   |
| Miscellaneous receipts                                 | -                                | -                      | 43,314                             | 43,314                   | 43,314  |
| Total revenues   | -                                | 3,555                  | 43,875                             | 47,430                   | 47,430  |
| Expenditures   |                                  |                        |                                    |                          |   |
| Professional Services - Design                         | 194,666                          | 72,697                 | 21,969                             | 94,666                   | 100,000   |
| Construction   | 3,416,694                        | 3,064,383              | 352,311                            | 3,416,694                | -   |
| Furnishings and telephone system                       | 92,993                           | -                      | 83,222                             | 83,222                   | 9,771   |
| Contingency  | 79,647                           | -                      | -                                  | -                        | 79,647  |
| Total expenditures                                     | 3,784,000                        | 3,137,080              | 457,502                            | 3,594,582                | 189,418   |
| Excess of (under) revenues over expenditures           | (3,784,000)                      | (3,133,525)            | (413,627)                          | (3,547,152)              | 236,848   |
| Other financing sources (uses)                         |                                  |                        |                                    |                          |   |
| Financing proceeds                                     | 3,784,000                        | 3,784,000              | -                                  | 3,784,000                | -   |
| Excess of revenues and other sources over expenditures | -                                | 650,475                | (413,627)                          | 236,848                  | 236,848   |
| Fund balance   |                                  |                        |                                    |                          |   |
| Beginning of year                                      |                                  |                        | 650,475                            |                          |   |
| End of year  |                                  |                        | 236,848                            |                          |   |

## ENTERPRISE FUNDS

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Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the governing body has decided that periodic determination of net income is appropriate for accountability purposes.

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- Electric Fund - This fund is used to account for the City's electric fund operations.
- Water and Sewer Fund - This fund is used to account for the City's water and sewer operations.
- Wastewater System Enhancement Capital Project Phase II Fund – This fund is used to account for a capital project to access third party wastewater treatment facilities.

**CITY OF SOUTHPORT, NORTH CAROLINA  
ELECTRIC FUND  
SCHEDULE OF REVENUES, EXPENSES, AND  
SUPPLEMENTAL BUDGET EXPENDITURES - BUDGET AND ACTUAL (NON-GAAP)  
For the Year Ended June 30, 2010**

**EXHIBIT C-1  
Page 1 of 3**

|                                      | <u>Budget</u> | <u>Actual</u> | <u>Variance<br/>Positive<br/>(Negative)</u> |
|--------------------------------------|---------------|---------------|---|
| Revenues                             |               |               |   |
| Operating revenues                   |               |               |   |
| Charges for services                 |               |               |   |
| Electricity sales                    | 6,899,900     | 7,298,495     | 398,595                                     |
| Underground service                  | 175,000       | 131,543       | (43,457)                                    |
| Load management switches             | 6,000         | 3,446         | (2,554)                                     |
| Service charges                      | 100,000       | 104,895       | 4,895                                       |
| Total charges for services           | 7,180,900     | 7,538,379     | 357,479                                     |
| Other operating revenues             |               |               |   |
| Miscellaneous                        | -             | 1,394         | 1,394                                       |
| Total operating revenues             | 7,180,900     | 7,539,773     | 358,873                                     |
| Nonoperating revenues                |               |               |   |
| Interest on investments              | 15,000        | 9,742         | (5,258)                                     |
| Total nonoperating revenues          | 15,000        | 9,742         | (5,258)                                     |
| Total revenues                       | 7,195,900     | 7,549,515     | 353,615                                     |
| Expenditures                         |               |               |   |
| Expenditures other than depreciation |               |               |   |
| Salaries                             | 234,000       | 191,684       |   |
| Professional services                | 23,500        | 22,345        |   |
| Collection agency                    | 1,500         | 832           |   |
| Social security                      | 18,000        | 14,390        |   |
| Group insurance                      | 65,000        | 61,768        |   |
| Retirement                           | 15,500        | 12,179        |   |
| 401 (k) retirement supplement        | 11,700        | 9,434         |   |
| Computer software update             | 1,000         | 725           |   |
| Telephone and postage                | 22,000        | 23,566        |   |
| Travel and training                  | 2,500         | 52            |   |

**CITY OF SOUTHPORT, NORTH CAROLINA  
ELECTRIC FUND  
SCHEDULE OF REVENUES, EXPENSES, AND  
SUPPLEMENTAL BUDGET EXPENDITURES - BUDGET AND ACTUAL (NON-GAAP)  
For the Year Ended June 30, 2010**

**EXHIBIT C-1  
Page 2 of 3**

|   | <u>Budget</u> | <u>Actual</u> | <u>Variance<br/>Positive<br/>(Negative)</u> |
|---|---------------|---------------|---|
| Expenditures  |               |               |   |
| Expenditures other than depreciation                        |               |               |   |
| Equipment maintenance                                       | 6,000         | 4,428         |   |
| Vehicle maintenance   | 1,500         | 390           |   |
| Gas, oil and tires  | 2,500         | 1,820         |   |
| Garage expense  | 6,500         | 6,500         |   |
| Departmental supplies                                       | 8,000         | 6,592         |   |
| Utility sales tax   | 174,000       | 174,913       |   |
| Power purchased   | 5,900,000     | 5,715,424     |   |
| Electricities dues  | 5,000         | 4,665         |   |
| Contract maintenance  | 314,000       | 313,785       |   |
| Contract services   | 26,000        | 26,526        |   |
| Insurance and bonding                                       | 14,000        | 13,274        |   |
| Load management repairs                                     | 2,500         | 869           | -   |
| Total expenditures other than depreciation                  | 6,854,700     | 6,606,161     | 248,539                                     |
| Supplemental budget expenditures                            |               |               |   |
| Capital outlay  | 341,200       | 149,904       | -   |
| Total supplemental expenditures                             | 341,200       | 149,904       | 191,296                                     |
| Total expenditures  | 7,195,900     | 6,756,065     | 439,835                                     |
| Excess of revenues over (under) expenditures                | -             | 793,450       | 793,450                                     |
| Other financing sources (uses)                              |               |               |   |
| Other financing sources over (under) uses                   | -             | -             | -   |
| Revenues and other sources over expenditures and other uses | -             | 793,450       | 793,450                                     |

**CITY OF SOUTHPORT, NORTH CAROLINA**  
**ELECTRIC FUND**  
**SCHEDULE OF REVENUES, EXPENSES, AND**  
**SUPPLEMENTAL BUDGET EXPENDITURES - BUDGET AND ACTUAL (NON-GAAP)**  
**For the Year Ended June 30, 2010**

**EXHIBIT C-1**  
**Page 3 of 3**

|   | <u>Budget</u> | <u>Actual</u>         |  | <u>Variance</u><br><u>Positive</u><br><u>(Negative)</u> |
|---|---------------|-----------------------|--|---|
| Reconciliation of modified accrual basis to full accrual basis:               |               |                       |  |   |
| Excess of revenues and other sources over (under) expenditures and other uses |               | 793,450               |  |   |
| Depreciation  |               | (215,797)             |  |   |
| Total supplemental budget expenditures  |               | 149,904               |  |   |
| (Increase) decrease in unfunded OPEB liability                                |               | (10,433)              |  |   |
| (Increase) decrease in accrued vacation                                       |               | <u>(861)</u>          |  |   |
| Change in net assets  |               | <u><u>716,263</u></u> |  |   |

**CITY OF SOUTHPORT, NORTH CAROLINA  
WATER AND SEWER FUND  
SCHEDULE OF REVENUES, EXPENSES, AND  
SUPPLEMENTAL BUDGET EXPENDITURES - BUDGET AND ACTUAL (NON-GAAP)  
For the Year Ended June 30, 2010**

**EXHIBIT C-2  
Page 1 of 3**

|                                      | <u>Budget</u> | <u>Actual</u> | <u>Variance<br/>Positive<br/>(Negative)</u> |
|--------------------------------------|---------------|---------------|---|
| Revenues                             |               |               |   |
| Operating revenues                   |               |               |   |
| Charges for services                 |               |               |   |
| Water and sewer services             | 2,013,900     | 2,048,863     | 34,963                                      |
| Water and sewer tap fees             | 7,500         | 3,000         | (4,500)                                     |
| Total charges for services           | 2,021,400     | 2,051,863     | 30,463                                      |
| Other operating revenues             |               |               |   |
| Miscellaneous                        | 1,000         | -             | (1,000)                                     |
| Total operating revenues             | 2,022,400     | 2,051,863     | 29,463                                      |
| Nonoperating revenues                |               |               |   |
| Interest on investments              | 3,000         | 2,115         | (885)                                       |
| Impact fees                          | 140,000       | 128,575       | (11,425)                                    |
| Total nonoperating revenues          | 143,000       | 130,690       | (12,310)                                    |
| Total revenues                       | 2,165,400     | 2,182,553     | 17,153                                      |
| Expenditures                         |               |               |   |
| Expenditures other than depreciation |               |               |   |
| Salaries                             | 347,956       | 344,735       |   |
| Professional fees                    | 50,000        | 44,789        |   |
| Social security                      | 25,849        | 25,475        |   |
| Group insurance                      | 86,200        | 87,115        |   |
| Retirement                           | 22,000        | 21,556        |   |
| 401 (k) retirement supplement        | 16,895        | 16,691        |   |
| Computer software update             | 1,000         | 725           |   |
| Telephone and postage                | 25,300        | 25,458        |   |
| Utilities                            | 90,000        | 84,767        |   |
| Travel and training                  | 1,000         | 812           |   |
| System maintenance                   | 31,000        | 35,373        |   |

**CITY OF SOUTHPORT, NORTH CAROLINA  
WATER AND SEWER FUND  
SCHEDULE OF REVENUES, EXPENSES, AND  
SUPPLEMENTAL BUDGET EXPENDITURES - BUDGET AND ACTUAL (NON-GAAP)  
For the Year Ended June 30, 2010**

**EXHIBIT C-2  
Page 2 of 3**

|   | <u>Budget</u> | <u>Actual</u> | <u>Variance<br/>Positive<br/>(Negative)</u> |
|---|---------------|---------------|---|
| Expenditures  |               |               |   |
| Expenditures other than depreciation                                |               |               |   |
| Equipment repair  | 4,500         | 3,351         |   |
| Vehicle repair  | 2,000         | 1,541         |   |
| Garage expense  | 20,000        | 20,000        |   |
| Gas, oil and tires  | 7,500         | 8,080         |   |
| Water and sewer supplies  | 75,800        | 71,172        |   |
| Annual permits and fees   | 5,000         | 3,705         |   |
| OSHA expenses   | 1,000         | 880           |   |
| Contract services   | 316,000       | 316,713       |   |
| Meter reading contract  | 26,600        | 25,316        |   |
| Water analysis  | 10,000        | 8,653         |   |
| Sewer analysis  | 12,100        | 12,505        |   |
| Water purchases   | 465,000       | 457,862       |   |
| Sewer capital charge  | 125,000       | 125,000       |   |
| Insurance and bonding   | 24,700        | 24,648        |   |
| Miscellaneous   | 500           | -             | -   |
|   |               |               |   |
| Total expenditures other than depreciation                          | 1,792,900     | 1,766,922     | 25,978                                      |
| Supplemental budget expenditures                                    |               |               |   |
| Capital outlay  | 90,000        | 89,264        |   |
| Long-term debt payments   | 117,200       | 117,469       |   |
| CWMTF Grant repayment   | 562,000       | 562,000       |   |
| Water tank payment to Brunswick County                              | 75,000        | 75,000        |   |
| Interest expense  | 28,800        | 28,708        | -   |
|   |               |               |   |
| Total supplemental expenditures                                     | 873,000       | 872,441       | 559   |
|   |               |               |   |
| Total expenditures  | 2,665,900     | 2,639,363     | 26,537                                      |
| Revenues over (under) expenditures                                  | (500,500)     | (456,810)     | 43,690                                      |
| Other financing sources (uses)                                      |               |               |   |
| Fund balance appropriated   | 500,500       | -             | (500,500)                                   |
| Revenues and other sources over (under) expenditures and other uses | -             | (456,810)     | (456,810)                                   |

**CITY OF SOUTHPORT, NORTH CAROLINA**  
**WATER AND SEWER FUND**  
**SCHEDULE OF REVENUES, EXPENSES, AND**  
**SUPPLEMENTAL BUDGET EXPENDITURES - BUDGET AND ACTUAL (NON-GAAP)**  
**For the Year Ended June 30, 2010**

**EXHIBIT C-2**  
**Page 3 of 3**

|  | <u>Budget</u> | <u>Actual</u>      | <u>Variance<br/>Positive<br/>(Negative)</u> |
|--|---------------|--------------------|---|
| Reconciliation of modified accrual<br>basis to full accrual basis: |               |                    |   |
| Revenues and other sources over<br>expenditures and other uses     |               | (456,810)          |   |
| Total supplemental budget expenditures                             |               | 872,441            |   |
| Depreciation   |               | (375,256)          |   |
| (Increase) decrease in accrued vacation pay                        |               | 480                |   |
| (Increase) decrease in interest payable                            |               | 1,275              |   |
| (Increase) decrease in OPEB liability                              |               | (74,131)           |   |
| Interest expense included in debt payments                         |               | (28,708)           |   |
| System contributed by developers                                   |               | 736,644            |   |
| Loss on treatment plant closing                                    |               | (1,061,470)        |   |
| Interest income recorded in capital projects                       |               | 457                |   |
| Grants received by capital projects                                |               | <u>1,180,594</u>   |   |
| <br>Change in net assets in Water and Sewer Fund                   |               | <br><u>795,516</u> |   |

**CITY OF SOUTHPORT, NORTH CAROLINA**  
**WASTEWATER SYSTEM ENHANCEMENT CAPITAL PROJECT PHASE II**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP)**  
**For the Year Ended June 30, 2011**

EXHIBIT C-3

|  | <u>Project<br/>Authorization</u> | <u>Prior<br/>Years</u> | <u>Actual<br/>Current<br/>Year</u> | <u>Total<br/>To Date</u> | <u>Variance<br/>Favorable<br/>(Unfavorable)</u> |
|--|----------------------------------|------------------------|------------------------------------|--------------------------|---|
| <b>Revenues</b>  |                                  |                        |                                    |                          |   |
| Restricted intergovernmental revenues                  |                                  |                        |                                    |                          |   |
| Principal Forgiveness grant (ARRA)                     | 702,347                          | 417,462                | 284,885                            | 702,347                  | -   |
| Clean Water grant                                      | <u>3,000,000</u>                 | <u>1,710,488</u>       | <u>895,709</u>                     | <u>2,606,197</u>         | <u>(393,803)</u>                                |
| Total restricted intergovernmental                     | <u>3,702,347</u>                 | <u>2,127,950</u>       | <u>1,180,594</u>                   | <u>3,308,544</u>         | <u>(393,803)</u>                                |
| Investment earnings                                    |                                  |                        |                                    |                          |   |
| Interest earned  | <u>-</u>                         | <u>7,270</u>           | <u>457</u>                         | <u>7,727</u>             | <u>7,727</u>                                    |
| Total revenues   | <u>3,702,347</u>                 | <u>2,135,220</u>       | <u>1,181,051</u>                   | <u>3,316,271</u>         | <u>(386,076)</u>                                |
| <b>Expenditures</b>                                    |                                  |                        |                                    |                          |   |
| Professional services                                  | 959,945                          | 666,291                | 121,799                            | 788,090                  | 171,855   |
| Legal and administrative fees                          | 56,985                           | -                      | -                                  | -                        | 56,985  |
| Easement and land acquisition                          | 43,070                           | 5,000                  | -                                  | 5,000                    | 38,070  |
| Construction   | 3,203,995                        | 1,852,128              | 1,251,981                          | 3,104,109                | 99,886  |
| Contingency  | <u>140,700</u>                   | <u>-</u>               | <u>-</u>                           | <u>-</u>                 | <u>140,700</u>                                  |
| Total expenditures                                     | <u>4,404,695</u>                 | <u>2,523,419</u>       | <u>1,373,780</u>                   | <u>3,897,199</u>         | <u>507,496</u>                                  |
| Excess of (under) revenues over expenditures           | <u>(702,348)</u>                 | <u>(388,199)</u>       | <u>(192,729)</u>                   | <u>(580,928)</u>         | <u>121,420</u>                                  |
| <b>Other financing sources (uses)</b>                  |                                  |                        |                                    |                          |   |
| Financing proceeds                                     |                                  |                        |                                    |                          |   |
| Federal Revolving Loan (ARRA)                          | <u>702,348</u>                   | <u>417,463</u>         | <u>284,885</u>                     | <u>702,348</u>           | <u>-</u>  |
| Other financing sources over (under) uses              | <u>702,348</u>                   | <u>417,463</u>         | <u>284,885</u>                     | <u>702,348</u>           | <u>-</u>  |
| Excess of revenues and other sources over expenditures | <u>-</u>                         | <u>29,264</u>          | <u>92,156</u>                      | <u>121,420</u>           | <u>121,420</u>                                  |
| <b>Fund balance</b>                                    |                                  |                        |                                    |                          |   |
| Beginning of year                                      |                                  |                        | <u>29,264</u>                      |                          |   |
| End of year  |                                  |                        | <u>121,420</u>                     |                          |   |

Note: In prior year all proceeds of Federal Revolving Loan were reported as loan proceeds. For the year ended June 30, 2011, the amount to be repaid and the amount forgiven have been separated.

## OTHER SCHEDULES

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This section includes additional information on property taxes and interfund and component unit transfers.

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- Schedule of Ad Valorem Taxes Receivable
- Analysis of Current Tax Levy

**CITY OF SOUTHPORT, NORTH CAROLINA  
SCHEDULE OF AD VALOREM TAXES RECEIVABLE  
June 30, 2011**

**EXHIBIT D-1**

| <u>Fiscal Year</u>                                    | <u>Uncollected<br/>Balance<br/>June 30, 2010</u> | <u>Additions</u>     | <u>Collections<br/>and Credits</u> | <u>Uncollected<br/>Balance<br/>June 30, 2011</u> |
|---|--|----------------------|------------------------------------|--|
| 2010 - 2011   |  | 1,703,729            | 1,633,502                          | 70,227   |
| 2009 - 2010   | 63,189   |                      | 33,929                             | 29,260   |
| 2008 - 2009   | 20,874   |                      | 8,622                              | 12,252   |
| 2007 - 2008   | 9,391  |                      | 3,572                              | 5,819  |
| 2006 - 2007   | 4,316  |                      | 205                                | 4,111  |
| 2005 - 2006   | 4,168  |                      | 162                                | 4,006  |
| 2004 - 2005   | 3,758  |                      | 249                                | 3,509  |
| 2003 - 2004   | 2,940  |                      | -                                  | 2,940  |
| 2002 - 2003   | 3,561  |                      | 14                                 | 3,547  |
| 2001 - 2002   | 3,889  |                      | 62                                 | 3,827  |
| 2000 - 2001   | <u>3,032</u>                                     | <u>-</u>             | <u>3,032</u>                       | <u>-</u>   |
| <br>Total   | <br><u>119,118</u>                               | <br><u>1,703,729</u> | <br><u>1,683,349</u>               | <br><u>139,498</u>                               |
| <br>Less allowance for uncollectible taxes receivable |  |                      |                                    | <br><u>20,925</u>                                |
| <br>Ad Valorem taxes receivable - net                 |  |                      |                                    | <br><u><u>118,573</u></u>                        |
| <br>Reconcilement with revenues                       |  |                      |                                    |  |
| Taxes - ad valorem - General Fund                     |  |                      |                                    | 1,694,117  |
| <br>Amounts written off for tax year                  |  |                      |                                    |  |
| 2000 - 2001 per statute of limitations                |  |                      |                                    | 2,983  |
| <br>Releases and adjustments                          |  |                      |                                    | <br><u>405</u>                                   |
| <br>Subtotal  |  |                      |                                    | <br>1,697,505                                    |
| <br>Less: Interest collected                          |  |                      |                                    | <br><u>14,156</u>                                |
| <br>Total collections and credits                     |  |                      |                                    | <br><u><u>1,683,349</u></u>                      |

**CITY OF SOUTHPORT, NORTH CAROLINA  
ANALYSIS OF CURRENT TAX LEVY  
CITY-WIDE LEVY  
June 30, 2011**

**EXHIBIT D-2**

|                                    | <b>City-Wide</b>                     |                    |                              | <b>Total Levy</b>  |   |
|------------------------------------|--------------------------------------|--------------------|------------------------------|--|---|
|                                    | <b><u>Property<br/>Valuation</u></b> | <b><u>Rate</u></b> | <b><u>Total<br/>Levy</u></b> | <b><u>Property<br/>Excluding<br/>Registered<br/>Motor<br/>Vehicles</u></b> | <b><u>Registered<br/>Motor<br/>Vehicles</u></b> |
| Original Levy:                     |                                      |                    |                              |  |   |
| Property taxed at current rate     | 941,089,100                          | 0.0018             | 1,693,960                    | 1,653,974  | 39,986  |
| Total                              | 941,089,100                          |                    | 1,693,960                    | 1,653,974  | 39,986  |
| Discoveries                        |                                      |                    |                              |  |   |
| Current year                       | 5,427,476                            | 0.0018             | 9,769                        | 9,769  |   |
| Abatements                         | -                                    |                    | -                            | -  | -   |
| Total valuation                    | 946,516,576                          |                    |                              |  |   |
| Net levy                           |                                      |                    | 1,703,729                    | 1,663,743  | 39,986  |
| Uncollected taxes at June 30, 2011 |                                      |                    | 70,227                       | 65,617   | 4,610   |
| Current year's taxes collected     |                                      |                    | 1,633,502                    | 1,598,126  | 35,376  |
| Current levy collection percentage |                                      |                    | 95.88%                       | 96.06%   | 88.47%  |

SUPPLEMENTARY INFORMATION:

COMPLIANCE SECTION

**Report On Internal Control Over Financial Reporting And On Compliance And  
Other Matters Based On An Audit Of Financial Statements Performed  
In Accordance With *Government Auditing Standards***

To the Honorable Mayor and the  
Members of the Board of Aldermen  
City of Southport  
Southport, NC 28461

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Southport, North Carolina, as of and for the year ended June 30, 2011, which collectively comprises the City of Southport's basic financial statements, and have issued our report thereon, dated November 28, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the City of Southport Board of Alcoholic Control were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

Management of the City of Southport is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Southport's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Southport's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as described in the schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or 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. We consider the deficiencies, 11-1 and 11-2, described in the accompanying schedule of findings and responses to be material weaknesses.

A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies, 11-3 and 11-4, described in the accompanying schedule of findings and responses, to be significant deficiencies.

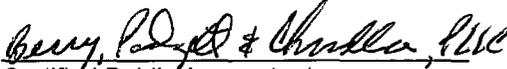
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Southport's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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*.

We noted certain matters that we reported to management of the City of Southport in a separate letter dated November 28, 2011.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and response. We did not audit the City's response and, accordingly, we express no opinion on it.

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

  
Certified Public Accountants

November 28, 2011

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

Honorable Mayor and  
Members of the Board of Aldermen  
City of Southport  
Southport, North Carolina

Compliance

We have audited the compliance of the City of Southport, North Carolina, with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement and the Audit Manual for Governmental Auditors in North Carolina, issued by the Local Government Commission, that could have a direct and material effect on each of the City of Southport's major federal programs for the year ended June 30, 2011. The City of Southport's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Southport's management. Our responsibility is to express an opinion on the City of Southport's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; applicable sections of OMB Circular A-133, Audit of States, Local Governments and Non-Profit Organizations, and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Southport's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Southport's compliance with those requirements.

In our opinion, the City of Southport complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2011.

Internal Control Over Compliance

Management of the City of Southport is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Southport's internal control over compliance with requirements that could have a direct and material effect on a major federal programs to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

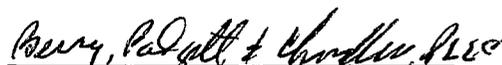
Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we can consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material non compliance with a type of compliance requirement of a federal will not be prevented or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 11-1 and 11-2 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of finds and questioned costs as items 11-3 and 11-4 to be significant deficiencies.

The City of Southport's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and, accordingly, we express no opinion on the response.

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

  
Certified Public Accountants

November 28, 2011

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

Honorable Mayor and  
Members of the Board of Aldermen  
City of Southport  
Southport, North Carolina

Compliance

We have audited the compliance of the City of Southport, North Carolina, with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement and the Audit Manual for Governmental Auditors in North Carolina, issued by the Local Government Commission, that could have a direct and material effect on each of the City of Southport's major State programs for the year ended June 30, 2011. The City of Southport's major State program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major State programs is the responsibility of the City of Southport's management. Our responsibility is to express an opinion on the City of Southport's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; applicable sections of OMB Circular A-133, Audit of States, Local Governments and Non-Profit Organizations, and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major State program occurred. An audit includes examining, on a test basis, evidence about the City of Southport's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Southport's compliance with those requirements.

In our opinion, the City of Southport complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major State program for the year ended June 30, 2011.

Internal Control Over Compliance

Management of the City of Southport is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Southport's internal control over compliance with requirements that could have a direct and material effect on a major State programs to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we can consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material non compliance with a type of compliance requirement of a federal will not be prevented or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 11-1 and 11-2 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of finds and questioned costs as items 11-3 and 11-4 to be significant deficiencies.

The City of Southport's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and, accordingly, we express no opinion on the response.

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

  
Certified Public Accountants

November 28, 2011

**CITY OF SOUTHPORT, NORTH CAROLINA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**  
**For the Year Ended June 30, 2011**

Exhibit E-1

| Grantor/Pass-through<br><u>Grantor/Program Title</u>                  | <u>Federal<br/>CFDA<br/>Number</u> | <u>State /<br/>Pass-<br/>through<br/>Grantor's<br/>Number</u> | <u>Federal<br/>(Direct &amp;<br/>Pass-through<br/>Expenditures</u> | <u>State<br/>Expenditures</u> |
|---|------------------------------------|---|--|-------------------------------|
| Federal Grants:   |                                    |   |  |                               |
| <u>Environmental Protections Agency (EPA):</u>                        |                                    |   |  |                               |
| Pass-through NC Department of Environmental<br>and Natural Resources: |                                    |   |  |                               |
| ARRA- Grant for Clean Water State<br>Revolving Funds (note 2)         |                                    |   |  |                               |
|   | 66.458                             | 95421209  | 259,811  |                               |
| Total Assistance - Federal programs                                   |                                    |   | <u>259,811</u>   | <u>-</u>                      |
| State Grants:   |                                    |   |  |                               |
| <u>NC Department of Environmental and Natural Resources:</u>          |                                    |   |  |                               |
| Cleanwater Management Trust Fund                                      |                                    |   |  |                               |
| Wastewater Land Application   |                                    |   |  |                               |
|   |                                    | 2006A-529   |  | 1,113,969                     |
| <u>NC Department of Transportation:</u>                               |                                    |   |  |                               |
| Powell Bill   |                                    |   |  |                               |
|   | DOT-4                              | Powell Bill   | -  | 106,809                       |
| Total Assistance - State Program:                                     |                                    |   | -  | <u>1,220,778</u>              |
| Total Assistance:   |                                    |   | <u>259,811</u>   | <u>1,220,778</u>              |

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

1. The accompanying schedule of expenditures of federal and State awards includes the federal and State grant activity of the City of Southport and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State Single Audit Implementation Act. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.
2. Loans Outstanding  
City of Southport had the following loan balances outstanding at June 30, 2011. These loan balances outstanding are also included in the federal expenditures presented in the schedule.

| <u>Program Title</u>                                   | <u>CFDA<br/>Number</u> | <u>Pass-through<br/>Grantor's<br/>Number</u> | <u>Amount<br/>Outstanding</u> |
|--|------------------------|--|-------------------------------|
| ARRA - Capitalization Grants for State Revolving Funds | 66-458                 | 95421209                                     | \$ 702,348                    |

**City of Southport, North Carolina  
 Schedule of Findings and Questioned Costs  
 For the Fiscal Year Ended June 30, 2011**

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness identified? X yes      \_\_no
- Significant Deficiencies identified that are not considered to be material weaknesses X yes      \_\_no
- Noncompliance material to financial statements noted \_\_ yes      X no

Federal Awards

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

Internal control over major Federal programs:

- Material weakness identified? X yes      \_\_no
- Significant Deficiency identified that is not considered to be material weakness X yes      \_\_no
- Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133 \_\_ yes      X no

Identification of major Federal programs:

| <u>CFDA Number</u> | <u>Program name</u>   |
|--------------------|---|
| 66.458             | ARRA - Capitalization Grants For State Revolving Fund (CWSRF) |

Dollar threshold used to distinguish Between Type A and Type B Programs \$ 300,000

Auditee qualified as low risk auditee? \_\_ yes      X no

**City of Southport, North Carolina  
Schedule of Findings and Questioned Costs  
For the Fiscal Year Ended June 30, 2011**

**Exhibit E-2  
Page 2 of 4**

State Awards

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

Internal control over major State programs:

- Material weakness identified? Xyes      \_\_\_no
  
- Significant Deficiency identified that is not considered to be material weakness Xyes      \_\_\_no

Any audit findings disclosed that are required  
To be reported in accordance with the State  
Single Audit Implementation Act \_\_\_yes      Xno

Identification of major State programs:

Program name  
Clean Water Management Trust Fund Grant

II. Financial Statement Findings

MATERIAL WEAKNESS

**Finding 11-1 Significant Audit Adjustments**

Criteria: General ledger and other records should include all adjustments necessary for GAAP financial reporting.

Condition: Several audit adjustments that in our opinion would not have been discovered except through our auditing procedures were proposed. Management is responsible for establishing controls to ensure that they are able to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles.

Effect: Financial reporting could be misleading.

Cause: Finance Officer lacks training and experience in GAAP financial reporting.

Recommendation: Additional training should be accorded Finance Officer with additional supervision provided until such time as training is completed.

Views of responsible officials and planned corrective actions: The City agrees with this finding and recommendation.

**Finding 11-2 Segregation of Duties**

Criteria: Duties should be segregated to provide reasonable assurance that transactions are handled appropriately. Documentation should be in place to provide continuing guidance.

Condition: There is a lack of segregation of duties among City personnel.

Effect: Transactions could be mishandled.

Cause: There are a limited number of personnel for certain functions.

Recommendation: The duties should be segregated as much as possible and alternative controls could be used to compensate for lack of separation.

Views of responsible officials and planned corrective actions: The City Agrees with this finding.

**SIGNIFICANT DEFICIENCIES**

**Finding 11-3 Reconciliation of Accounts**

Criteria: General ledger tax accounts were not reconciled to the tax collectors annual report.

Condition: The ad valorem revenue accounts were not reconciled to the tax collectors annual report.

Effect: Conflicting financial information for reporting and monitoring by management and board.

Cause: Lack of communication between tax collector and finance officer.

Recommendation: Internal procedure that establishes responsibility for and approval of the reconciliation of the tax collectors report and financial reports before either are released.

Views of responsible officials and planned corrective action: We agree with the finding. Controls will be established by December 31, 2011.

**Finding 11-4 Reconciliation of Accounts**

Criteria: Claim for sales tax refund did not correctly identify taxes paid indirectly on building material and supplies.

Condition: Sales tax refund on construction projects was not credited to the project costs.

Effect: Understatement of sales tax due to indirect expenses on construction materials and supplies.

Cause: Oversight / misunderstanding of requirement by finance officer.

Recommendation: Controls are developed establish procedures necessary before closing capital project and the separate reporting (when necessary) on the Claim for Refund – State and County Sale and Use Taxes.

Views of responsible officials and planned corrective action: We agree with the finding. Controls will be established by December 31, 2011.

**City of Southport, North Carolina  
Schedule of Findings and Questioned Costs  
For the Fiscal Year Ended June 30, 2011**

**Exhibit E-2  
Page 4 of 4**

III. Federal Awards Findings and Questioned Costs

See Item II above: Findings 11-1, 11-2, 11-3 and 11-4

IV State Awards Findings and Questioned Costs

See Item II above: Findings 11-1, 11-2, 11-3 and 11-4

**City of Southport, North Carolina  
Corrective Action Plan  
For the Year Ended June 30, 2011**

**Exhibit E-3**

I. Financial Statement Findings

Finding 11-1

Name of contact person: Regina Alexander

Corrective Action: Additional training of personnel in accounting procedures.

Proposed completion date: June 30, 2012

Finding 11-2

Name of contact person: Regina Alexander

Corrective Action: Segregate duties as it becomes economically feasible to add additional personnel.

Proposed completion date: Reassessments will be made as staff increases

Finding 11-3

Name of contact person: Regina Alexander

Corrective Action: Control procedures will be implemented to establish the finance officer approval and reconciliation of tax revenues and receivables with tax collectors reports before reports are issued.

Proposed completion date: January 31, 2012

Finding 11-4

Name of contact person: Regina Alexander

Corrective Action: Reconciliations will be implemented to tie Claim for Sales and Use Tax Refund with receivables by fund and claims for indirect materials and supplies expenses (by year or at completion of project).

Proposed completion date: June 30, 2012.

II. Federal Awards Findings

See Item I above: Findings 11-1, 11-2, 11-3 and 11-4

III. State Awards Findings

See Item I above: Findings 11-1, 11-2, 11-3 and 11-4

**City Of Southport, North Carolina  
Summary Schedule of Prior Year Findings  
For the Year Ended June 30, 2011**

**Exhibit E-4**

**Finding: 2010-1**

Status: The condition continues.

**Finding: 2010-2**

Status: Duties are being separated as much as possible and alternative controls are being implemented to compensate for lack of separation.

**Finding: 2010-3**

Status: Corrected.