

CITY OF SOUTHPORT

Southport, North Carolina

AUDITED FINANCIAL STATEMENTS

June 30, 2013

BOARD OF ALDERMEN

Robert D. Howard, Mayor
Mary Ellen Poole, Mayor Pro Tem
Nelson E. Adams
Buddy Barnes
Mary "Meezie" Childs
Todd Coring
James "Jim" Powell

ADMINISTRATIVE AND FINANCIAL STAFF

Robert S. Gandy, Jr., City Manager
Bonita L. Bray, Finance Director
Regina Alexander, City Clerk

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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

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the City of Southport Board of Alcoholic Control were not audited in accordance with Government Auditing Standards.

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

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

Opinions

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, 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, 2013, 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 accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Law Enforcement Officers' Special Separation Allowance's and the Other Postemployment Benefits' Schedules of Funding Progress and Schedules of Employer Contributions, on Exhibit A-1 through A-4, respectively, be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

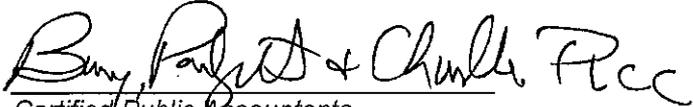
Supplementary and Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 11, 2014 on our consideration of City of Southport's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Southport's internal control over financial reporting and compliance.


Certified Public Accountants

Southport, North Carolina
February 7, 2014

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, 2013. 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

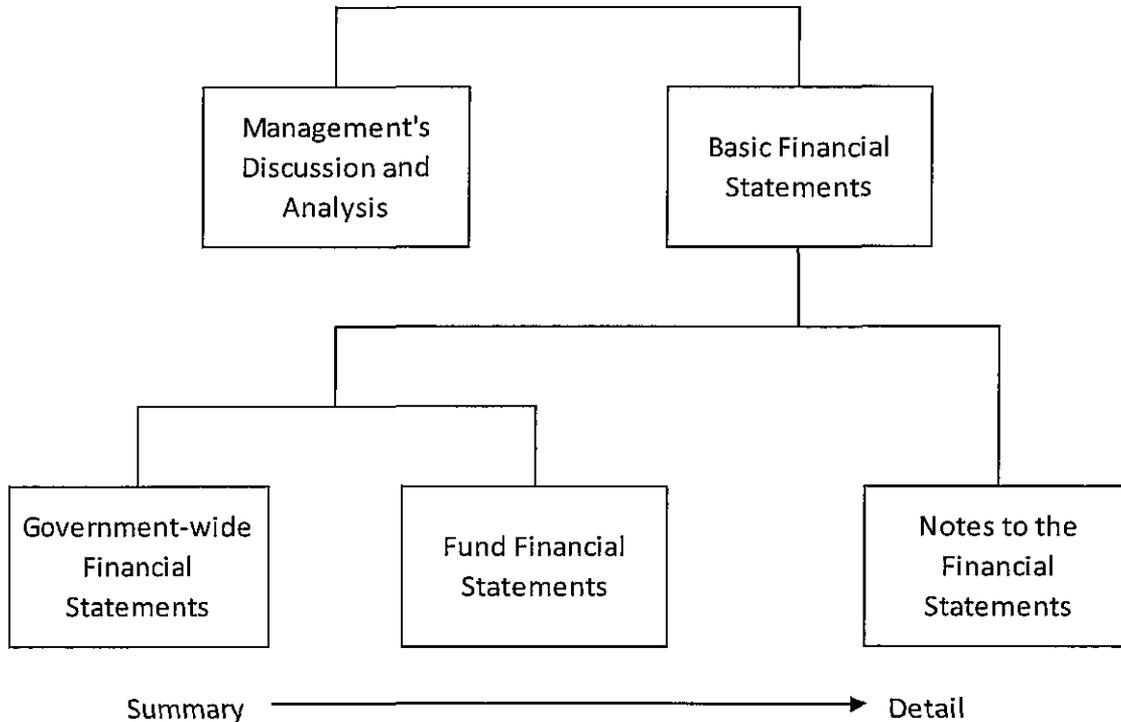
- The assets and deferred outflows of resources of the City of Southport exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$34,612,459 (*net position*).
- The government's total net position increased by \$781,217 as the result of a decrease in business-type activities net position of \$519,702 and an increase in governmental activities net position of \$1,300,919.
- As of the close of the current fiscal year, the City of Southport's governmental funds reported combined ending fund balances of \$2,204,931, a net decrease of \$705,182 from the prior year. Approximately 43.89% of this total amount, or \$967,678, is restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$951,014, or 20.76 % of total general fund expenditures for the fiscal year.
- The City of Southport's total debt less accrued interest decreased by \$706,854 (10.07%) during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the 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 8) 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) and the proprietary fund statements.

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show details about the 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 position and how it has changed. Net position is the difference between the City's total assets and deferred outflows of resources and total liabilities and deferred inflows of resources. Measuring net position is one way to gauge the 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 two categories: governmental funds, and proprietary 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

Management Discussion and Analysis
City of Southport

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 Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

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 one kind 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 Position and the Statement of Activities.

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.

Interdependence with Other Entities – The City depends on financial resources flowing from, or associated with, both the Federal Government and the State of North Carolina. Because of this dependency, the City is subject to changes in specific flows of intergovernmental revenues based on modifications to Federal and State laws and Federal and State appropriations. It is also subject to changes in investment earnings and asset values associated with U.S. Treasury Securities because of actions by foreign government and other holders of publicly held U.S. Treasury Securities.

Management Discussion and Analysis
 City of Southport

Government-Wide Financial Analysis

THE CITY OF SOUTHPORT'S NET POSITION
 FIGURE 2

	Government Activities		Business-Type Activities		Totals	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$2,813,626	\$3,297,536	\$5,764,623	\$7,119,856	\$8,578,249	\$10,417,392
Capital assets	<u>14,089,113</u>	<u>12,056,579</u>	<u>19,630,123</u>	<u>19,656,352</u>	<u>33,719,236</u>	<u>31,712,931</u>
Total assets	<u>16,902,739</u>	<u>15,354,115</u>	<u>25,394,746</u>	<u>26,776,208</u>	<u>42,297,485</u>	<u>42,130,323</u>
Long-term liabilities outstanding	4,106,541	4,112,189	1,696,261	1,789,816	5,802,802	5,902,005
Other liabilities	<u>908,616</u>	<u>655,263</u>	<u>973,608</u>	<u>1,741,813</u>	<u>1,882,224</u>	<u>2,397,076</u>
Total liabilities	<u>5,015,157</u>	<u>4,767,452</u>	<u>2,669,869</u>	<u>3,531,629</u>	<u>7,685,026</u>	<u>8,299,081</u>
Net position:						
Net investment in capital assets	10,598,494	8,426,426	18,220,626	17,487,391	28,819,120	25,913,817
Restricted	967,880	1,219,524	1,611,376	2,211,590	2,579,256	3,431,114
Unrestricted	<u>321,208</u>	<u>940,713</u>	<u>2,892,875</u>	<u>3,545,598</u>	<u>3,214,083</u>	<u>4,486,311</u>
Total net position	<u>\$11,887,582</u>	<u>\$10,586,663</u>	<u>\$22,724,877</u>	<u>\$23,244,579</u>	<u>\$34,612,459</u>	<u>\$33,831,242</u>

Management Discussion and Analysis
City of Southport

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of the City of Southport exceeded liabilities and deferred inflows by \$34,612,459 as of June 30, 2013. The City's net position increased by \$781,217 for the fiscal year ended June 30, 2013. However, the largest portion \$28,819,120 (83.26%) reflects the City's net investment in capital assets (e.g. land, buildings, machinery, and equipment). 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 net investment in capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the City of Southport's net position, \$2,579,054 (7.45%), represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$3,214,285 (9.29%) is unrestricted.

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

- During the year ended June 30, 2013, development of additional portions of the Rivermist Subdivision previously annexed into the City was completed. The City received streets valued at \$160,193, storm water improvements valued at \$54,480, and sewer system improvements valued at \$34,000.
- During the year ended June 30, 2013, the City purchased real property that will house administrative, financial, and code enforcement operations of the City after renovation. The building located at 1029 N. Howe Street is valued at \$1,311,340 and the land is valued at \$491,713.
- During the year ended June 30, 2013, four plots of land known as Hankinsville Alley were donated to the City. The City received land valued at \$134,866.

Management Discussion and Analysis
City of Southport

THE CITY OF SOUTHPORT'S CHANGES IN NET POSITION
FIGURE 3

	Government Activities		Business-Type Activities		Totals	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program revenues:						
Charges for services	\$1,327,641	\$1,129,417	\$9,399,507	\$8,885,500	\$10,727,148	\$10,014,917
Operating grants and contributions	289,894	307,208	18,014	279,720	307,908	586,928
Capital grants and contributions	361,743	10,000	157,450	54,650	519,193	64,650
General Revenues:						
Property taxes	1,753,674	1,720,392	-	-	1,753,674	1,720,392
Other taxes	712,213	670,834	-	-	712,213	670,834
Grants and contributions not restricted to specific programs	524,173	518,206	-	-	524,173	518,206
Other	<u>12,635</u>	<u>19,811</u>	<u>10,878</u>	<u>14,182</u>	<u>23,513</u>	<u>33,993</u>
	<u>4,981,973</u>	<u>4,375,868</u>	<u>9,585,849</u>	<u>9,234,052</u>	<u>14,567,822</u>	<u>13,609,920</u>
Expenses:						
General government	1,163,473	1,133,355	-	-	1,163,473	1,133,355
Public Safety	2,098,301	2,088,220	-	-	2,098,301	2,088,220
Transportation	501,876	395,147	-	-	501,876	395,147
Culture and recreation	513,159	532,930	-	-	513,159	532,930
Environmental Protection	190,776	186,812	-	-	190,776	186,812
Interest on long-term debt	153,469	154,960	-	-	153,469	154,960
Water and sewer	-	-	2,451,489	2,562,450	2,451,489	2,562,450
Electric	-	-	<u>6,771,924</u>	<u>6,604,632</u>	<u>6,771,924</u>	<u>6,604,632</u>
	<u>4,621,054</u>	<u>4,491,424</u>	<u>9,223,413</u>	<u>9,167,082</u>	<u>13,844,467</u>	<u>13,658,506</u>
Increase (decrease) in net position before transfers	360,919	(115,556)	362,436	66,970	723,355	(48,586)
Transfers from (to) other funds	<u>940,000</u>	<u>(562,000)</u>	<u>(940,000)</u>	<u>562,000</u>	-	-
Increase (decrease) in net position	<u>1,300,919</u>	<u>(677,556)</u>	<u>(577,564)</u>	<u>628,970</u>	<u>723,355</u>	<u>(48,586)</u>

Management Discussion and Analysis
 City of Southport

THE CITY OF SOUTHPORT'S CHANGES IN NET POSITION
 FIGURE 3

	Government Activities		Business-Type Activities		Totals	
	2013	2012	2013	2012	2013	2012
Net position, July 1 (before adjustment)	\$10,586,663	\$11,264,219	\$23,244,579	\$22,615,609	\$33,831,242	\$33,879,828
Prior period adjustment	-	-	57,862	-	57,862	-
Net position July 1 (consolidated)	<u>10,586,663</u>	<u>11,264,219</u>	<u>23,302,441</u>	<u>22,615,609</u>	<u>33,889,104</u>	<u>33,879,828</u>
Net position, June 30	<u>\$11,887,582</u>	<u>\$10,586,663</u>	<u>\$22,724,877</u>	<u>\$23,244,579</u>	<u>\$34,612,459</u>	<u>\$33,831,242</u>

Governmental activities. Governmental activities increased the City's net position by \$1,300,919. Key elements of this increase are as follows:

- A transfer of unrestricted fund balance in the electric fund to the general fund
- A reduction in debt-service payments
- An increase in street-related infrastructure via donation and subdivision transfer

Business-type activities. Business-type activities decreased the City of Southport's net position by \$519,702. Key elements of this decrease are as follows:

- A transfer of unrestricted fund balance in the electric fund to the general fund

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 \$1,256,173, while total fund balance declined to \$1,816,311. The City currently has an available fund balance of 27.42% of general fund expenditures, while total fund balance represents 39.64% of the same amount.

Management Discussion and Analysis
City of Southport

At June 30, 2013, the governmental funds of City of Southport reported a combined fund balance of \$2,204,931. This combination includes \$1,816,311 for the General Fund, \$151,732 for the Building Capital Improvement Fund, and \$236,888 for Other Governmental (Non-Major) Funds.

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.

Revenues were more than the budgeted amounts primarily because the City's property tax collection rate improved and more building permits were issued than anticipated. Expenditures were controlled to comply with budgetary requirements, with significant efficiencies realized in the general government and public safety departments.

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 position of the water and sewer fund at the end of the fiscal year amounted to \$223,000, and those for the electric fund amounted to \$2,669,875. The total change in net position for both funds was a decrease of \$11,822 in the water and sewer fund and a decrease of \$507,880 in the electric fund.

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, 2013, totals \$33,719,236 (net of accumulated depreciation). These assets include buildings, roads, land, machinery and equipment, park facilities, and vehicles.

Major capital asset transactions during the year include the following:

- Purchase of a new office building at 1029 N. Howe Street valued at \$1,803,053
- Capital improvements to the electricity distribution system at a cost of \$162,091
- Donation of four land parcels at Hankinsville Alley valued at \$134,866
- Purchase of a new Taylor Made ambulance for \$119,985
- Purchase of a flatbed brush truck outfitted with fire-fighting equipment for \$107,042
- Purchase of a firefighter turn-out gear with grant funding from FEMA of \$66,500
- Capital improvements to the tennis courts on Moore Street at a cost of \$45,112

Management Discussion and Analysis
City of Southport

THE CITY OF SOUTHPORT'S CAPITAL ASSETS
FIGURE 4

	Government Activities		Business-Type Activities		Totals	
	2013	2012	2013	2012	2013	2012
Land	\$2,504,952	\$1,878,373	\$2,762,465	\$2,762,465	\$5,267,417	\$4,640,838
Buildings and systems	8,601,149	7,334,505	54,388	54,388	8,655,537	7,388,893
Improvements other than buildings	932,570	887,458	-	-	932,570	887,458
Utility systems	-	-	23,789,966	23,312,392	23,789,966	23,312,392
Furniture and equipment	736,704	614,513	494,972	422,639	1,231,676	1,037,152
Infrastructure	2,567,245	2,352,272	-	-	2,567,245	2,352,272
Vehicles and motorized equipment	<u>3,384,748</u>	<u>3,111,497</u>	<u>396,793</u>	<u>396,793</u>	<u>3,781,541</u>	<u>3,508,290</u>
Total	18,727,368	16,178,618	27,498,584	26,948,677	46,225,952	43,127,295
Less accumulated depreciation	<u>4,638,255</u>	<u>4,122,039</u>	<u>7,868,461</u>	<u>7,292,325</u>	<u>12,506,716</u>	<u>11,414,364</u>
Net capital assets	<u>\$14,089,113</u>	<u>\$12,056,579</u>	<u>\$19,630,123</u>	<u>\$19,656,352</u>	<u>\$33,719,236</u>	<u>\$31,712,931</u>

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, 2013, the City of Southport had total General Obligation Bonded Debt outstanding of \$13,500; Revolving Loan Debt of \$1,519,797; and Installment Notes Payable for \$3,216,400. The general obligation debt is backed by the full faith and credit of the City.

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

	Government Activities		Business-Type Activities		Totals	
	2013	2012	2013	2012	2013	2012
General obligation bonds	\$2,595	\$5,262	\$10,905	\$30,238	\$13,500	\$35,500
Revolving loan debt	-	-	1,519,797	1,623,198	1,519,797	1,623,198
Grant repayment	-	-	-	562,000	-	562,000
Water tank agreement	-	-	-	75,000	-	75,000
Installment notes payable	3,216,400	3,405,600	-	-	3,216,400	3,405,600
Capitalized leases	<u>462,067</u>	<u>413,067</u>	-	-	<u>462,067</u>	<u>413,067</u>
Total	<u>\$3,681,062</u>	<u>\$3,823,929</u>	<u>\$1,530,702</u>	<u>\$2,290,436</u>	<u>\$5,211,764</u>	<u>\$6,114,365</u>

Management Discussion and Analysis
City of Southport

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 \$57,090,110.

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 2013-2014 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 FY2013-2014 budget. Revenues and expenditures were very closely scrutinized and a conservative approach was taken in the formulation of revenue projections, in particular, due to a variety of tax distribution changes approved during the spring 2013 state legislative session. Expenditures were limited to what was deemed necessary to continue to maintain a high standard of public service delivery. No appropriation of the General Fund fund balance was expected.
- Lease revenues from the existing long-term tenant at 1029 N. Howe Street were expected to fund renovations to the newly acquired building.
- Current and anticipated debt was carefully considered in the preparation of the FY2013-2014 fiscal year budget. Staff and the Board of Aldermen have placed a priority upon maintaining public debt 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 2013-2014 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, 1029 N. Howe Street, Southport, NC 28461.

BASIC FINANCIAL STATEMENTS

CITY OF SOUTHPORT, NORTH CAROLINA
STATEMENT OF NET POSITION
June 30, 2013

EXHIBIT 1

	<u>Primary Government</u>			<u>Component Unit</u>
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	<u>Southport ABC Board</u>
ASSETS				
Current assets				
Cash and cash equivalents	1,324,326	3,464,108	4,788,434	324,555
Taxes receivable (net)	193,698	-	193,698	
Accounts receivable	25,450	689,139	714,589	-
Accrued interest receivable on taxes	33,058		33,058	
Due from other governments	563,108	-	563,108	
Due from component unit	21,838		21,838	
Inventories	-	-	-	118,695
Prepaid expenses				8,364
Restricted cash and cash equivalents	652,148	1,611,376	2,263,524	
Total current assets	2,813,626	5,764,623	8,578,249	451,614
Capital assets				
Land, non-depreciable improvements, and construction in progress	2,504,952	2,762,465	5,267,417	4,600
Other capital assets, net of depreciation	11,584,161	16,867,658	28,451,819	18,444
Total capital assets	14,089,113	19,630,123	33,719,236	23,044
Total Assets	16,902,739	25,394,746	42,297,485	474,658
LIABILITIES				
Current liabilities				
Accounts payable and accrued expenses	225,393	757,308	982,701	174,876
Customer deposits	-	83,196	83,196	
Accrued interest	147,248	3,298	150,546	-
Due to primary government				21,838
Payable from restricted assets	156,546	-	156,546	
Current portion of long-term liabilities	379,429	129,806	509,235	-
Total current liabilities	908,616	973,608	1,882,224	196,714
Long-term liabilities				
Due in more than one year	4,106,541	1,696,261	5,802,802	147,944
Total liabilities	5,015,157	2,669,869	7,685,026	344,658
NET POSITION				
Net investment in capital assets	10,598,494	18,220,626	28,819,120	23,044
Restricted for:				
Stabilization by State Statute	560,138		560,138	
Streets-Powell Bill	173,783	-	173,783	-
Fire protection	233,757	-	233,757	-
Capital outlay	-	1,611,376	1,611,376	-
Unrestricted	321,410	2,892,875	3,214,285	106,956
Total net position	11,887,582	22,724,877	34,612,459	130,000

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, 2013

Functions/Programs	Net (Expense) Revenue and Changes in Net Position						Component Unit
	Program Revenue		Primary Government		Total	Southport ABC Board	
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities			
Expenses							
Primary government							
Governmental Activities							
General Government	1,163,473	19,431	-	(928,606)	(928,606)	(928,606)	
Public Safety	2,098,301	162,321	-	(1,040,067)	(1,040,067)	(1,040,067)	
Transportation	501,876	102,976	361,743	(37,157)	(37,157)	(37,157)	
Culture and Recreation	513,159	3,166	-	(464,647)	(464,647)	(464,647)	
Environmental Protection	190,776	2,000	-	(17,830)	(17,830)	(17,830)	
Interest on Long-term debt	153,469	-	-	(153,469)	(153,469)	(153,469)	
Total governmental activities	4,621,054	289,894	361,743	(2,641,776)	(2,641,776)	(2,641,776)	
Business-type activities							
Electric Operations	6,771,924	17,282	-	405,170	405,170	405,170	
Water and Sewer Operations	2,451,489	732	157,450	(53,612)	(53,612)	(53,612)	
Total business-type activities	9,223,413	18,014	157,450	351,558	351,558	351,558	
Total primary government	13,844,467	307,908	519,193	(2,641,776)	(2,290,218)	(2,290,218)	
Component Unit							
Southport ABC Board	2,091,563	-	-	-	-	(382)	
Total component units	2,091,563	-	-	-	-	(382)	
General revenues:							
Taxes:							
Property taxes, levied for general purposes				1,753,674	-	1,753,674	
Other taxes				712,213	-	712,213	
Grants and contributions not restricted to specific programs				524,173	-	524,173	
Unrestricted investment earnings				4,211	10,878	15,089	
Miscellaneous				8,424	-	8,424	
Transfers				940,000	(940,000)	-	
Total general revenues				3,942,695	(929,122)	3,013,573	
Change in net position				1,300,919	(577,564)	723,355	
Net position - beginning as previously reported				10,586,663	23,244,579	33,831,242	
Prior period adjustment				-	57,862	57,862	
Net position - beginning after adjustment				10,586,663	23,302,441	33,889,104	
Net position - ending				11,887,582	22,724,877	34,612,459	

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

CITY OF SOUTHPORT, NORTH CAROLINA
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2013

EXHIBIT 3
Page 1 of 2

	<u>Major Funds</u>		<u>Non-Major Funds</u>	<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Building Capital Improvement Fund</u>	<u>Other Governmental Funds</u>	
ASSETS				
Cash and cash equivalents	1,171,856	151,788	191,125	1,514,769
Taxes receivable, net	193,698	-	-	193,698
Receivable from other governments	519,794	-	6,944	526,738
Receivable from other component unit	21,838	-	-	21,838
Other receivables	18,506	-	43,314	61,820
Restricted cash and cash equivalents	461,705	-	-	461,705
Total assets	<u>2,387,397</u>	<u>151,788</u>	<u>241,383</u>	<u>2,780,568</u>
LIABILITIES				
Liabilities:				
Accounts payable	200,250	56	4,495	204,801
Other accrued expenses	20,592	-	-	20,592
Accounts payable from restricted assets	156,546	-	-	156,546
Total liabilities	<u>377,388</u>	<u>56</u>	<u>4,495</u>	<u>381,939</u>
DEFERRED INFLOWS OF RESOURCES				
Property taxes receivable	193,698	-	-	193,698
Total deferred inflows of resources	<u>193,698</u>	<u>-</u>	<u>-</u>	<u>193,698</u>
FUND BALANCES				
Restricted				
Stabilization by State Statute	560,138	-	-	560,138
Streets	170,652	-	3,131	173,783
Fire protection	-	-	233,757	233,757
Committed				
Fire protection	46,507	-	-	46,507
Capital outlay	88,000	151,732	-	239,732
Unassigned	951,014	-	-	951,014
Total fund balances	<u>1,816,311</u>	<u>151,732</u>	<u>236,888</u>	<u>2,204,931</u>
Total liabilities, deferred inflows of resources and fund balances	<u>2,387,397</u>	<u>151,788</u>	<u>241,383</u>	<u>2,780,568</u>

CITY OF SOUTHPORT, NORTH CAROLINA
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET POSITION
 June 30, 2013

Total fund balance, governmental funds		2,204,931
Amounts reported for governmental activities in the Statement of Net Position 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 Position.		14,089,113
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.		33,058
Liabilities for earned revenues considered deferred inflows of resources in fund statements		193,698
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 Position.		
Accrued interest payable	(147,248)	
Capital leases payable	(462,067)	
Installment notes payable	(3,216,400)	
General obligation bonds payable	(2,595)	
Compensated absences	(130,058)	
Other postemployment benefits	(655,224)	
Net pension obligation	(19,626)	
	(4,633,218)	(4,633,218)
Net position of governmental activities		11,887,582

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, 2013

EXHIBIT 4
Page 1 of 2

	<u>Major Funds</u>		<u>Non-Major Funds</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
	<u>General Fund</u>	<u>Building Capital</u> <u>Improvement</u> <u>Fund</u>	<u>Other</u> <u>Governmental</u> <u>Funds</u>	
REVENUES				
Property taxes	1,755,554	-	-	1,755,554
Other taxes	88,318	-	-	88,318
Unrestricted intergovernmental revenues	1,148,068	-	-	1,148,068
Restricted intergovernmental revenues	869,597	-	11,904	881,501
Licenses and permits	124,523	-	-	124,523
Sales and services	529,450	36,819	-	566,269
Investment earnings	3,950	18	243	4,211
Miscellaneous	65,570	-	-	65,570
Total revenues	<u>4,585,030</u>	<u>36,837</u>	<u>12,147</u>	<u>4,634,014</u>
EXPENDITURES				
Current:				
General government	996,686	1,818,305	-	2,814,991
Public safety	2,105,305	-	3,576	2,108,881
Transportation	366,539	-	14,973	381,512
Environmental protection	190,776	-	-	190,776
Culture and recreation	479,624	-	-	479,624
Debt Service:				
Principal	282,152	-	-	282,152
Interest and other charges	160,545	-	-	160,545
Total expenditures	<u>4,581,627</u>	<u>1,818,305</u>	<u>18,549</u>	<u>6,418,481</u>
Excess (deficiency) of revenues over expenditures	<u>3,403</u>	<u>(1,781,468)</u>	<u>(6,402)</u>	<u>(1,784,467)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from capital leases	139,285	-	-	139,285
Transfers in	88,000	1,933,200	6,200	2,027,400
Transfers out	<u>(1,087,400)</u>	<u>-</u>	<u>-</u>	<u>(1,087,400)</u>
Total other financing sources and uses	<u>(860,115)</u>	<u>1,933,200</u>	<u>6,200</u>	<u>1,079,285</u>
Net change in fund balances	(856,712)	151,732	(202)	(705,182)
Fund balances - beginning	<u>2,673,023</u>	<u>-</u>	<u>237,090</u>	<u>2,910,113</u>
Fund balances - ending	<u>1,816,311</u>	<u>151,732</u>	<u>236,888</u>	<u>2,204,931</u>

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, 2013

Net change in fund balances - total governmental funds: (705,182)

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 \$2,260,607 are exceeded by depreciation \$546,312 in the current period. 1,714,295

Governmental funds report the entire net sales price (proceeds) from sale of an asset as revenue because it provides current financial resources. In contrast, the Statement of Activities reports only the gain on the sale of the assets. Thus, the change in net assets differs from the change in fund balance by the cost of the asset sold. (31,600)

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	349,839
Change in unavailable revenue for tax revenues	(1,880)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current resources of governmental funds. Neither transaction has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Principal paid on debt	282,152	
Proceeds of long-term debt	<u>(139,285)</u>	142,867

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	7,076
Compensated absences	1,510
Net pension obligation	(2,483)
Other postemployment benefits	<u>(173,523)</u>

Change in net position of governmental activities	<u><u>1,300,919</u></u>
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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, 2013

EXHIBIT 5

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Ad valorem taxes	1,685,200	1,685,200	1,755,554	70,354
Other taxes	84,500	84,500	88,318	3,818
Unrestricted intergovernmental revenues	1,206,700	1,206,700	1,148,068	(58,632)
Restricted intergovernmental revenues	766,200	862,400	869,597	7,197
Licenses and permits	75,450	75,450	124,523	49,073
Sales and services	472,700	508,900	529,450	20,550
Investment earnings	2,200	2,350	3,950	1,600
Miscellaneous	23,900	83,700	65,570	(18,130)
Total revenues	4,316,850	4,509,200	4,585,030	75,830
EXPENDITURES				
Current:				
General government	1,057,850	1,132,350	996,686	135,664
Public safety	2,059,800	2,140,575	2,105,305	35,270
Transportation	441,200	364,400	366,539	(2,139)
Environmental protection	160,500	189,500	190,776	(1,276)
Culture and recreation	500,500	504,500	479,624	24,876
Debt Service:				
Principal	418,200	335,160	282,152	53,008
Interest and other charges	-	160,600	160,545	55
Contingency	-	1,400	-	1,400
Total expenditures	4,638,050	4,828,485	4,581,627	246,858
Excess (deficiency) of revenues over expenditures	(321,200)	(319,285)	3,403	322,688
OTHER FINANCING SOURCES (USES)				
Proceeds from capital leases	-	139,285	139,285	-
Transfers in	110,000	-	-	-
Transfers out	-	(1,087,400)	(1,087,400)	-
Total other financing sources and uses	110,000	(948,115)	(948,115)	-
Fund balance appropriated	211,200	1,267,400	-	(1,267,400)
Net change in fund balance	-	-	(944,712)	(944,712)
Fund balance - beginning			2,673,023	
Fund balance - ending			1,728,311	
A legally budgeted Capital Reserve Fund is consolidated into the General Fund for reporting purposes:				
Transfer from other funds			88,000	
Fund balance - beginning			-	
Fund balance - ending			88,000	
Fund balance - ending (Exhibit 4)			1,816,311	

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

**CITY OF SOUTHPORT, NORTH CAROLINA
STATEMENT OF FUND NET POSITION
PROPRIETARY FUNDS
June 30, 2013**

EXHIBIT 6

	Major Enterprise Funds		
	Electric Fund	Water and Sewer Fund	Total
ASSETS			
Current assets:			
Cash and cash equivalents	2,875,682	588,426	3,464,108
Accounts receivable, net	517,271	171,868	689,139
Total current assets	3,392,953	760,294	4,153,247
Non-current assets:			
Restricted assets			
Cash and cash equivalents	-	1,611,376	1,611,376
Capital assets:			
Land and improvements	-	2,762,465	2,762,465
Utility system	8,929,009	14,860,957	23,789,966
Buildings	54,388	-	54,388
Equipment and furniture	122,845	372,127	494,972
Vehicles	57,548	339,245	396,793
Less: Accumulated depreciation	(2,925,187)	(4,943,274)	(7,868,461)
Total non-current assets	6,238,603	15,002,896	21,241,499
Total assets	9,631,556	15,763,190	25,394,746
LIABILITIES			
Current liabilities:			
Accounts payable	577,745	174,471	752,216
Salaries payable	1,934	3,158	5,092
Customer deposits	83,196	-	83,196
Compensated absences	7,500	8,000	15,500
Accrued interest payable	-	3,298	3,298
Bonds, notes and loans payable	-	114,306	114,306
Total current liabilities	670,375	303,233	973,608
Non-current liabilities:			
Compensated absences	3,862	3,481	7,343
Other postemployment benefits	48,841	223,681	272,522
Bonds, notes and loans payable	-	1,416,396	1,416,396
Total non-current liabilities	52,703	1,643,558	1,696,261
Total liabilities	723,078	1,946,791	2,669,869
NET POSITION			
Net investment in capital assets	6,238,603	11,982,023	18,220,626
Restricted for capital projects	-	1,611,376	1,611,376
Unrestricted	2,669,875	223,000	2,892,875
Total net position	8,908,478	13,816,399	22,724,877

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 POSITION
PROPRIETARY FUNDS
For the Year Ended June 30, 2013

EXHIBIT 7

	Major Enterprise Funds		
	Electric Fund	Water and Sewer Fund	Total
REVENUES			
Charges for services	7,159,812	2,239,695	9,399,507
Miscellaneous	17,282	732	18,014
Total operating revenues	<u>7,177,094</u>	<u>2,240,427</u>	<u>9,417,521</u>
OPERATING EXPENSES			
Electric operations	6,544,251	-	6,544,251
Water and sewer operations	-	2,022,916	2,022,916
Depreciation	227,673	406,325	633,998
Total operating expenses	<u>6,771,924</u>	<u>2,429,241</u>	<u>9,201,165</u>
Operating income (loss)	<u>405,170</u>	<u>(188,814)</u>	<u>216,356</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest and investment revenue	6,950	3,928	10,878
Interest expense	-	(22,248)	(22,248)
Total non-operating revenue (expenses)	<u>6,950</u>	<u>(18,320)</u>	<u>(11,370)</u>
Income (loss) before contributions	412,120	(207,134)	204,986
Capital contributions - customers	-	157,450	157,450
Transfers out	(920,000)	(20,000)	(940,000)
Change in net position	<u>(507,880)</u>	<u>(69,684)</u>	<u>(577,564)</u>
Total net position - beginning as previously reported	9,416,358	13,828,221	23,244,579
Prior period adjustment	-	57,862	57,862
Total net position - beginning, adjusted	<u>9,416,358</u>	<u>13,886,083</u>	<u>23,302,441</u>
 Total net position - ending	 <u>8,908,478</u>	 <u>13,816,399</u>	 <u>22,724,877</u>

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, 2013

EXHIBIT 8
Page 1 of 2

	<u>Major Enterprise Funds</u>		<u>Total</u>
	<u>Electric</u> <u>Fund</u>	<u>Water &</u> <u>Sewer</u> <u>Fund</u>	
Cash flows from operating activities:			
Cash received from customers	7,049,078	2,340,278	9,389,356
Cash paid for goods and services	(6,343,969)	(1,752,446)	(8,096,415)
Cash paid to employees	(228,337)	(350,933)	(579,270)
Customer deposits received	37,184		37,184
Customer deposits returned	(30,301)		(30,301)
Other operating revenues	<u>17,282</u>	<u>732</u>	<u>18,014</u>
Net cash provided (used) by operating activities	<u>500,937</u>	<u>237,631</u>	<u>738,568</u>
 Cash flows from noncapital financing activities:			
Transfers from (to) other funds	<u>(920,000)</u>	<u>(20,000)</u>	<u>(940,000)</u>
 Cash flows from capital and related financing activities:			
Acquisition of capital assets	(429,513)	(86,394)	(515,907)
Principal paid on long-term debt	-	(759,734)	(759,734)
Interest paid on long-term debt	-	(22,639)	(22,639)
Contributions from customers	<u>-</u>	<u>123,450</u>	<u>123,450</u>
Net cash provided (used) for capital and related financing activities	<u>(429,513)</u>	<u>(745,317)</u>	<u>(1,174,830)</u>
 Cash flows from investing activities:			
Interest on investments	<u>6,950</u>	<u>3,928</u>	<u>10,878</u>
 Net increase (decrease) in cash and cash equivalents	(841,626)	(523,758)	(1,365,384)
Cash and cash equivalents, beginning	<u>3,717,308</u>	<u>2,723,560</u>	<u>6,440,868</u>
Cash and cash equivalents, ending	<u><u>2,875,682</u></u>	<u><u>2,199,802</u></u>	<u><u>5,075,484</u></u>

CITY OF SOUTHPORT, NORTH CAROLINA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2013

EXHIBIT 8
Page 2 of 2

	Major Enterprise Funds		
	Electric Fund	Water & Sewer Fund	Total
Reconciliation of operating income to net cash provided by operating activities:			
Operating income (loss)	<u>405,170</u>	<u>(188,814)</u>	<u>216,356</u>
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	227,673	406,325	633,998
Changes in assets and liabilities			
(Increase) decrease in accounts receivable	(110,734)	100,583	(10,151)
Increase (decrease) in accounts payable	(40,171)	(91,987)	(132,158)
Increase (decrease) in accrued wages	904	1,485	2,389
Increase (decrease) in customer deposits	6,883	-	6,883
Increase (decrease) in accrued vacation	1,956	1,660	3,616
Increase (decrease) in OPEB accrual	9,256	8,379	17,635
Total adjustments	<u>95,767</u>	<u>426,445</u>	<u>522,212</u>
Net cash provided (used) by operating activities	<u>500,937</u>	<u>237,631</u>	<u>738,568</u>

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

REQUIRED SUPPLEMENTARY
FINANCIAL DATA

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

- 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

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 position 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 funds:

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. Additionally, the City has legally adopted a Capital Reserve Fund. Under GASB 54 guidance, the Capital Reserve Fund is consolidated into the General Fund. The budgetary comparison for the Capital Reserve Fund has been included in the supplemental information.

Building Capital Improvement Fund. This fund was established to record the funding and costs related to the improvement and replacement of existing City buildings.

The City reports the following non-major governmental funds:

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

Pedestrian Transportation Plan Capital Project Fund. This fund is used to account for the study and improvement of pedestrian walkways and access ways in the City.

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.

The City reports the following non-major enterprise fund:

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 2012 through February 2013 apply to the fiscal year ended June 30, 2013. Uncollected taxes that were billed during this period are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

Sales taxes and certain intergovernmental revenues, such as the utilities franchise tax, collected and held by the State at year-end on behalf of the 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 is both restricted and unrestricted net position 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.

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, The Capital Reserve Fund and the Enterprise Funds. All annual appropriations lapse at the fiscal-year end. Project ordinances are adopted for the Building Capital Improvement Fund, Fire Station Capital Project, Pedestrian Transportation Plan 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 \$5,000. 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, Deferred Outflows/Inflows of Resources, 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 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. Unexpended debt proceeds in the Fire Department Capital Project are reported as restricted assets in the governmental fund. Powell Bill funds are classified as restricted cash because it can be expended only for the purpose of maintaining, repairing, constructing, reconstructing or widening of local streets per G. S. 136-41.1 through 136-41.4.

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, 2012.

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 and Prepaid Items

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. The ABC Board also has payments to vendors which reflect costs applicable to future accounting periods and are recorded as prepaid items in the government-wide financial statements and are expensed as the items are used.

7. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than 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. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and will not be recognized as an expense or expenditure until then. At the date of these financial statements the City had no items meeting this criterion. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The City has only one item that meets the criterion for this category – property taxes receivable.

9. 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 position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bonds payable are reported net of the applicable bond premiums or discount. Bond issuance costs, except for prepaid insurance costs, are expensed in the reporting period in which they are incurred. Prepaid insurance costs are expensed over the life of the debt.

In fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

10. 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.

11. Net Position/Fund Balances

Net Position

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

Fund Balances

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

The governmental fund types classify fund balances as follows:

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

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 and unexpended capital project funds.

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 \$5,000.

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

A. Creation of a Tourism and Development Authority

The City of Southport began collecting a 3% occupancy tax under S.L. 1989-639. Under this law the City was not required to create a Tourism and Development Authority (TDA) to manage the occupancy tax revenue. S. L. 2002-129, which amended the original law, does require the creation of a TDA. This law requires that if a city wishes to continue collecting the occupancy tax, it must authorize it by a resolution that permits the tax and create a TDA to manage the occupancy tax revenue. Management and the Board will review this situation and take appropriate action.

B. Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2013, the expenditures in the City's General Fund exceeded the authorized appropriations made in the Police, Powell Bill and Solid Waste Departments. These over-expenditures occurred because certain payables were not considered when making final budget amendments. Management and the Board will more closely review budget reports to ensure compliance in future years.

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, 2013, the City's deposits had a carrying amount of \$7,031,199 and a bank balance of \$6,944,984. The carrying amount of deposits of the ABC Board was \$323,855 and the bank balance was \$394,289. \$250,000 of the ABC Board and \$541,765 of the City was covered by federal depository insurance. The balances of the deposits \$6,403,219 for the City and \$144,289 by the ABC Board were collateralized by institutions using the Pooling Method. At June 30, 2013, the City's cash on hand totaled \$350.

2. Investments

At June 30, 2013, the City of Southport had \$ 20,409 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. Receivables - Allowances for Doubtful Accounts

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

<u>Fund</u>	<u>6/30/13</u>
General Fund:	
Taxes receivable	34,182
Solid waste accounts	<u>1,905</u>
Total	<u>36,087</u>
Enterprise Funds:	
Electric Fund	77,509
Water and Sewer Fund	<u>25,519</u>
Total	<u>103,028</u>
Total	<u>139,115</u>

4. Capital Assets

Primary Government

Capital asset activity for the Primary Government for the year ended June 30, 2013, was as follows:

	Beginning Balances	Reclassification	Increases	Decreases	Ending Balances
Governmental activities:					
Capital assets not being depreciated:					
Land	1,878,373		626,579		2,504,952
Construction in progress					
Total capital assets not being depreciated	<u>1,878,373</u>		<u>626,579</u>		<u>2,504,952</u>
Capital assets being depreciated					
Buildings	7,334,505		1,328,340	61,696	8,601,149
Other improvements	887,458		45,112		932,570
Infrastructure	2,352,272		214,973		2,567,245
Vehicles and motorized equipment	3,111,497		273,251		3,384,748
Furniture and equipment	614,513		122,191		736,704
Total capital assets being depreciated	<u>14,300,245</u>		<u>1,983,867</u>	<u>61,696</u>	<u>16,222,416</u>
Less accumulated depreciation for:					
Buildings	1,029,419		152,735	30,096	1,152,058
Other improvements	266,742		36,609		303,651
Infrastructure	382,116		92,452		474,568
Vehicles and motorized equipment	2,055,451		222,688		2,278,139
Furniture and equipment	388,311		41,528		429,839
Total accumulated depreciation	<u>4,122,039</u>		<u>546,312</u>	<u>39,304</u>	<u>4,638,255</u>
Total capital assets being depreciated, net	<u>10,178,206</u>				<u>11,584,161</u>
Governmental activity capital assets, net	<u>12,056,579</u>				<u>14,089,113</u>

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

General government	80,232
Public safety	308,505
Transportation	101,377
Cultural and recreational	<u>56,198</u>
Total depreciation expense	<u>546,312</u>

	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	8,545,845		383,164		8,929,009
Vehicles and motorized equipment	57,548				57,548
Furniture and equipment	76,496		46,349		122,845
Total capital assets being depreciated	<u>8,734,277</u>		<u>429,513</u>		<u>9,163,790</u>
Less accumulated depreciation for:					
Buildings	8,495		1,087		9,582
Utility systems	2,577,953		217,317		2,795,270
Vehicles and motorized equipment	54,273		3,022		57,295
Furniture and equipment	56,793		6,247		63,040
Total accumulated depreciation	<u>2,697,514</u>		<u>227,673</u>		<u>2,925,187</u>
Total capital assets being depreciated, net	<u>6,036,763</u>				<u>6,238,603</u>
Electric fund capital assets, net	<u>6,036,763</u>				<u>6,238,603</u>
 <i>Water and Sewer Fund</i>					
Capital assets not being depreciated:					
Land	2,762,465				2,762,465
Total capital assets not being depreciated	<u>2,762,465</u>				<u>2,762,465</u>
Capital assets being depreciated					
Utility systems	14,766,547		94,410		14,860,957
Vehicles and motorized equipment	339,245				339,245
Furniture and equipment	346,143		25,984		372,127
Total capital assets being depreciated	<u>15,451,935</u>		<u>120,394</u>		<u>15,572,329</u>
Less accumulated depreciation for:					
Utility systems	3,986,446		365,297		4,351,743
Vehicles and motorized equipment	297,629		27,402		325,031
Furniture and equipment	310,736		13,626		324,362
Total accumulated depreciation previously reported	<u>4,594,811</u>		<u>406,325</u>		<u>5,001,136</u>
Prior period adjustment	<u>(57,862)</u>				<u>(57,862)</u>
Accumulated depreciation as adjusted	<u>4,536,949</u>				<u>4,943,274</u>
Total capital assets being depreciated, net	<u>10,857,124</u>				<u>10,629,055</u>
Water and Sewer fund capital assets, net	<u>13,619,589</u>				<u>13,391,520</u>
Business-type activities capital assets, net	<u>19,656,352</u>				<u>19,630,123</u>

Construction commitments

The government has no active construction commitments as of June 30, 2013.

Discretely presented component unit

Activity for the ABC Board for the year ended June 30, 2013, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets not being depreciated:				
Land	4,600			4,600
Capital assets being depreciated				
Buildings	58,755			58,755
Other improvements	41,961			41,961
Furniture and equipment	36,291			36,291
Total capital assets being depreciated	137,007			137,007
Less accumulated depreciation for:				
Buildings	58,755			58,755
Other improvements	28,961	1,074		31,035
Furniture and equipment	26,976	1,797		28,773
Total accumulated depreciation	115,692	2,871		118,563
	21,315			18,444
ABC capital assets, net	25,915			23,044

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 6.74% and 6.77%, respectively, of annual covered payroll. For the ABC Board, the current rate for employees not engaged in law enforcement is 6.74% 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, 2013, 2012 and 2011 were

\$118,236, \$115,002, and \$104,633, respectively. The ABC Board's contributions to LGERS for the years ended June 30, 2013, 2012 and 2011 were \$7,550, \$5,822, and \$4,908, 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, 2012, the Separation Allowance's membership consisted of:

Retirees receiving benefits	1
Terminated plan members entitled to but not yet receiving benefits	0
Active plan members	<u>11</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, 2012 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	12,587
Interest on net pension obligation	857
Adjustment to annual required contribution	<u>(1,067)</u>
Annual pension cost	12,377
Contributions made	<u>9,894</u>
Increase (decrease) in net pension obligation	2,483
Net pension obligation beginning of year	<u>17,143</u>
Net pension obligation end of year	<u>19,626</u>

3 Year Trend Information

<u>For Year Ended</u> <u>June 30</u>	<u>Annual Pension</u> <u>Cost (APC)</u>	<u>Percentage of</u> <u>APC Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
2011	10,692	204.63%	14,713
2012	12,324	80.28%	17,143
2013	12,377	79.94%	19,626

(4) Funded Status and Funding Progress.

As of December 31, 2012, 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 \$89,663. The covered payroll (annual payroll of active employees covered by the plan) was \$450,696, and the ratio of the UAAL to the covered payroll was 19.89%.

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, 2013 were \$119,530, which consisted of \$84,435 from the City and \$35,095 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.

On March 14, 2013, the above policy was changed to state that the City would not provide retiree insurance to any employee who began creditable service in the retirement system as a City of Southport employee after March 14, 2013 or who is hired as a City employee after March 14, 2013.

Membership in the HCB Plan consisted of the following at December 31, 2012, the date of the latest actuarial valuation:

Law enforcement officers	11
General Employees	31
Retirees	<u>17</u>
Total	<u>59</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 17.77% of covered payroll. For the current year, the City contributed \$126,636 or 7.11%. 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	316,477
Interest on net OPEB obligation	29,464
Adjustment to annual required contribution	<u>(28,147)</u>
Annual OPEB cost	317,794
Contributions made	<u>126,636</u>
Increase (decrease) in net OPEB obligation	191,158
Net OPEB obligation, beginning of year	<u>736,588</u>
OPEB obligation, end of year	<u>927,746</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, 2012 were as follows:

For Year Ended <u>June 30</u>	Annual <u>OPEB Cost</u>	% of Annual OPEB <u>Cost Contributed</u>	Net OPEB <u>Obligation</u>
2011	384,853	37.9%	513,702
2012	386,164	42.3%	736,588
2013	317,794	39.8%	927,746

Funded Status and Funding Progress – As of December 31, 2012, 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 \$4,026,456. The covered payroll (annual payroll of active employees covered by the plan) was \$1,781,591, and the ratio of the UAAL to covered payroll was 226.0%. 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, 2012 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 8.5 to 5 percent annually for pre-Medicare costs and 6.25 to 5.0 percent for post-Medicare costs. The investment rate included a 3.00% inflation assumption. The assumed investment rate of return reflects the fact that no assets are set aside within the City of Southport. If a Trust or equivalent arrangement were set up for this purpose, the investment rate of return may be increased. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2012 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 Inflows of Resources

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

	<u>Deferred Revenue</u>	<u>Unearned Revenue</u>
Taxes receivable (General Fund)	<u>193,698</u>	-
Total	<u>193,698</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, 2013, 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>
5-3-12	Spartan Aerial Fire Truck	400,000	84,298	4	Annual
9-14-12	GMC 4500 Ambulance	119,285	31,137	4	Annual
9-14-12	2-Dodge Police Cars	20,000	20,318	1	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	975,624	156,082	819,542

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2013 were as follows:

<u>Year Ending June 30</u>	<u>Total</u>	<u>Governmental Activities</u>
2014	135,753	135,753
2015	115,435	115,435
2016	115,435	115,435
2017	115,435	115,435
Total minimum lease payments	482,058	482,058
Less: Amount representing interest	19,991	19,991
Present value of minimum lease payments	462,067	462,067

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 required 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, 2013, including \$1,299,156 of interest is as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2014	189,200	144,416
2015	189,200	135,921
2016	189,200	127,426
2017	189,200	118,931
2018	189,200	110,436
2019-2023	946,000	424,754
2024-2028	946,000	212,377
2029-2031	<u>378,400</u>	<u>24,895</u>
	<u>3,216,400</u>	<u>1,299,156</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 were 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 June 30</u>	<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2014	103,401	19,573
2015	103,401	18,068
2016	103,401	16,562
2017	103,401	15,057
2018	103,401	13,551
2019-2023	517,004	45,170
2024-2028	448,720	9,034
2029-2031	<u>140,469</u>	<u>-</u>
	<u>1,519,797</u>	<u>137,015</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, 2013 are comprised of the following individual issues:

\$60,000 1975 bonds due in one annual installment of \$2,595 through June 1, 2014; interest at 5.00%	2,595
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Serviced by the Water and Sewer Fund:

\$435,000 1975 bonds due in one annual installment Of \$10,905 through June 1, 2014; interest at 5.00%	<u>10,905</u>
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Total	<u>13,500</u>
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Annual debt service requirements to maturity for long-term obligations are as follows:

Years Ending <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>
2014	<u>2,595</u>	<u>200</u>	<u>10,905</u>	<u>593</u>
	<u>2,595</u>	<u>200</u>	<u>10,905</u>	<u>593</u>

At June 30, 2013, the City of Southport had a legal debt margin of \$57,090,110.

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 1st 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 year ended June 30, 2011, 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. This agreement was paid off during the current year.

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 be made in equal annual payments of \$562,000, with the first payment due on July 1, 2010. This repayment was completed during the current year.

g. Changes in Long - Term Liabilities

	Balance			Current	
	6/30/12	Increases	Decreases	Balance	Portion of
				6/30/13	Balance
Governmental activities:					
General obligation bonds	5,262		2,667	2,595	2,595
Installment notes payable	3,405,600		189,200	3,216,400	189,200
Capitalized leases	413,067	139,285	90,285	462,067	127,634
Compensated absences	131,568	107,675	109,185	130,058	60,000
Other postemployment benefits	481,701	267,411	93,888	655,224	
Net pension obligation	<u>17,143</u>	<u>12,377</u>	<u>9,894</u>	<u>19,626</u>	<u>-</u>
	<u>4,454,341</u>	<u>526,748</u>	<u>495,119</u>	<u>4,485,970</u>	<u>379,429</u>
Business-type activities:					
General obligation bonds	30,238		19,333	10,905	10,905
Revolving loans	1,623,198		103,401	1,519,797	103,401
Water tank agreement	75,000		75,000	-	-
Grant repayment	562,000		562,000	-	-
Compensated absences	19,227	19,275	15,659	22,843	15,500
Other postemployment benefits	<u>254,887</u>	<u>50,383</u>	<u>32,748</u>	<u>272,522</u>	<u>-</u>
	<u>2,564,550</u>	<u>69,658</u>	<u>808,141</u>	<u>1,826,067</u>	<u>129,806</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, 2013 consist of the following:

Due from component unit for City's share of quarterly profits	21,838
Total	<u>21,838</u>

Transfers to/from other funds at June 30, 2013, consist of the following:

From the General Fund to the Building Capital Improvement Fund	1,033,200
From the General Fund to the Pedestrian Transportation Plan Project	6,200
From the General Fund to the Capital Reserve Fund	48,000
From the Electric Fund to the Building Capital Improvement Fund	900,000
From the Electric Fund to the Capital Reserve Fund	20,000
From the Water and Sewer Fund to the Capital Reserve Fund	<u>20,000</u>
Total	<u>2,027,400</u>

Transfers are used to move unrestricted revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts providing matching funds for various grant programs.

During the current year, the City made one-time transfers from the General Fund and the Electric Fund totaling \$1,933,200 to the Building Capital Improvement Fund. These funds were used for the purchase of a new office building for City administration.

D. Prior Period Adjustment

During the fiscal year ended June 30, 2013, the City determined that the beginning total for accumulated depreciation in the Water and Sewer Fund was overstated at June 30, 2012. An adjustment to the beginning fund balance was necessary to make this correction. The result was an increase in the beginning net position of the Water and Sewer Fund of \$57,862. Accumulated depreciation is not a budgetary item, therefore, the fund balance of the Fund was not affected.

E. Contracts

1. Electric Maintenance Contract

The City of Southport has 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 is for a five year term beginning on July 1, 2011. This contract expired on June 30, 2016. The initial cost to the City under the contract was \$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, 2013, the City made monthly payments of \$28,109. 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:

Year Ending June 30

2014	327,026
2015	327,026
2016	<u>327,026</u>
Total	<u>981,078</u>

For the year ended June 30, 2013, the City payments under this contract totaled \$337,305

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, 2012 was \$180,262.

F. 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>1,816,311</u>
Less:	
Stabilization by State Statute	560,138
Streets – Powell Bill	170,652
Fire protection – Firemen’s account	46,507
Capital outlay – Capital Reserve	<u>88,000</u>
Remaining Fund Balance	<u>951,014</u>

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

At June 30, 2013, the City had no outstanding encumbrances.

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, 2013, the City reported no revenues nor expenditures for payments 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, 2013. 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, 2013 were \$5,503,915.

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, 2013.

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, 2013, 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, 2013. 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.

VI. SUBSEQUENT EVENTS

Events occurring after June 30, 2012 were evaluated by management on February 7, 2014 to ensure that any subsequent events that met the criteria for recognition and/or disclosure in these financial statements have been included. There are no subsequent events needing disclosure.

VII. Change in Accounting Principles

The City Implemented Governmental Accounting Standards Board (GASB) Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and Statement 65, *Items Previously reported as Assets and Liabilities*, in the fiscal year ending June 30, 2013. In accordance with GASB Statement 63, the Statement of Net Assets has been replaced with the Statement of Net Position. Items in the Statement of Net Position are now classified into Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position. Additionally, GASB Statement 65 requires that deferred costs from the refunding of debt, which were previously deferred and amortized, be presented as deferred outflows or resources.

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

EXHIBIT A-1

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
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%
12/31/2011	0	88,994	88,994	0.00%	449,334	19.81%
12/31/2012	0	89,663	89,663	0.00%	450,696	19.89%

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

EXHIBIT A-2

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
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%
2012	12,466	79.37%
2013	12,587	78.60%

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, 2012
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	18 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return*	5.00%
Projected salary increases*	4.25%-7.85%
*Includes inflation at	3.00%
Cost of living adjustments	N/A

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

EXHIBIT A-3

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
12/31/2008	0	4,658,103	4,658,103	0.00%	1,873,089	248.60%
12/31/2012	0	4,026,456	4,026,456	0.00%	1,781,591	226.00%

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

EXHIBIT A-4

<u>Year Ended</u> <u>June 30</u>	<u>Annual Required</u> <u>Contribution</u>	<u>Percentage</u> <u>Contributed</u>
2010	383,344	28.30%
2011	383,344	38.08%
2012	383,344	42.59%
2013	316,477	40.01%

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, 2012
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay, open
Remaining amortization period	30 years
Asset valuation method	Market value of assets
Actuarial assumptions:	
Investment rate of return*	4.00%
Medical cost trend rate	
Pre-Medicare Trend Rate	8.50%-5.00%
Post-Medicare Trend Rate	6.25%-5.00%
Year of ultimate trend rate	2018
*Includes inflation at	3.00%

GOVERNMENTAL FUNDS

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.

Included in the Governmental Funds in these statements are:

- General Fund
- Capital Reserve Fund
- Building Capital Improvement Fund
- Combining Balance Sheet – Non-Major Governmental Funds
- Combining Statement – Non-Major Governmental Funds
- Fire Station Capital Project Fund
- Pedestrian Transportation Plan 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, 2013

EXHIBIT B-1
Page 1 of 9

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues			
Ad valorem taxes			
Current year	1,601,630	1,601,778	148
Prior years	25,000	70,322	45,322
Motor vehicle taxes	53,570	63,004	9,434
Penalties and interest	<u>5,000</u>	<u>20,450</u>	<u>15,450</u>
Total	<u>1,685,200</u>	<u>1,755,554</u>	<u>70,354</u>
Other taxes			
Dog tags	1,500	1,250	(250)
Privilege licenses	30,000	17,541	(12,459)
Accommodation tax	<u>53,000</u>	<u>69,527</u>	<u>16,527</u>
Total	<u>84,500</u>	<u>88,318</u>	<u>3,818</u>
Unrestricted intergovernmental revenues			
Local option sales tax	655,800	623,895	(31,905)
Beer and wine tax	13,500	11,765	(1,735)
ABC Profit distribution	235,000	222,295	(12,705)
Utility franchise tax	<u>302,400</u>	<u>290,113</u>	<u>(12,287)</u>
Total	<u>1,206,700</u>	<u>1,148,068</u>	<u>(58,632)</u>
Restricted intergovernmental revenues			
State street-aid allocation	96,000	102,976	6,976
Solid waste disposal tax	-	1,641	1,641
FEMA Assistance to Firefighters	66,500	66,500	-
ABC Revenue for law enforcement	9,200	8,630	(570)
Fire - Misc. grants	10,000	10,000	-
Volunteer rescue EMS grant	2,800	2,797	(3)
Brunswick County rescue contributions	36,000	36,000	-
FEMA Reimbursement	16,900	16,994	94
Fire district fees	<u>625,000</u>	<u>624,059</u>	<u>(941)</u>
Total	<u>862,400</u>	<u>869,597</u>	<u>7,197</u>
Licenses and permits			
Building permits	70,000	116,583	46,583
Re-inspection fees	450	600	150
Planning and zoning fees	<u>5,000</u>	<u>7,340</u>	<u>2,340</u>
Total	<u>75,450</u>	<u>124,523</u>	<u>49,073</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, 2013**

**EXHIBIT B-1
Page 2 of 9**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Sales and services			
Cemetery lot sales	6,000	3,850	(2,150)
Refuse collection fees	155,000	167,096	12,096
Boat slip rentals	23,200	16,760	(6,440)
Rescue squad fees	120,000	126,106	6,106
Community building rent	105,000	112,984	7,984
1029 N. Howe Street rent	28,200	35,748	7,548
Tourism - Visitor Center sales	18,000	17,995	(5)
Lot cleaning reimbursements	100	325	225
Annex/Stormwater permit fees	500	-	(500)
Recreation fees	35,900	28,586	(7,314)
Carolina Power & Light	17,000	20,000	3,000
Total	<u>508,900</u>	<u>529,450</u>	<u>20,550</u>
Investment earnings			
Interest income	2,350	3,950	1,600
Miscellaneous			
Donations - Firemen's fund	41,900	6,976	(34,924)
Donations - Recreation department	4,000	3,166	(834)
Donations - Beautification	0	2,000	2,000
Homeowners recovery fund	500	900	400
Miscellaneous - Police department	3,000	11,704	8,704
Miscellaneous - Fire department	200	2,720	2,520
Miscellaneous - Tourism	4,000	5,438	1,438
Beautification Revenue	6,400	6,452	52
Special events - Tourism	19,500	17,790	(1,710)
Sales - fixed assets	2,000	-	(2,000)
Sales - promotional items	200	10	(190)
Miscellaneous	2,000	8,414	6,414
Total	<u>83,700</u>	<u>65,570</u>	<u>(18,130)</u>
Total revenues	<u>4,509,200</u>	<u>4,585,030</u>	<u>75,830</u>
Expenditures			
General government			
Board expense			
Full-Time employees	29,550	27,935	
Social security	5,000	2,136	
Group insurance	11,000	9,172	
Workers compensation	130	109	
Other personnel costs	33,600	33,573	
Professional fees	26,300	32,027	
Departmental supplies	2,900	2,865	
Training and travel	6,300	6,246	
Miscellaneous	10,000	2,750	
Other services	5,500	1,248	
Contract Services	12,400	8,460	
Insurance and bonds	570	-	
Capital outlay	-	7,115	-
Total	<u>143,250</u>	<u>133,636</u>	<u>9,614</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, 2013**

**EXHIBIT B-1
Page 3 of 9**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Administration			
Full-time employees	85,040	85,756	
401(k) Retirement supplement	3,890	2,224	
Social security	5,960	4,949	
Group insurance	17,060	11,489	
Retirement	5,250	2,998	
Workers compensation	600	589	
Professional fees	9,400	392	
Vehicle supplies	500	-	
Departmental supplies	10,000	19,155	
Training and travel	6,100	6,033	
Communications	7,800	8,228	
Mileage allowance	4,800	4,400	
Utilities	12,200	10,047	
Repairs and maintenance - equipment	3,000	1,725	
Repairs and maintenance - vehicles	500	-	
Advertising	4,000	3,201	
Other services	6,100	5,356	
Contract services	9,100	9,055	
Insurance and bonding	4,100	2,924	-
Total	<u>195,400</u>	<u>178,521</u>	<u>16,879</u>
Finance			
Full-time employees	108,720	109,483	
Part-time employees	1,200	68	
401(k) Retirement supplement	6,710	6,694	
Social security	10,020	10,009	
Group insurance	31,160	24,689	
Retirement	9,060	9,023	
Workers compensation	620	529	
Departmental supplies	29,800	12,858	
Training and travel	2,500	1,558	
Communications	12,000	6,267	
Utilities	5,600	2,961	
Repairs and maintenance - equipment	11,000	1,645	
Other services	980	918	
Contract services	27,850	27,935	
Insurance and bonding	9,880	7,911	-
Total	<u>267,100</u>	<u>222,548</u>	<u>44,552</u>
Buildings and Grounds			
Full-time employees	32,900	33,124	
Part-time employees	5,400	5,332	
401(k) Retirement supplement	1,700	1,647	
Social security	3,080	3,007	
Group insurance	16,120	13,580	
Retirement	2,260	2,220	
Workers compensation	1,800	1,556	

**CITY OF SOUTHPORT, NORTH CAROLINA
GENERAL FUND
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For the Year Ended June 30, 2013**

EXHIBIT B-1
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	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Professional fees	-	630	
Uniforms and protective gear	1,400	1,368	
Vehicle supplies	2,000	1,155	
Departmental supplies	5,000	5,112	
Training and travel	540	16	
Communications	1,400	1,428	
Utilities	-	1,965	
Repairs and maintenance - equipment	1,000	-	
Repairs and maintenance - vehicles	1,000	121	
Repairs and maintenance - facilities	25,000	20,365	
Other services	6,300	6,282	
Contract services	22,500	13,361	
Insurance and bonding	6,100	3,820	-
Total	135,500	116,089	19,411
Tourism			
Full-time employees	48,850	49,131	
Part-time employees	250	226	
401(k) Retirement supplement	2,455	2,451	
Social security	4,315	4,332	
Group insurance	8,830	8,821	
Retirement	3,300	3,304	
Workers compensation	150	106	
Departmental supplies	10,000	10,007	
Non-recurring special events	15,250	15,209	
Purchased for resale	20,000	17,523	
Miscellaneous expense	250	217	
Training and travel	400	377	
Communications	1,990	1,959	
Utilities	5,950	5,746	
Repairs and maintenance - facilities	4,350	4,347	
Insurance and bonding	1,930	1,910	-
Total	128,270	125,666	2,604
Community Building			
Part-time employees	44,300	39,042	
Social security	3,500	2,415	
Workers compensation	800	106	
Departmental supplies	5,500	5,400	
Miscellaneous expense	250	-	
Communications	3,710	3,349	
Utilities	17,000	15,033	
Repairs and maintenance - facilities	14,500	13,897	
Contract services	1,000	989	
Insurance and bonding	3,170	1,910	-
Total	93,730	82,141	11,589

**CITY OF SOUTHPORT, NORTH CAROLINA
GENERAL FUND
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EXHIBIT B-1
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	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
1029 North Howe Street			
Departmental supplies	5,600	96	
Communications	1,800	386	
Utilities	4,490	1,879	
Repairs and maintenance - facilities	3,680	620	
Contract services	2,300	2,278	
Insurance and bonding	5,130	1,655	
Miscellaneous	5,200	-	-
Total	28,200	6,914	21,286
City Garage			
Full-time employees	84,200	84,773	
401 (k) retirement supplement	4,180	4,187	
Social security	6,080	5,859	
Group insurance	29,100	27,681	
Retirement	5,660	5,644	
Workers compensation	2,800	2,774	
Uniforms and protective gear	3,780	3,761	
Vehicle supplies	1,400	864	
Departmental supplies	6,800	4,776	
Training and travel	500	87	
Communications	2,800	2,746	
Utilities	17,000	13,973	
Repairs and maintenance - equipment	1,700	205	
Repairs and maintenance - vehicles	1,000	79	
Contracted services	1,800	1,715	
Insurance and bonding	2,600	2,547	
Expense reimbursement from Electric Fund	(6,500)	(6,500)	
Expense reimbursement from Water-Sewer Fund	(24,000)	(24,000)	-
Total	140,900	131,171	9,729
Total general government	1,132,350	996,686	135,664
Public Safety			
Police			
Full-time employees	488,730	493,538	
Separation allowance	9,900	10,059	
Part-time employees	45,855	51,216	
401 (k) retirement supplement	24,375	24,604	
Social security	41,175	41,580	
Group insurance	147,830	147,810	
Retirement	33,000	33,307	
Workers compensation	17,150	17,141	
Vehicle supplies	36,200	39,201	
Departmental supplies	11,900	17,791	
Uniforms	9,250	9,199	
Miscellaneous expense	500	255	
Training and travel	6,800	6,718	
Communications	18,500	18,425	

**CITY OF SOUTHPORT, NORTH CAROLINA
GENERAL FUND
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**EXHIBIT B-1
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	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Utilities	700	1,568	
Repairs and maintenance - equipment	7,400	7,349	
Repairs and maintenance - vehicles	10,800	10,905	
Other services	1,000	990	
Contract services	350	338	
Insurance and bonding	16,625	16,602	
Capital outlay	61,950	55,943	-
Total	<u>989,990</u>	<u>1,004,539</u>	<u>(14,549)</u>
Fire Department			
Full-time employees	1,980	1,994	
Social security	7,720	7,689	
Firefighter pension plan contribution	6,000	5,520	
Firefighter retirement	23,000	22,020	
Workers compensation	7,600	7,585	
Professional fees	1,000	500	
Volunteer fees	80,000	67,920	
Volunteer incentives	20,700	20,700	
Medical exams and Safety	1,000	-	
Vehicle supplies	6,000	4,585	
Departmental supplies	38,000	37,525	
Uniforms	7,000	6,174	
Protective gear	77,500	4,258	
Fire prevention	4,100	4,063	
Small equipment	18,400	8,332	
Training and travel	10,700	10,677	
Communications	12,000	10,334	
Utilities	23,000	25,371	
Repairs and maintenance - equipment	12,000	11,953	
Repairs and maintenance - vehicles	40,000	45,443	
Contract services	-	2,000	
On behalf payments - fringe	4,000	-	
Southport firemen's expenses	49,050	1,619	
Insurance and bonding	3,350	3,303	
Capital outlay	76,500	195,833	-
Total	<u>530,600</u>	<u>505,398</u>	<u>25,202</u>
Rescue Squad			
Full-time employees	100	33	
Part-time employees	1,980	1,300	
Fees paid to volunteers	81,350	80,733	
Social security	6,620	6,378	
Workers compensation	5,200	5,171	
Uniforms and protective gear	3,000	2,840	
Vehicle supplies	6,000	6,535	
Departmental supplies	23,500	23,877	
Training and travel	500	59	
Communications	2,500	2,416	
Utilities	6,800	4,612	

**CITY OF SOUTHPORT, NORTH CAROLINA
GENERAL FUND
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	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Repairs and maintenance - equipment	3,932	2,420	
Repairs and maintenance - vehicles	8,950	6,764	
Repairs and maintenance - facilities	2,268	1,713	
Contract services	16,600	18,353	
Insurance and bonding	2,600	2,549	
Capital outlay	149,985	149,975	-
Total	<u>321,885</u>	<u>315,728</u>	<u>6,157</u>
Code Enforcement			
Full-time employees	147,000	148,047	
Part-time employees	1,200	1,170	
401 (k) retirement supplement	7,310	7,350	
Social security	10,890	10,920	
Group insurance	29,810	29,398	
Retirement	9,860	9,907	
Unemployment payments	15,400	11,769	
Workers compensation	6,300	6,254	
Professional fees	21,300	15,035	
Vehicle supplies	3,000	2,800	
Departmental supplies	5,150	5,073	
Training and travel	3,000	1,453	
Communications	3,800	3,728	
Utilities	8,400	8,026	
Repairs and maintenance - equipment	2,000	219	
Repairs and maintenance - vehicles	500	332	
Contract services	8,880	5,777	
Insurance and bonding	4,300	5,480	
Miscellaneous small equipment	10,000	6,902	-
Total	<u>298,100</u>	<u>279,640</u>	<u>18,460</u>
Total public safety	<u>2,140,575</u>	<u>2,105,305</u>	<u>35,270</u>
Transportation			
Street			
Full-time employees	48,600	49,052	
401 (k) retirement supplement	3,670	2,390	
Social security	5,850	3,733	
Group insurance	20,860	19,872	
Retirement	4,910	3,221	
Workers compensation	8,700	8,596	
Uniforms and protective gear	2,710	1,706	
Vehicle supplies	11,500	12,079	
Departmental supplies	5,200	3,936	
Communications	3,000	2,752	
Utilities	26,000	25,819	
Repairs and maintenance - equipment	2,800	2,863	
Repairs and maintenance - vehicles	2,100	2,171	
Contract services	11,000	10,509	
Insurance and bonding	7,500	7,447	-
Total	<u>164,400</u>	<u>156,146</u>	<u>8,254</u>

**CITY OF SOUTHPORT, NORTH CAROLINA
GENERAL FUND
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**EXHIBIT B-1
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	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Powell Bill			
Salaries	-	25,075	
401 (k) retirement supplement	-	1,254	
Social security	-	1,919	
Retirement	-	1,691	
Departmental supplies	14,000	7,712	
Repairs and maintenance - vehicles	2,000	1,578	
Street resurfacing	160,000	158,180	
Contract services	13,000	12,984	
Sidewalks	11,000	-	-
Total	<u>200,000</u>	<u>210,393</u>	<u>(10,393)</u>
Total transportation	<u>364,400</u>	<u>366,539</u>	<u>(2,139)</u>
Environmental Protection			
Cemetery			
Contract services	12,000	11,075	-
Insurance and bonding	500	398	-
Total	<u>12,500</u>	<u>11,473</u>	<u>1,027</u>
Solid Waste			
Contract services	177,000	179,303	-
Total	<u>177,000</u>	<u>179,303</u>	<u>(2,303)</u>
Total environmental protection	<u>189,500</u>	<u>190,776</u>	<u>(1,276)</u>
Cultural and Recreational			
Parks and recreation			
Full-time employees	150,300	149,948	
Part-time employees	60,000	59,439	
401 (k) retirement supplement	7,520	7,366	
Social security	16,090	15,621	
Group insurance	38,850	38,776	
Retirement	10,130	9,928	
Workers compensation	6,400	6,360	
Professional fees	2,200	450	
Uniforms and protective gear	810	783	
Vehicle supplies	7,200	6,331	
Departmental supplies	54,850	48,306	
Training and travel	1,970	345	
Communications	9,210	9,112	
Utilities	32,000	27,502	
Repairs and maintenance - equipment	3,920	2,752	
Repairs and maintenance - vehicles	1,500	1,982	
Repairs and maintenance - facilities	41,750	37,825	

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, 2013

EXHIBIT B-1
Page 9 of 9

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Rentals	3,900	2,412	
Contract services	5,300	4,926	
Insurance and bonding	4,400	4,348	
Capital outlay	<u>46,200</u>	<u>45,112</u>	-
Total cultural and recreational	<u>504,500</u>	<u>479,624</u>	<u>24,876</u>
Debt service			
Principal	335,160	282,152	
Interest	<u>160,600</u>	<u>160,545</u>	-
Total debt service	<u>495,760</u>	<u>442,697</u>	<u>53,063</u>
Contingency	<u>1,400</u>	-	<u>1,400</u>
Total expenditures	<u>4,828,485</u>	<u>4,581,627</u>	<u>246,858</u>
Revenues over (under) expenditures	<u>(319,285)</u>	<u>3,403</u>	<u>322,688</u>
Other financing sources (uses)			
Proceeds of capital leases	139,285	139,285	-
Transfers to other funds			-
Transfer to Building Capital Improvement Fund	(1,033,200)	(1,033,200)	-
Transfer to Building Capital Reserve Fund	(48,000)	(48,000)	-
Transfer to Pedestrian Transportation Plan Fund	<u>(6,200)</u>	<u>(6,200)</u>	-
Total other financing sources (uses)	(948,115)	(948,115)	-
Appropriated fund balance	<u>1,267,400</u>	-	<u>(1,267,400)</u>
Net change in fund balance	<u>-</u>	(944,712)	<u>(944,712)</u>
Fund Balance			
Beginning of year		<u>2,673,023</u>	
End of year		<u>1,728,311</u>	

CITY OF SOUTHPORT, NORTH CAROLINA
CAPITAL RESERVE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended June 30, 2013

EXHIBIT B-2

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues			
Investment earnings	-	-	-
Interest income	-	-	-
Total revenues	-	-	-
Expenditures			
General Government			
Future capital outlay	88,000	-	88,000
Total expenditures	88,000	-	88,000
Revenues over (under) expenditures	(88,000)	-	88,000
Other financing sources (uses)			
Transfers from other funds	88,000	88,000	-
Total other financing sources (uses)	88,000	88,000	-
Net change in fund balance	-	88,000	88,000
Fund Balance			
Beginning of year		-	
End of year		88,000	

CITY OF SOUTHPORT, NORTH CAROLINA
 BUILDING CAPITAL IMPROVEMENT FUND
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
 IN FUND BALANCE - BUDGET AND ACTUAL
 For the Year Ended June 30, 2013

EXHIBIT B-3

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Actual Current Year</u>	<u>Total To Date</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues					
Investment earnings					
Interest earned	-	-	18	18	18
Miscellaneous					
Lease termination proceeds	36,800	-	36,819	36,819	19
Total revenues	<u>36,800</u>	<u>-</u>	<u>36,837</u>	<u>36,837</u>	<u>37</u>
Expenditures					
Professional fees	36,800	-	15,252	15,252	21,548
Building costs	1,923,200	-	1,796,356	1,796,356	126,844
Capital Outlay	10,000	-	6,697	6,697	3,303
Total expenditures	<u>1,970,000</u>	<u>-</u>	<u>1,818,305</u>	<u>1,818,305</u>	<u>151,695</u>
Excess of (under) revenues over expenditures	<u>(1,933,200)</u>	<u>-</u>	<u>(1,781,468)</u>	<u>(1,781,468)</u>	<u>151,732</u>
Other financing sources (uses)					
Transfers from other funds	1,933,200	-	1,933,200	1,933,200	-
Excess of revenues and other sources over expenditures	<u>-</u>	<u>-</u>	<u>151,732</u>	<u>151,732</u>	<u>151,732</u>
Fund balance					
Beginning of year			-		
End of year			<u>151,732</u>		

City of Southport, North Carolina
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2013

EXHIBIT B-4

	<u>Fire Station Capital Project</u>	<u>Pedestrian Transportation Plan Fund</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	190,443	682	191,125
Receivable from other governments	-	6,944	6,944
Other receivables	43,314	-	43,314
Total assets	233,757	7,626	241,383
 LIABILITIES			
Liabilities:			
Accounts payable	-	4,495	4,495
Total liabilities	-	4,495	4,495
 FUND BALANCES			
Restricted for:			
Streets	-	3,131	3,131
Fire protection	233,757	-	233,757
Unreserved	-	-	-
Total fund balances	233,757	3,131	236,888
Total liabilities, deferred inflows of resources and fund balances	233,757	7,626	241,383

City of Southport, North Carolina
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Non-Major Governmental Funds
For the Year Ended June 30, 2013

EXHIBIT B-5

	<u>Fire Station</u> <u>Capital Project</u>	<u>Pedestrian</u> <u>Transportation</u> <u>Plan Fund</u>	<u>Total-Other</u> <u>Governmental</u> <u>Funds</u>
REVENUES			
Restricted intergovernmental	-	11,904	11,904
Investment earnings	243	-	243
Total revenues	243	11,904	12,147
EXPENDITURES			
Current:			
Public Safety	3,576	-	3,576
Streets	-	14,973	14,973
Total Expenditures	3,576	14,973	18,549
Excess (deficiency) of revenues over expenditures	(3,333)	(3,069)	(6,402)
OTHER FINANCING SOURCES (USES)			
Transfers in	-	6,200	6,200
Total other financing sources and uses	-	6,200	6,200
Net change in fund balances	(3,333)	3,131	(202)
Fund balances - beginning	237,090	-	237,090
Fund balances - ending	233,757	3,131	236,888

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, 2013

EXHIBIT B-6

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Actual Current Year</u>	<u>Total To Date</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues					
Investment earnings					
Interest earned	-	4,358	243	4,601	4,601
Miscellaneous					
Miscellaneous receipts	-	43,314	-	43,314	43,314
Total revenues	-	47,672	243	47,915	47,915
Expenditures					
Professional Services - Design	194,666	94,666	-	94,666	100,000
Construction	3,416,694	3,416,694	3,576	3,420,270	(3,576)
Furnishings and telephone system	92,993	83,222	-	83,222	9,771
Contingency	79,647	-	-	-	79,647
Total expenditures	3,784,000	3,594,582	3,576	3,598,158	185,842
Excess of (under) revenues over expenditures	(3,784,000)	(3,546,910)	(3,333)	(3,550,243)	233,757
Other financing sources (uses)					
Financing proceeds	3,784,000	3,784,000	-	3,784,000	-
Excess of revenues and other sources over expenditures	-	237,090	(3,333)	233,757	233,757
Fund balance					
Beginning of year			237,090		
End of year			233,757		

CITY OF SOUTHPORT, NORTH CAROLINA
 PEDESTRIAN TRANSPORTATION PLAN CAPITAL PROJECT
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
 IN FUND BALANCE - BUDGET AND ACTUAL
 For the Year Ended June 30, 2013

EXHIBIT B-7

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Actual Current Year</u>	<u>Total To Date</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues					
Restricted Intergovernmental					
DOT Grant	24,800	-	11,904	11,904	(12,896)
Total revenues	24,800	-	11,904	11,904	(12,896)
Expenditures					
Transportation					
Professional fees	31,000	-	14,973	14,973	16,027
Total expenditures	31,000	-	14,973	14,973	16,027
Excess of (under) revenues over expenditures	(6,200)	-	(3,069)	(3,069)	3,131
Other financing sources (uses)					
Transfers from other funds	6,200	-	6,200	6,200	-
Excess of revenues and other sources over expenditures	-	-	3,131	3,131	3,131
Fund balance					
Beginning of year			-		
End of year			3,131		

ENTERPRISE FUNDS

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.

- 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, 2013

EXHIBIT C-1
Page 1 of 3

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues			
Operating revenues			
Charges for services			
Electricity sales	6,938,500	6,849,968	(88,532)
Underground service	50,000	201,576	151,576
Load management switches	2,000	3,593	1,593
Service charges	<u>104,000</u>	<u>104,675</u>	<u>675</u>
Total charges for services	<u>7,094,500</u>	<u>7,159,812</u>	<u>65,312</u>
Other operating revenues			
Miscellaneous	<u>-</u>	<u>17,282</u>	<u>17,282</u>
Total operating revenues	<u>7,094,500</u>	<u>7,177,094</u>	<u>82,594</u>
Nonoperating revenues			
Interest on investments	<u>5,000</u>	<u>6,950</u>	<u>1,950</u>
Total nonoperating revenues	<u>5,000</u>	<u>6,950</u>	<u>1,950</u>
Total revenues	<u>7,099,500</u>	<u>7,184,044</u>	<u>84,544</u>
Expenditures			
Expenditures other than depreciation			
Salaries	236,670	229,241	
Professional services	8,300	15,089	
Social security	17,670	16,790	
Group insurance	69,175	65,796	
Retirement	14,950	14,827	
401 (k) retirement supplement	11,090	10,999	
Workers compensation insurance	3,440	3,411	
OSHA expenses	150	35	
Uniforms and protective gear	910	870	
Telephone and postage	20,000	18,035	
Travel and training	3,800	3,706	

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, 2013

EXHIBIT C-1
Page 2 of 3

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Expenditures			
Expenditures other than depreciation			
Equipment maintenance	5,000	3,124	
Vehicle maintenance	2,000	764	
Gas, oil and tires	2,000	1,821	
Garage expense reimbursement	6,500	6,500	
Departmental supplies	19,000	20,659	
Miscellaneous small equipment	8,300	6,138	
Utility sales tax	171,000	167,583	
Power purchased	5,588,700	5,503,915	
Electricities dues	5,345	-	
Contract maintenance	365,000	337,305	
Contract services	56,100	56,797	
Insurance and bonding	11,200	11,182	
Miscellaneous	35,700	38,452	
Rebates paid	600	-	-
Total expenditures other than depreciation	<u>6,662,600</u>	<u>6,533,039</u>	<u>129,561</u>
Supplemental budget expenditures			
Capital outlay	416,900	429,513	-
Total supplemental expenditures	<u>416,900</u>	<u>429,513</u>	<u>(12,613)</u>
Total expenditures	<u>7,079,500</u>	<u>6,962,552</u>	<u>116,948</u>
Excess of revenues over (under) expenditures	<u>20,000</u>	<u>221,492</u>	<u>201,492</u>
Other financing sources (uses)			
Appropriated fund balance	900,000	-	(900,000)
Transfers to other funds			
Capital Reserve Fund	(20,000)	(20,000)	-
Building Capital Improvement Fund	(900,000)	(900,000)	-
Other financing sources over (under) uses	<u>(20,000)</u>	<u>(920,000)</u>	<u>(900,000)</u>
Revenues and other sources over expenditures and other uses	<u>-</u>	<u>(698,508)</u>	<u>(698,508)</u>

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, 2013

EXHIBIT C-1
 Page 3 of 3

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Reconciliation of modified accrual basis to full accrual basis:			
Excess of revenues and other sources over (under) expenditures and other uses		(698,508)	
Depreciation		(227,673)	
Total supplemental budget expenditures		429,513	
(Increase) decrease in unfunded OPEB liability		(9,256)	
(Increase) decrease in accrued vacation		<u>(1,956)</u>	
Change in net assets		<u>(507,880)</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, 2013

EXHIBIT C-2
Page 1 of 3

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues			
Operating revenues			
Charges for services			
Water and sewer services	2,217,900	2,226,970	9,070
Water and sewer tap fees	5,000	12,725	7,725
Total charges for services	2,222,900	2,239,695	16,795
Other operating revenues			
Miscellaneous	-	732	732
Total operating revenues	2,222,900	2,240,427	17,527
Nonoperating revenues			
Interest on investments	1,000	3,740	2,740
Impact fees	49,000	123,450	74,450
Total nonoperating revenues	50,000	127,190	77,190
Total revenues	2,272,900	2,367,617	94,717
Expenditures			
Expenditures other than depreciation			
Salaries	362,450	354,078	
Professional fees	7,700	15,147	
Social security	26,660	25,932	
Group insurance	81,520	81,448	
Retirement	23,040	23,140	
401 (k) retirement supplement	17,120	17,166	
Workers compensation insurance	4,900	4,827	
Uniforms and protective gear	4,730	4,715	
Telephone and postage	19,300	20,158	
Utilities	58,000	61,479	
Travel and training	1,600	1,568	
System maintenance	55,000	53,414	

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, 2013

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Expenditures			
Expenditures other than depreciation			
Equipment repair	6,000	5,587	
Building repair	-	-	
Vehicle repair	2,500	817	
Garage expense	24,000	24,000	
Gas, oil and tires	13,000	13,943	
Water and sewer supplies	72,600	65,533	
Annual permits and fees	4,800	4,713	
OSHA expenses	-	-	
Contract services	395,100	422,524	
Water purchases	460,000	458,838	
Sewer capital charge	333,400	332,392	
Coperative agreements	255,000	2,500	
Insurance and bonding	17,200	16,826	-
Equipment purchased under capitalization limit	2,000	1,674	
Contingency	2,000	-	-
	2,249,620	2,012,419	237,201
Total expenditures other than depreciation			
Supplemental budget expenditures			
Capital outlay	90,800	86,394	
Long-term debt payments	707,480	759,734	
Interest expense	-	22,639	-
	798,280	868,767	(70,487)
Total supplemental expenditures			
Total expenditures	3,047,900	2,881,186	166,714
Revenues over (under) expenditures	(775,000)	(513,569)	261,431
Other financing sources (uses)			
Fund balance appropriated	795,000	-	(795,000)
Transfer to other funds			
Transfer to Capital Reserve Fund	(20,000)	(20,000)	-
	775,000	(20,000)	(795,000)
Other financing sources over (under) uses			
Revenues and other sources over (under) expenditures and other uses	-	(533,569)	(533,569)

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, 2013

EXHIBIT C-2
Page 3 of 3

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u> <u>Positive</u> <u>(Negative)</u>
Reconciliation of modified accrual basis to full accrual basis:			
Revenues and other sources over expenditures and other uses		(533,569)	
Total supplemental budget expenditures		868,767	
Depreciation		(406,325)	
(Increase) decrease in accrued vacation pay		(1,660)	
(Increase) decrease in interest payable		391	
(Increase) decrease in OPEB liability		(8,379)	
Interest expense included in debt payments		(22,639)	
System contributed by developers		34,000	
Interest income recorded in capital projects		188	
Expenses recorded in capital projects		<u>(458)</u>	
 Change in net assets in Water and Sewer Fund		 <u>(69,684)</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, 2013

EXHIBIT C-3

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Actual Current Year</u>	<u>Total To Date</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues					
Restricted intergovernmental revenues					
Principal Forgiveness grant (ARRA)	-	702,347	-	702,347	702,347
Clean Water grant	<u>3,000,000</u>	<u>2,606,197</u>	<u>-</u>	<u>2,606,197</u>	<u>(393,803)</u>
Total restricted intergovernmental	<u>3,000,000</u>	<u>3,308,544</u>	<u>-</u>	<u>3,308,544</u>	<u>308,544</u>
Investment earnings					
Interest earned	<u>-</u>	<u>7,975</u>	<u>169</u>	<u>8,144</u>	<u>8,144</u>
Total revenues	<u>3,000,000</u>	<u>3,316,519</u>	<u>169</u>	<u>3,316,688</u>	<u>316,688</u>
Expenditures					
Professional services	959,945	788,283	306	788,589	171,356
Legal and administrative fees	56,985	-	152	152	56,833
Easement and land acquisition	43,070	5,000	-	5,000	38,070
Construction	3,203,995	3,104,109	-	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>3,897,392</u>	<u>458</u>	<u>3,897,850</u>	<u>506,845</u>
Excess of (under) revenues over expenditures	<u>(1,404,695)</u>	<u>(580,873)</u>	<u>(289)</u>	<u>(581,162)</u>	<u>823,533</u>
Other financing sources (uses)					
Financing proceeds					
Federal Revolving Loan (ARRA)	<u>1,404,695</u>	<u>702,348</u>	<u>-</u>	<u>702,348</u>	<u>(702,347)</u>
Other financing sources over (under) uses	<u>1,404,695</u>	<u>702,348</u>	<u>-</u>	<u>702,348</u>	<u>(702,347)</u>
Excess of revenues and other sources over expenditures	<u>-</u>	<u>121,475</u>	<u>(289)</u>	<u>121,186</u>	<u>121,186</u>
Fund balance					
Beginning of year			<u>121,475</u>		
End of year			<u>121,186</u>		

OTHER SCHEDULES

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

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

**CITY OF SOUTHPORT, NORTH CAROLINA
SCHEDULE OF AD VALOREM TAXES RECEIVABLE
June 30, 2013**

EXHIBIT D-1

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2012</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2013</u>
2012 - 2013		1,754,243	1,658,585	95,658
2011 - 2012	126,413		72,299	54,114
2010 - 2011	49,609		13,014	36,595
2009 - 2010	21,500		3,202	18,298
2008 - 2009	10,643		2,733	7,910
2007 - 2008	5,819		1,275	4,544
2006 - 2007	4,111		1,149	2,962
2005 - 2006	3,656		997	2,659
2004 - 2005	3,509		744	2,765
2003 - 2004	2,940		565	2,375
2002 - 2003	<u>3,547</u>	<u>-</u>	<u>3,547</u>	<u>-</u>
 Total	 <u>231,747</u>	 <u>1,754,243</u>	 <u>1,758,110</u>	 <u>227,880</u>
 Less allowance for uncollectible taxes receivable				 <u>34,182</u>
 Ad Valorem taxes receivable - net				 <u>193,698</u>
 Reconciliation with revenues				
Taxes - ad valorem - General Fund				1,755,554
 Amounts written off for tax year				
2002 - 2003 per statute of limitations				3,547
 Releases and adjustments				 <u>19,459</u>
 Subtotal				 1,778,560
 Less: Interest collected				 <u>20,450</u>
 Total collections and credits				 <u>1,758,110</u>

**CITY OF SOUTHPORT, NORTH CAROLINA
ANALYSIS OF CURRENT TAX LEVY
CITY-WIDE LEVY
June 30, 2013**

EXHIBIT D-2

	City-Wide		Total Levy		
	<u>Property Valuation</u>	<u>Rate</u>	<u>Total Levy</u>	<u>Property Excluding Registered Motor Vehicles</u>	<u>Registered Motor Vehicles</u>
Original Levy:					
Property taxed at current rate	724,562,288	0.002456	1,779,526	1,712,948	66,578
Total	724,562,288		1,779,526	1,712,948	66,578
Discoveries					
Current year taxes	2,162,908	0.002456	5,312	5,177	135
Prior year taxes			457	457	
Penalties			1,119	1,119	
Abatements	(13,098,823)		(32,171)	(31,249)	(922)
Total valuation	713,626,373				
Net levy			1,754,243	1,688,452	65,791
Uncollected taxes at June 30, 2012			95,658	87,812	7,846
Current year's taxes collected			1,658,585	1,600,640	57,945
Current levy collection percentage			94.55%	94.80%	88.07%

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

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and 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, 2013, which collectively comprises the City of Southport's basic financial statements, and have issued our report thereon, dated . 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 Town 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.

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 and correct 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 following deficiency described in the accompanying schedule of findings and questioned costs to be material weaknesses: 13-1.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency described in the accompany schedule of findings and questioned cost to be significant deficiencies: 13-2.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weakness have been identified. However, as described in the accompanying schedule of findings and questioned costs, 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.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. Those items are described in the accompanying schedule of findings and questioned cost: 13-1 and 13-2. We noted certain other matters that we reported to management of the City of Southport in a separate letter dated February 7, 2014.

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. 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

Southport, North Carolina
February 7, 2014

**City of Southport, North Carolina
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2013**

**Exhibit E-1
Page 1 of 1**

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Qualified

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

II. Financial Statement Findings

MATERIAL WEAKNESS

Finding 13-1 Excess Expenditures over Appropriations

Criteria: NC General Statute 159-8(b) requires expenditures not exceed budgeted appropriations.

Condition: Expenditures in the City's General Fund exceeded the authorized appropriation made in the Police, Powell Bill and Solid Waste Departments.

Effect: Violation of state statute in that expenditures exceeds those appropriated by the board.

Cause: Expenditures were not recorded in a timely manner to determined needed budget amendments.

Recommendation: Expenditures are recorded timely and pre-audit procedures are followed to allow timely amendment of the budget.

Views of responsible officials and planned corrective action: The City agrees with the finding.

SIGNIFICANT DEFICIENCIES

Finding 13-2 Violation of State Statue

Criteria: S.L. 2002-129 requires the creation of a Tourism and Development Authority (TDA) to manage the occupancy tax revenue.

Condition: The City operates under the prior S.L. 1989-639 which did not require the creation of a TDA. This S.L. was amended by the above S.L. 2002-129.

Effect: Violation of State Statue..

Cause: S.L. 2002-129 not implemented..

Recommendation: Seek exemption from S.L. 2002-129 or create a TDA.

Views of responsible officials and planned corrective action: Management and the Board will review this situation and take appropriate action..

**City of Southport, North Carolina
Corrective Action Plan
For the Year Ended June 30, 2013**

Exhibit E-2

I. Financial Statement Findings

Finding 13-1

Name of contact person: Bonita L. Bray

Corrective Action: Additional emphases will be given to budget appropriations by department during the pre-audit process to determine the ability to purchase and the need to inform the board of needed budget amendments.

Proposed completion date: June 30, 2014

Finding 13-2

Name of contact person: Bonita L. Bray

Corrective Action: The City Management will work with the City Board and legal counsel to reach a satisfactory solution the problem..

Proposed completion date: June 30, 2014

City Of Southport, North Carolina
Summary Schedule of Prior Year Findings
For the Year Ended June 30, 2013

Exhibit E-3

Finding: 2012-1

Status: The condition has been corrected by restriction of credit cards and implementing a written policy..

Finding: 2012-2

Status: The condition continues..

Finding: 2012-3

Status: The condition has been corrected by additional training on City policies..

Finding: 2012-4

Status: Corrected.

Finding: 2012-5

Status: Corrected

Finding 2012-6

Status: Corrected.