

CITY OF SOUTHPORT

Southport, North Carolina

AUDITED FINANCIAL STATEMENTS

June 30, 2015

BOARD OF ALDERMEN

Robert D. Howard, Mayor
Mary Ellen Poole, Mayor Pro Tem
Nelson E. Adams
Buddy Barnes
Todd Coring
Emily H. Humphreys
James F. Powell, III

ADMINISTRATIVE AND FINANCIAL STAFF

Kerry N. McDuffie, City Manager
Melanie Trexler, Finance Director
Michele Windham, 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, 2015, 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 did not audit the financial statements of the Southport ABC Board. Those statements were audited by another auditor whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Southport ABC Board, is based solely on the report of another auditor. 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, 2015, 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, and the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Asset and Contributions on Exhibit A-5 and A-6, 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.

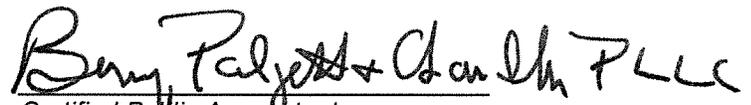
Supplementary and Other Information

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 purposes 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 and other auditors. 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 8, 2016 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 8, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS



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, 2015. 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

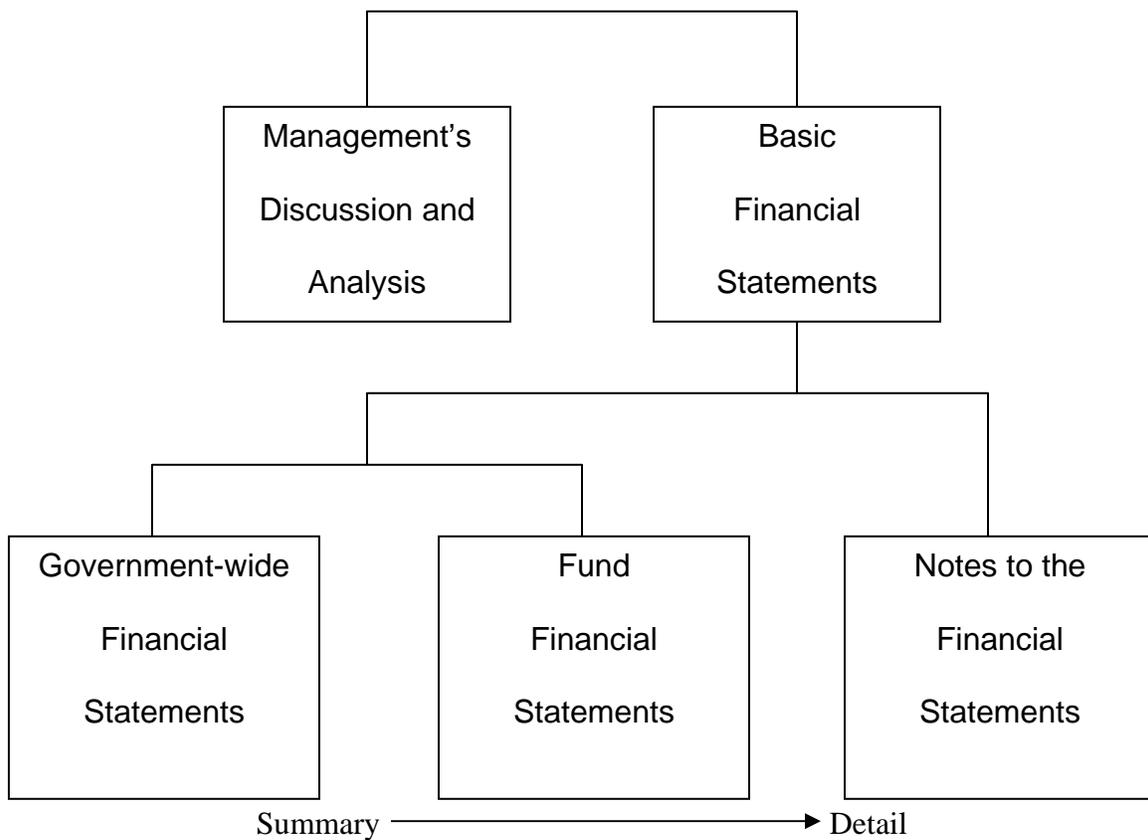
- The assets and deferred outflows of resources of the City of Southport exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$ 38,313,189 (*net position*).
- The government's total net position increased by \$2,944,418, primarily due to Capital infrastructure and diligent cost-saving measures made by the staff.
- As of the close of the current fiscal year, the City of Southport's governmental funds reported combined ending fund balances of \$1,992,331 with a net decrease of \$153,882 in fund balance. Approximately 38% of this total amount, or \$754,936, is non-spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,177,118 or 22% of total general fund expenditures for the fiscal year.
- The City of Southport's total debt decreased by \$426,159 during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to City of Southport's basic financial statements. The City's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the City through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the City of Southport. The focus of the City of Southport is to provide quality professionally delivered service efficiently and effectively.

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) the proprietary fund statements.

Management Discussion and Analysis City of Southport

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 North Carolina 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 the Board is required to distribute its profits to the City.

The government-wide financial statements are 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 give the reader a detailed short-term view that helps him or her determine if there are more or less

Management Discussion and Analysis
City of Southport

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 two proprietary funds. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. 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 begin on page exhibit 9 of 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 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 governments and other holders of publicly held U.S. Treasury Securities.

Government-Wide Financial Analysis

City of Southport's Net Position

Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 2,447,450	\$ 2,601,415	\$ 7,183,273	\$ 6,313,122	\$ 9,630,723	\$ 8,914,537
Capital assets	14,127,104	14,010,395	21,868,009	19,757,277	35,995,113	33,767,672
Net pension asset	107,624		59,392		167,016	-
Deferred outflows of resources	100,515	-	40,083	-	140,598	-
Total assets and deferred outflows of resources	16,782,693	16,611,810	29,150,757	26,070,399	45,933,450	42,682,209
Long-term liabilities outstanding	4,257,872	4,409,612	1,715,580	1,771,336	5,973,452	6,180,948
Other liabilities	308,085	334,901	931,386	781,288	1,239,471	1,116,189
Deferred inflows of resources	262,594	16,301	144,750	-	407,344	16,301
Total liabilities and deferred inflows of resources	4,828,551	4,760,814	2,791,716	2,552,624	7,620,267	7,313,438
Net position:						
Net investment in capital assets	10,968,244	10,649,741	20,555,014	18,462,015	31,523,258	29,111,756
Restricted	862,560	877,631	1,960,325	1,943,643	2,822,885	2,821,274
Unrestricted	123,338	323,624	3,843,708	3,112,117	3,967,046	3,435,741
Total net position	\$ 11,954,142	\$ 11,850,996	\$ 26,359,047	\$ 23,517,775	\$ 38,313,189	\$ 35,368,771

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 \$38,313,189 as of June 30, 2015. The City's net position increased by \$2,944,418 for the fiscal year ended June 30, 2015. However, the largest portion \$31,523,258 (82%) 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, \$2,822,885(7%), represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$3,967,046(10%) is unrestricted. Also, the City of Southport implemented GASB Statement 68 this year. With the new reporting change, the City is allocated its proportionate share of the Local Government Employees' Retirement System's net pension asset, deferred outflows of resources, deferred inflows of resources, and pension expense. A restatement to record the effects of the new reporting guidance decreased beginning net position by \$220,779.

Management Discussion and Analysis
City of Southport

Decisions regarding the allocations are made by the administrators of the pension plan, not by the City of Southport's management.

Several particular aspects of the City's financial operations positively influenced the total unrestricted governmental net position:

- The City of Southport built a public restroom facility on Nash Street to provide a clean and convenient facility for our tourist and residents in the downtown area.
- The City continues to improve and repair its infrastructure of water mains, sewer mains and streets.
- Contributions of water and sewer lines and streets from residential developments provide added assets to improve the City's infrastructure.
- The city refinanced its debt associated with the Fire Station and reduced the interest rate from 4.49% to 2.85%.
- The property tax rate remained unchanged and services to the citizens remain a high priority.
- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 96.5%. The statewide average in fiscal year 2015 was 98.35%.

City of Southport's Changes in Net Position
Figure 3

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Revenues:						
Program revenues:						
Charges for services	\$ 1,509,566	\$ 1,415,251	\$ 10,474,802	\$ 9,509,280	\$ 11,984,368	\$ 10,924,531
Operating grants and contributions	207,128	191,292	6,715	3,822	213,843	195,114
Capital grants and contributions	182,120	48,266	2,429,772	666,179	2,611,892	714,445
General revenues:						
Property taxes	1,840,777	1,797,132	-	-	1,840,777	1,797,132
Other taxes	830,694	756,654	-	-	830,694	756,654
Grants and contributions not restricted to specific programs	606,600	583,458	-	-	606,600	583,458
Unrestricted Investment earnings	1,855	-	6,377	-	8,232	-
Other	30,765	34,977	-	8,344	30,765	43,321
Total revenues	5,209,505	4,827,030	12,917,666	10,187,625	18,127,171	15,014,655
Expenses:						
General government	1,765,429	1,438,541	-	-	1,765,429	1,438,541
Public safety	2,250,766	2,099,886	-	-	2,250,766	2,099,886
Transportation	345,751	512,546	-	-	345,751	512,546
Environmental protection	217,468	220,829	-	-	217,468	220,829
Economic and physical development	-	-	-	-	-	-
Cultural and recreation	414,941	478,814	-	-	414,941	478,814
Interest on long-term debt	90,868	152,997	-	-	90,868	152,997
Water and sewer	-	-	2,647,834	2,428,650	2,647,834	2,428,650
Electric	-	-	7,228,917	6,926,077	7,228,917	6,926,077
Total expenses	5,085,223	4,903,613	9,876,751	9,354,727	14,961,974	14,258,340
Change in net position before transfers	124,282	(76,583)	3,040,915	832,898	3,165,197	756,315
Transfers	121,134	40,000	(121,134)	(40,000)	-	-
Change in net position	245,416	(36,583)	2,919,781	792,898	3,165,197	756,315
Net position, July 1 (consolidated)	11,850,996	11,887,582	23,517,775	22,724,877	35,368,771	34,612,459
Net position, beginning, restated	11,708,726	11,887,582	23,439,266	22,724,877	35,147,992	34,612,459
Net position, June 30	\$ 11,954,142	\$ 11,850,999	\$ 26,359,047	\$ 23,517,775	\$ 38,313,189	\$ 35,368,774

Governmental activities. Governmental activities increased the City's net position by \$245,416 thereby accounting for 8% of the total growth in the net position of the City of Southport. The increase in net position was the result of a concerted effort to control costs and manage expenditures. City management reduced non-essential programs to a minimum and implemented cost saving strategies across City departments. Certain nonrecurring expenses were either postponed or renegotiated in an attempt to maintain a healthy net position. Management believes healthy investment in the City will result in additional revenues for future years. Increased efforts to maximize tax collections also contributed to the favorable net position. Though many of the City's residents were hit hard by the recession, tax revenue did not appreciably decline in the current year. City management acknowledges

Management Discussion and Analysis
City of Southport

that 2015 was a successful year and plans on improving upon these approaches as a long-term strategy to realize continued fiscal health.

Business-type activities. Business-type activities increased the City of Southport's net position by \$2,919,781, accounting for 92% of the total growth in the government's net position.

Key elements of this increase are as follows:

- The City recognized a change in net position of \$2,919,781 in the Proprietary Funds, due to rate increases and cost-saving measures taken to reduce operating costs in the Electric and Water and Sewer Funds, as well as a \$2,429,772 capital contribution.

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.

The general fund is the chief operating fund of the City of Southport. At the end of the current fiscal year, City of Southport's fund balance available in the General Fund was \$1,520,017, while total fund balance reached \$1,991,537.

At June 30, 2015, the governmental funds of City of Southport reported a combined fund balance of \$1,992,331 with a net decrease in fund balance of \$153,882.

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.

There were several reasons the City revised its budget throughout the year. Although expenditures were held in check overall to comply with its budgetary requirements, the City did amend the budget in the General Fund in General Government to account for unexpected maintenance and repairs.

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 \$569,905, and for the Electric Fund, \$3,273,803. The total change in net position for the Water and Sewer and the Electric Funds was \$2,380,694 and \$460,578, respectively. The change in net position in the Water and Sewer Fund is a result of contributions to the system and rate increases and cost saving strategies.

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, 2015, totals \$31,523,258 net of accumulated depreciation). These assets include buildings, roads and bridges, land, machinery and equipment, park facilities, and vehicles.

Major capital asset transactions during the year include the following:

- Construction in progress in the general fund of \$73,554 was for the preliminary renovation study of 201 S Moore St.
- New server and a contract for new financial software were purchased for installation over the next year for a cost of \$64,129.
- Tasers for \$14,715 were purchased for the police department and a new 2014 Police Vehicle.
- Fire Department acquired scuba equipment for \$30,500, handheld radios and MSA thermal imaging camera system for \$16,077.
- Improvements to the 9th Street park included fencing and bleachers for \$25,095, security lights for Lowe White Park for \$7,465, and the Bay St boardwalk was rebuilt for \$7,500.
- Streets paved in the Northwood Cemetery cost \$35,700.
- Safe Routes to School project completed sidewalks and additional curbing and guttering at the Fire Department and Short St paving for a total cost of \$115,184.
- Nash Street Public Restrooms constructed to enhance the downtown experience for tourist and residents at a cost of \$190,567.
- The water and sewer department purchased a 2014 Ford Truck for \$23,114; an Aries Trailer Pathfinder for \$69,730; replaced manholes and water main lines on Lord St.; Owens to West West Street for \$150,747; Forest Oaks Lift station \$103,600.
- Total donated water sewer lines from Cades Cove, Prices Creek, Jonas Creek, The Ridge at Forest Oaks and Old Southport Way \$1,858,694.
- Electrical system improvements for underground utilities totaled \$366,857.
- Load management switches and Radio Tower and Licenses totaled \$32,400.
- Donated curb and guttering and street right of way in Ridge at Forest Oaks valued at \$89,886.

**City of Southport's Capital Assets
 (net of depreciation)**

Figure 4

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Land	\$ 2,509,952	\$ 2,504,952	\$ 2,827,985	\$ 2,762,465	\$ 5,337,937	\$ 5,267,417
Buildings and system	8,909,884	8,723,777	94,816	54,388	9,004,700	8,778,165
Improvements other than buildings	965,130	932,570	-	-	965,130	932,570
Substations, lines, and related equipment	-	-	26,911,700	24,533,790	26,911,700	24,533,790
Equipment and furniture	1,022,870	901,656	718,759	494,972	1,741,629	1,396,628
Infrastructure	2,877,290	2,585,831	-	-	2,877,290	2,585,831
Vehicles and motorized equipment	3,295,141	3,329,085	368,113	401,839	3,663,254	3,730,924
Construction in progress	73,554	34,720	-	-	73,554	34,720
	<u>\$ 19,653,821</u>	<u>\$ 19,012,591</u>	<u>\$ 30,921,373</u>	<u>\$ 28,247,454</u>	<u>\$ 50,575,194</u>	<u>\$ 47,260,045</u>
Less accumulated depreciation	5,526,717	5,002,196	9,053,364	8,490,177	14,580,081	13,492,373
Total	<u>\$ 14,127,104</u>	<u>\$ 14,010,395</u>	<u>\$ 21,868,009</u>	<u>\$ 19,757,277</u>	<u>\$ 35,995,113</u>	<u>\$ 33,767,672</u>

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

Management Discussion and Analysis
 City of Southport

Long-term Debt. As of June 30, 2015, the City of Southport had no General Obligation Bonded Debt outstanding; Revolving Loan Debt of \$1,416,396; Installment Notes Payable for \$2,838,000. The general obligation debt is backed by the full faith and credit of the City

**Outstanding Debt
 Figure 5**

City of Southport's Outstanding Debt

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Installment debt	\$ 2,838,000	\$ 3,027,200	\$ 1,312,995	\$ 1,416,396	\$ 4,150,995	\$ 4,443,596
Capital leases	320,860	454,418	-	-	320,860	454,418
Compensated balances	130,678	127,518	17,034	17,612	147,712	145,130
Other postemployment benefits	936,716	778,108	385,551	337,328	1,322,267	1,115,436
Net pension obligation	31618	22,368	-	-	31,618	22,368
Net Pension Liability (LRS)	-	223,704	-	123,447	-	347,151
Total	\$ 4,257,872	\$ 4,633,316	\$ 1,715,580	\$ 1,894,783	\$ 5,973,452	\$ 6,528,099

City of Southport's Outstanding Debt

The City of Southport's total debt decreased by \$426,159 (8.5%) during the past fiscal year.

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8% of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for City of Southport is \$59,346,294.

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

The following key economic indicators reflect the growth and prosperity of the City.

- The City continues to experience a 6% increase in new residential homes being built.
- Gained national recognition as the Happiest Seaside Town in the world.

Management Discussion and Analysis
City of Southport

- Legislation caused a decline in tourism revenue due to the filming industry not producing movies in the City.
- Losing revenue from the appeal of privilege licenses in the state.
- The city will continue implementing technology and best business practices which improves employee efficiency and effectiveness. This will allow the city to keep staffing at a slower rate than the city's growth rate of 6%.
- Staff worked diligently to cut cost for the current year and which will result in continued savings in the future years. Listed below are savings initiated by staff:
 1. Yard Waste and Recycling Pickup – Waste Industries billing of the City for yard waste and recycling pickup had become inaccurate. A city-initiated review found that the City was being billed for more customers than existed. This resulted in a recurring, annual savings of \$6,961.32.
 2. Electric Power Voltage Reduction – The City and Brunswick Electric instituted a 5% voltage reduction for the City's electric power distribution system. This resulted in a savings over the past 12 months of \$113,498, based on the new electric rate. Similar savings will occur in future years.
 3. Postage Meters – Staff conducted an assessment of postage meter needs and was able to go with smaller, less expensive meters, resulting in an annual, recurring savings of \$3,660.
 4. Telephone Lines – Staff has begun switching from AT&T lines to less expensive state contract service. The initial phase involves the elevator phone at City Hall and the service at pump stations, resulting in an annual, recurring savings of \$1,922.88. As existing contracts expire, other lines will be switched, resulting in additional savings in the future.
 5. Unfilled Vacant Position in Public Works-By installing the phone lines at the pump stations, public works staff is able to visit each station once per week, as opposed to once per day, which has enabled the City to not fill a vacant position in that department, thus saving approximately \$47,000 per year.
 6. Sales Tax Rebate on Materials Purchased from BEMC- Staff has worked with Brunswick Electric Membership Corporation to obtain a rebate of sales taxes paid on materials purchased through our maintenance agreement. This resulted in a savings of \$4,486.58 for FY15, in addition to the recapture of almost \$8,000 for the previous 2 fiscal years, and will provide similar annual savings moving forward.Total annual, recurring savings: \$177,528.78.

•

Budget Highlights for the Fiscal Year Ending June 30, 2016

Governmental Activities: Property taxes (benefiting from the economic growth) and revenues from permits and fees are expected to lead the increase in budgeted revenue. The City will use these increases in revenues to finance programs currently in place. Management has seen some improvement in areas that were affected by the recession and anticipates more growth in coming years.

Management Discussion and Analysis City of Southport

Budgeted expenditures in the General Fund are expected to rise approximately 7% to \$6,646,482. The largest increments are expected renovations of public buildings.

The City did appropriate fund balance in the fiscal year 2016 budget to carryover fund raising revenue to purchase the Sail boats wreath for decorating at Christmas. Management believes that increased revenues and continued restrictions on spending will maintain the City's financial position. As the City considers future revenue sources, it has determined the property tax rate will remain constant.

Business-type Activities: Water and sewer is undertaking the replacing of old water meters with an Automated Meter Infrastructure. This will give customers better and timely information about their accounts and will reduce billing cycle time, which will reduce the amount owed to the city and reduce bad debt. It will reduce ongoing cost of reading meters. This capital Project is estimated to cost \$1,000,000 and the return on investment projected to be 5 years. Remote disconnects will be placed on customers that are frequently cutoff due to nonpayment. This will save employees time and improve efficiency. We do not expect an increase in rates due to the increase in rates in the previous year.

Electric service billing and collecting will be turned over to Brunswick Electric Membership Coop. This will allow 24 hour customer account maintenance and monitoring of usage. It also brings Prepay Billing to our customers who need more control on spending for electrical service. Pay terminals, iPhone and android apps will also allow account maintenance and usage monitoring for better customer service. Remote disconnects on accounts that are frequently disconnected for non-payment will allow efficient use of employee's time. The city is also replacing Load Management switches with 2 way communication load management switches which allows the city to confirm that load management is being handled correctly and will have recurring savings of thousands dollars per year. With the sale of the electrical generation capacity through the Eastern Power Agency the city was able to restructure the electrical rates to provide a more equitable rate structure with an average of 3% decrease in cost of electricity to residential customers. In addition the sale provides additional monies for future capital improvements such as moving electrical lines from overhead to underground which will allow for reduced maintenance cost and more reliability during natural disasters.

Requests for Information

This report is designed to provide an overview of the City's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Director of Finance, City of Southport, 1029 N. Howe St., Southport, NC 25461. One can also call (910)-457-7900, visit our website www.CityofSouthport.com.

BASIC FINANCIAL STATEMENTS

**CITY OF SOUTHPORT, NORTH CAROLINA
STATEMENT OF NET POSITION
June 30, 2015**

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	1,524,060	4,603,881	6,127,941	377,751
Taxes receivable (net)	186,589	-	186,589	
Accounts receivable	7,942	582,882	590,824	-
Accrued interest receivable on taxes	47,269		47,269	
Due from other governments	307,876	-	307,876	
Due from component unit	73,073		73,073	
Inventories				204,616
Prepaid expenses				10,532
Restricted cash and cash equivalents	300,641	1,996,510	2,297,151	
Total current assets	<u>2,447,450</u>	<u>7,183,273</u>	<u>9,630,723</u>	<u>592,899</u>
Non-current assets				
Restricted assets				
Net pension asset	107,624	59,392	167,016	5,190
Capital assets				
Land, non-depreciable improvements, and construction in progress	2,583,506	2,827,985	5,411,491	4,600
Other capital assets, net of depreciation	11,543,598	19,040,024	30,583,622	47,370
Total capital assets	<u>14,127,104</u>	<u>21,868,009</u>	<u>35,995,113</u>	<u>51,970</u>
Total non-current assets	<u>14,234,728</u>	<u>21,927,401</u>	<u>36,162,129</u>	<u>57,160</u>
Total Assets	<u>16,682,178</u>	<u>29,110,674</u>	<u>45,792,852</u>	<u>650,059</u>
DEFERRED OUTFLOWS OF RESOURCES				
Pension payments subsequent to measurement period	95,984	37,584	133,568	8,233
Pension costs deferred	4,531	2,499	7,030	1,469
Total deferred outflows of resources	<u>100,515</u>	<u>40,083</u>	<u>140,598</u>	<u>9,702</u>
LIABILITIES				
Current liabilities				
Accounts payable and accrued expenses	203,851	833,043	1,036,894	252,220
Customer deposits	-	95,577	95,577	
Accrued interest	87,109	2,760	89,869	
Due to primary government				73,073
Payable from restricted assets	17,125	-	17,125	
Current portion of long-term liabilities	393,966	116,901	510,867	-
Total current liabilities	<u>702,051</u>	<u>1,048,281</u>	<u>1,750,332</u>	<u>325,293</u>
Long-term liabilities				
Due in more than one year	3,863,906	1,598,679	5,462,585	191,819
Total liabilities	<u>4,565,957</u>	<u>2,646,960</u>	<u>7,212,917</u>	<u>517,112</u>
DEFERRED INFLOWS OF RESOURCES				
Pension deferrals	262,309	144,750	407,059	12,649
Unearned income	285	-	285	-
Total deferred inflows of resources	<u>262,594</u>	<u>144,750</u>	<u>407,344</u>	<u>12,649</u>
NET POSITION				
Net investment in capital assets	10,968,244	20,555,014	31,523,258	51,970
Restricted for:				
Stabilization by State Statute	471,420		471,420	
Streets-Powell Bill	119,351	-	119,351	-
Net pension asset	107,624	59,392	167,016	
Capital outlay	164,165	1,900,933	2,065,098	-
Unrestricted	123,338	3,843,708	3,967,046	78,030
Total net position	<u>11,954,142</u>	<u>26,359,047</u>	<u>38,313,189</u>	<u>130,000</u>

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, 2015**

EXHIBIT 2

<u>Functions/Programs</u>	<u>Net (Expense) Revenue and Changes in Net Position</u>							
	<u>Expenses</u>	<u>Program Revenue</u>			<u>Primary Government</u>			<u>Component Unit</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	<u>Southport ABC Board</u>
Primary government								
Governmental Activities								
General Government	1,765,429	268,960	1,974	-	(1,494,495)	(1,494,495)		
Public Safety	2,250,766	1,002,749	91,859	5,596	(1,150,562)	(1,150,562)		
Transportation	345,751	-	108,045	176,524	(61,182)	(61,182)		
Culture and Recreation	414,941	35,505	5,250	-	(374,186)	(374,186)		
Environmental Protection	217,468	202,352	-	-	(15,116)	(15,116)		
Interest on Long-term debt	90,868	-	-	-	(90,868)	(90,868)		
Total governmental activities	<u>5,085,223</u>	<u>1,509,566</u>	<u>207,128</u>	<u>182,120</u>	<u>(3,186,409)</u>	<u>(3,186,409)</u>		
Business-type activities								
Electric Operations	7,228,917	7,710,953	1,315	-		483,351	483,351	
Water and Sewer Operations	2,647,834	2,763,849	5,400	2,429,772		2,551,187	2,551,187	
Total business-type activities	<u>9,876,751</u>	<u>10,474,802</u>	<u>6,715</u>	<u>2,429,772</u>		<u>3,034,538</u>	<u>3,034,538</u>	
Total primary government	<u>14,961,974</u>	<u>11,984,368</u>	<u>213,843</u>	<u>2,611,892</u>	<u>(3,186,409)</u>	<u>3,034,538</u>	<u>(151,871)</u>	
Component Unit								
Southport ABC Board	2,369,087	2,373,989	-	-			4,902	
Total component units	<u>2,369,087</u>	<u>2,373,989</u>	<u>-</u>	<u>-</u>			<u>4,902</u>	
General revenues:								
Taxes:								
Property taxes, levied for general purposes				1,840,777	-	1,840,777	-	
Property taxes, levied for debt service				-	-	-	-	
Other taxes				830,694	-	830,694	-	
Public service taxes				-	-	-	-	
Grants and contributions not restricted to specific programs				606,600	-	606,600	-	
Unrestricted investment earnings				1,855	6,377	8,232	393	
Miscellaneous				30,765	-	30,765	-	
Total general revenues not including transfers				<u>3,310,691</u>	<u>6,377</u>	<u>3,317,068</u>	<u>393</u>	
Transfers				121,134	(121,134)	-	-	
Total general revenues and transfers				<u>3,431,825</u>	<u>(114,757)</u>	<u>3,317,068</u>	<u>393</u>	
Change in net position				<u>245,416</u>	<u>2,919,781</u>	<u>3,165,197</u>	<u>5,295</u>	
Net position - beginning as previously reported				11,850,996	23,517,775	35,368,771	130,000	
Restatement				(142,270)	(78,509)	(220,779)	(5,295)	
Net position - beginning restated				<u>11,708,726</u>	<u>23,439,266</u>	<u>35,147,992</u>	<u>124,705</u>	
Net position - ending				<u>11,954,142</u>	<u>26,359,047</u>	<u>38,313,189</u>	<u>130,000</u>	

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

**CITY OF SOUTHPORT, NORTH CAROLINA
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2015**

**EXHIBIT 3
Page 1 of 2**

	Major Fund	Non-Major Funds	
	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	1,510,106	13,954	1,524,060
Restricted cash and cash equivalents	300,641	-	300,641
Taxes receivable, net	186,589	-	186,589
Receivable from other governments	306,251	1,625	307,876
Receivable from other component unit	73,073	-	73,073
Other receivables	7,942	-	7,942
Total assets	2,384,602	15,579	2,400,181
LIABILITIES			
Liabilities:			
Accounts payable	158,585	14,785	173,370
Other accrued expenses	30,481	-	30,481
Accounts payable from restricted assets	17,125	-	17,125
Total liabilities	206,191	14,785	220,976
DEFERRED INFLOWS OF RESOURCES			
Property taxes receivable	186,589	-	186,589
Prepaid property taxes	285	-	285
Total deferred inflows of resources	186,874	-	186,874
FUND BALANCES			
Non Spendable			
Inventories			
Restricted			
Stabilization by State Statute	471,420	-	471,420
Streets	119,351	-	119,351
Capital outlay	164,165	-	164,165
Committed			
Fire protection	44,483	-	44,483
Capital outlay	-	794	794
Assigned			
Designated for subsequent year	15,000	-	15,000
Unassigned	1,177,118	-	1,177,118
Total fund balances	1,991,537	794	1,992,331
Total liabilities, deferred inflows of resources and fund balances	2,384,602	15,579	2,400,181

**CITY OF SOUTHPORT, NORTH CAROLINA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2015**

**EXHIBIT 3
Page 2 of 2**

Total fund balance, governmental fund:	1,992,331
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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.	14,127,104
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Net pension asset	107,624
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Contributions to the pension plan in the current fiscal year are deferred outflow of resources on the Statement of Net Position	95,984
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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.	47,269
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Liabilities for earned revenues considered deferred inflows of resources in fund statements	186,589
---	---------

Pension related deferrals	(257,778)
---------------------------	-----------

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	(87,109)	
Capital leases payable	(320,860)	
Installment notes payable	(2,838,000)	
Compensated absences	(130,678)	
Other postemployment benefits	(936,716)	
Net pension obligation	(31,618)	
	(4,344,981)	(4,344,981)

Net position of governmental activities	11,954,142
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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, 2015

EXHIBIT 4
Page 1 of 2

	<u>Major Fund</u>	<u>Non-Major Funds</u>	
	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES			
Property taxes	1,850,129	-	1,850,129
Other taxes	101,119	-	101,119
Unrestricted intergovernmental revenues	1,336,175	-	1,336,175
Restricted intergovernmental revenues	843,291	86,638	929,929
Licenses and permits	167,596	-	167,596
Sales and services	643,634	-	643,634
Investment earnings	1,768	87	1,855
Miscellaneous	100,484	-	100,484
Total revenues	<u>5,044,196</u>	<u>86,725</u>	<u>5,130,921</u>
EXPENDITURES			
Current:			
General government	1,948,025	39,779	1,987,804
Public safety	1,975,625	12,075	1,987,700
Transportation	260,882	100,054	360,936
Environmental protection	217,468	-	217,468
Culture and recreation	386,302	-	386,302
Debt Service:			
Principal	322,758	-	322,758
Interest and other charges	142,969	-	142,969
Total expenditures	<u>5,254,029</u>	<u>151,908</u>	<u>5,405,937</u>
Excess (deficiency) of revenues over expenditures	<u>(209,833)</u>	<u>(65,183)</u>	<u>(275,016)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	259,457	13,416	272,873
Transfers out	-	(151,739)	(151,739)
Total other financing sources and uses	<u>259,457</u>	<u>(138,323)</u>	<u>121,134</u>
Net change in fund balances	49,624	(203,506)	(153,882)
Fund balances - beginning	1,941,913	204,300	2,146,213
Fund balances - ending	<u>1,991,537</u>	<u>794</u>	<u>1,992,331</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, 2015

Net change in fund balances - total governmental funds: (153,882)

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 \$651,725 are exceeded by depreciation \$622,952 in the current period. 28,773

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. (1,950)

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 89,886
Change in unavailable revenue for tax revenue (9,352)

Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities 95,984

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 322,758

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 52,101
Compensated absences (3,160)
Pension expense (7,884)
Net pension obligation (9,250)
Other postemployment benefits (158,608)

Change in net position of governmental activities 245,416

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, 2015

EXHIBIT 5

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Ad valorem taxes	1,733,100	1,817,128	1,850,129	33,001
Other taxes	97,200	97,200	101,119	3,919
Unrestricted intergovernmental revenues	1,256,600	1,286,600	1,336,175	49,575
Restricted intergovernmental revenues	826,400	864,400	843,291	(21,109)
Licenses and permits	166,300	166,300	167,596	1,296
Sales and services	696,500	714,512	643,634	(70,878)
Investment earnings	3,000	3,000	1,603	(1,397)
Miscellaneous	57,300	102,595	100,484	(2,111)
Total revenues	4,836,400	5,051,735	5,044,031	(7,704)
EXPENDITURES				
Current:				
General government	2,918,400	3,059,232	1,948,025	1,111,207
Public safety	1,932,800	1,988,810	1,975,625	13,185
Transportation	309,800	329,601	260,882	68,719
Environmental protection	186,200	221,600	217,468	4,132
Culture and recreation	383,100	390,574	386,302	4,272
Debt Service:				
Principal	314,600	322,919	322,758	161
Interest and other charges	143,000	143,000	142,969	31
Contingency	15,000	17,199	-	17,199
Total expenditures	6,202,900	6,472,935	5,254,029	1,218,906
Excess (deficiency) of revenues over expenditures	(1,366,500)	(1,421,200)	(209,998)	1,211,202
OTHER FINANCING SOURCES (USES)				
Proceeds from capital leases	1,280,000	1,280,000	-	(1,280,000)
Transfers in	86,500	86,500	259,457	172,957
Total other financing sources and uses	1,366,500	1,366,500	259,457	(1,107,043)
Fund balance appropriated	-	54,700	-	(54,700)
Net change in fund balance	-	-	49,459	49,459
Fund balance - beginning			1,777,913	
Fund balance - ending			1,827,372	
A legally budgeted Capital Reserve Fund is consolidated into the General Fund for reporting purposes:				
Interest income			165	
Fund balance - beginning			164,000	
Fund balance - ending			164,165	
Fund balance - ending (Exhibit 4)			1,991,537	

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, 2015

EXHIBIT 6
Page 1 of 2

Major Enterprise Funds			
	Electric Fund	Water and Sewer Fund	Total
ASSETS			
Current assets:			
Cash and cash equivalents	3,567,104	1,036,777	4,603,881
Accounts receivable, net	409,064	173,818	582,882
Restricted assets			
Cash and cash equivalents	95,577	1,900,933	1,996,510
Total current assets	4,071,745	3,111,528	7,183,273
Non-current assets:			
Restricted assets:			
Net pension asset	19,809	39,583	59,392
Capital assets:			
Land and improvements	-	2,827,985	2,827,985
Utility system	9,536,898	17,374,802	26,911,700
Buildings	94,816	-	94,816
Equipment and furniture	196,781	521,978	718,759
Vehicles	21,156	346,957	368,113
Less: Accumulated depreciation	(3,368,056)	(5,685,308)	(9,053,364)
Total capital assets	6,481,595	15,386,414	21,868,009
Total non-current assets	6,501,404	15,425,997	21,927,401
Total assets	10,573,149	18,537,525	29,110,674
DEFERRED OUTFLOWS OF RESOURCES			
Contributions to pension plan	15,394	22,190	37,584
Pension deferrals	833	1,666	2,499
Total deferred outflows of resources	16,227	23,856	40,083
LIABILITIES			
Current liabilities:			
Accounts payable	569,044	255,746	824,790
Salaries payable	3,179	5,074	8,253
Customer deposits	95,577	-	95,577
Compensated absences	7,000	6,500	13,500
Accrued interest payable	-	2,760	2,760
Bonds, notes and loans payable	-	103,401	103,401
Total current liabilities	674,800	373,481	1,048,281
Non-current liabilities:			
Compensated absences	2,878	656	3,534
Other postemployment benefits	88,213	297,338	385,551
Bonds, notes and loans payable	-	1,209,594	1,209,594
Total non-current liabilities	91,091	1,507,588	1,598,679
Total liabilities	765,891	1,881,069	2,646,960

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, 2015

EXHIBIT 6
 Page 2 of 2

	Major Enterprise Funds		
	<u>Electric Fund</u>	<u>Water and Sewer Fund</u>	<u>Total</u>
DEFERRED INFLOWS OF RESOURCES			
Pension deferrals	48,278	96,472	144,750
NET POSITION			
Net investment in capital assets	6,481,595	14,073,419	20,555,014
Restricted for capital projects	-	1,900,933	1,900,933
Restricted for net pension asset	19,809	39,583	59,392
Unrestricted	3,273,803	569,905	3,843,708
Total net position	9,775,207	16,583,840	26,359,047

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, 2015

EXHIBIT 7

	Major Enterprise Funds		
	<u>Electric Fund</u>	<u>Water and Sewer Fund</u>	<u>Total</u>
REVENUES			
Charges for services	7,710,369	2,763,849	10,474,218
Miscellaneous	1,899	5,400	7,299
Total operating revenues	7,712,268	2,769,249	10,481,517
OPERATING EXPENSES			
Electric operations	6,984,267	-	6,984,267
Water and sewer operations	-	2,254,640	2,254,640
Depreciation	244,650	375,377	620,027
Total operating expenses	7,228,917	2,630,017	9,858,934
Operating income (loss)	483,351	139,232	622,583
NON-OPERATING REVENUES (EXPENSES)			
Interest and investment revenue	3,411	2,966	6,377
Interest expense	-	(17,817)	(17,817)
Total non-operating revenue (expenses)	3,411	(14,851)	(11,440)
Income (loss) before contributions	486,762	124,381	611,143
Capital contributions - customers	-	2,429,772	2,429,772
Transfers out	-	(121,134)	(121,134)
Change in net position	486,762	2,433,019	2,919,781
Total net position - beginning, previously reported	9,314,629	14,203,146	23,517,775
Restatement	(26,184)	(52,325)	(78,509)
Total net position - beginning, restated	9,288,445	14,150,821	23,439,266
 Total net position - ending	 9,775,207	 16,583,840	 26,359,047

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, 2015

EXHIBIT 8
Page 1 of 2

	Major Enterprise Funds		
	Electric	Water & Sewer	Total
	Fund	Fund	
Cash flows from operating activities:			
Cash received from customers	7,781,628	2,710,539	10,492,167
Cash paid for goods and services	(6,766,784)	(1,777,048)	(8,543,832)
Cash paid to employees	(220,210)	(316,834)	(537,044)
Customer deposits received	27,939		27,939
Customer deposits returned	(21,216)		(21,216)
Other operating revenues	1,899	5,400	7,299
Net cash provided (used) by operating activities	803,256	622,057	1,425,313
Cash flows from noncapital financing activities:			
Transfers from (to) other funds	-	(121,134)	(121,134)
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(481,221)	(287,244)	(768,465)
Principal paid on long-term debt	-	(103,401)	(103,401)
Interest paid on long-term debt	-	(18,068)	(18,068)
Contributions from customers	-	467,478	467,478
Net cash provided (used) for capital and related financing activities	(481,221)	70,651	(410,570)
Cash flows from investing activities:			
Interest on investments	3,411	2,966	6,377
Net increase (decrease) in cash and cash equivalents	325,446	574,540	899,986
Cash and cash equivalents, beginning	3,337,235	2,363,170	5,700,405
Cash and cash equivalents, ending	3,662,681	2,937,710	6,600,391

CITY OF SOUTHPORT, NORTH CAROLINA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2015

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)	483,351	139,232	622,583
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	244,650	375,377	620,027
Pension expense	1,452	2,898	4,350
Changes in assets and liabilities			
(Increase) decrease in accounts receivable	71,259	(53,310)	17,949
Increase (decrease) in accounts payable	(8,350)	151,578	143,228
Increase (decrease) in accrued wages	293	99	392
Increase (decrease) in customer deposits	6,723	-	6,723
Increase (decrease) in accrued vacation	(1,627)	1,049	(578)
(Increase) decrease in deferred outflows of resources for pensions	(15,394)	(22,190)	(37,584)
Increase (decrease) in OPEB accrual	20,899	27,324	48,223
Total adjustments	319,905	482,825	802,730
Net cash provided (used) by operating activities	803,256	622,057	1,425,313
Non-cash investing, capital and financing activities:			
Contribution of non-cash assets by developers	-	1,962,294	1,962,294
Total non-cash investing, capital and financing activities:	-	1,962,294	1,962,294

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

I. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the City of Southport, North Carolina and its discretely presented component unit conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies:

A. Reporting Entity

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

City of Southport ABC Board

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

B. Basis of Presentation

Government-wide Statements: The statement of net 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 fund:

General Fund. The General Fund is the general operating fund of the City. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund. The primary revenue sources are ad valorem taxes, State grants, and various other taxes and licenses. The primary expenditures are for public safety, street maintenance and construction, and recreational facilities and programs. 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.

The City reports the following non-major governmental funds:

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

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

Safe Routes to School Sidewalks Fund. This fund is used to account for the construction of sidewalks and access ways in the City. This fund was closed in the current year.

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. This fund was closed during the current year.

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. Non-exchange 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 for property other than motor vehicles are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of September 1, 2013, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, the State of North Carolina is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts. Property taxes are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed in periods prior to September 1, 2013 and for limited registration plates 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. Sales taxes are considered a shared revenue for the City of Southport because the tax is levied by Brunswick County and then remitted to and distributed by the State. Most intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. All taxes, including those dedicated for specific purposes are reported as general revenues rather than program 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, the Safe Routes to School Sidewalks Fund 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 project 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. 159-31). 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

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 system expansion. Customer deposits held by the City before any services are supplied are restricted to the service for which the deposit was collected. Powell Bill funds are classified as restricted cash because it can be expended only for the purpose of maintaining, repairing, constructing, reconstructing or widening of local streets per G. S. 136-41.1 through 136-41.4. The money in the Capital Reserve Fund is classified as restricted assets because its use is restricted to purchase and construction of capital assets by G. S. Chapter 159, Article 3, Part 2.

City of Southport Restricted Cash

Governmental Activities	
General Fund	
Streets	136,476
Capital outlay	<u>164,165</u>
Total governmental activities	<u>300,641</u>
Business-type Activities	
Electric Fund	
Customer deposits	95,577
Water and Sewer Fund	
Impact fees collected	<u>1,900,933</u>
Total Business-type Activities	<u>1,996,510</u>
Total Restricted Cash	<u><u>2,297,151</u></u>

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, 2014.

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:

Asset Class	Estimated Useful Lives
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:

Asset Class	Estimated Useful Lives
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. The City has two items meeting this criterion, contributions made to the pension plan in the 2015 fiscal year and pension costs that will be recognized in future periods. 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 several items that meets the criterion for this category – prepaid taxes, property taxes receivable and deferrals of pension expense that result from the implementation of GASB Statement 68.

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 Capital Outlay – portion of fund balance restricted for capital outlay by G. S. Chapter 159, Article 3, Part 2. This is the balance in the Capital Reserve Fund.

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). The governing body can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

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.

Committed for capital outlay – remaining balance in Building Capital Improvement Fund.

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.

12. Pensions

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

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Bank Accounts not Reconciled Monthly

Internal control procedures require that all bank accounts be reconciled monthly. During the year just ended, all bank accounts were not reconciled every month. Reconciling bank accounts is the best way to determine that all receipts have been deposited and expenditures are clearing the bank for the correct amount. The finance officer will present bank reconciliations monthly to the board and management with the monthly financial statements. This procedure will allow proper monitoring to ensure that the accounts are reconciled.

B. Informal Bids on Renovation

North Carolina Statutes (G.S. 143-131) require informal bids be received for repair work exceeding \$30,000. The City did not comply with this for the renovation of city hall. Management will review plans for repairs and renovations in the future to see that the City is in compliance with this statute.

C. Semiannual Reports on Status of Deposits and Investments

North Carolina General Statutes (G.S. 159-33) requires that any officer having custody of funds of any local government report to the Secretary of the Local Government Commission on January 1 and July 1 of each year the amounts of funds in his custody, the deposits of funds in depositories, and a list of all investment securities and time deposits held by the local government. These reports were not filed timely by the City for the year ended June 30, 2015. Management and staff will review filing requirements and see that these reports are timely for future periods.

D. Annual Report of Powell Bill Expenditures

North Carolina General Statutes (G.S. 136-41.3) requires that each municipality receiving Powell Bill funds file a report with the North Carolina Department of Transportation before August 1 of each year. This report shall list in detail the expenditure of funds received in the current year and the balance of funds remaining on hand. This report was not filed by the due date. Management will review due date requirements to insure that these reports are timely in future periods.

E. Reconciliation of Subsidiary Receivable Ledgers to General Ledger

During the year ended June 30, 2015, the utility subsidiary billing ledgers were not reconciled monthly to the general ledger. The subsidiary ledgers for utility shows amounts billed and collected on each customer's account. The general ledger contains the current balance of all asset, liability, deferred inflow and outflow, revenue and expenditure accounts. Reconciling these items monthly shows that all amounts billed, collected and adjusted are reflected in the corresponding bank and receivable accounts. Not reconciling could allow errors and irregularities to occur and not be detected. Management and the finance department are installing procedures to see that this situation is correct and does not reoccur in future periods.

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, 2015, the City's deposits had a carrying amount of 8,382,549 and a bank balance of \$8,656,018. The carrying amount of deposits of the ABC Board was \$376,251 and the bank balance was \$362,384. \$250,000 of the ABC Board and \$745,259 of the City was covered by federal depository insurance. The balances of the deposits \$7,910,759 for the City and \$112,384 by the ABC Board were collateralized by institutions using the Pooling Method. At June 30, 2015, the City's cash on hand totaled \$450.

2. Investments

At June 30, 2015, the City of Southport had \$ 42,093 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 for the year ended June 30, 2015 are net of the following allowances for doubtful accounts:

General Fund:	
Taxes receivable	32,928
Solid waste accounts receivable	<u>3,575</u>
Total General Fund	<u>36,503</u>
Enterprise Funds	
Electric Fund - accounts receivable	141,854
Water and Sewer Fund - accounts receivable	<u>49,196</u>
Total Enterprise Funds	<u>191,050</u>
Total	<u><u>227,553</u></u>

4. Capital Assets

Primary Government

Capital asset activity for the Primary Government for the year ended June 30, 2015, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	2,504,952	5,000		2,509,952
Construction in progress	34,720	73,554	34,720	73,554
Total capital assets not being depreciated	<u>2,539,672</u>	<u>78,554</u>	<u>34,720</u>	<u>2,583,506</u>
Capital assets being depreciated				
Buildings	8,723,777	196,935	10,828	8,909,884
Other improvements	932,570	32,560		965,130
Infrastructure	2,585,831	291,459		2,877,290
Vehicles and motorized equipment	3,329,085	55,609	89,553	3,295,141
Furniture and equipment	901,656	121,214		1,022,870
Total capital assets being depreciated	<u>16,472,919</u>	<u>697,777</u>	<u>100,381</u>	<u>17,070,315</u>
Less accumulated depreciation for:				
Buildings	1,326,263	176,230	8,878	1,493,615
Other improvements	342,440	42,045		384,485
Infrastructure	574,372	112,020		686,392
Vehicles and motorized equipment	2,275,892	217,847	89,553	2,404,186
Furniture and equipment	483,229	74,810		558,039
Total accumulated depreciation	<u>5,002,196</u>	<u>622,952</u>	<u>98,431</u>	<u>5,526,717</u>
Total capital assets being depreciated, net	<u>11,470,723</u>			<u>11,543,598</u>
Governmental activity capital assets, net	<u>14,010,395</u>			<u>14,127,104</u>

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

General government	110,335
Public safety	336,352
Transportation	117,321
Cultural and recreational	58,944
Total depreciation expense	<u>622,952</u>

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
<i>Electric Fund</i>				
Capital assets not being depreciated:	-	-	-	-
Capital assets being depreciated				
Buildings	54,388	40,428		94,816
Utility systems	9,170,041	366,857		9,536,898
Vehicles and motorized equipment	57,548		36,392	21,156
Furniture and equipment	122,845	73,936		196,781
Total capital assets being depreciated	9,404,822	481,221	36,392	9,849,651
Less accumulated depreciation for:				
Buildings	10,670	1,896		12,566
Utility systems	3,019,371	230,824		3,250,195
Vehicles and motorized equipment	57,548		36,392	21,156
Furniture and equipment	72,209	11,930		84,139
Total accumulated depreciation	3,159,798	244,650	36,392	3,368,056
Total capital assets being depreciated, net	6,245,024			6,481,595
Electric fund capital assets, net	6,245,024			6,481,595
<i>Water and Sewer Fund</i>				
Capital assets not being depreciated:				
Land	2,762,465	65,520		2,827,985
Total capital assets not being depreciated	2,762,465	65,520	-	2,827,985
Capital assets being depreciated				
Utility systems	15,363,749	2,011,053		17,374,802
Vehicles and motorized equipment	344,291	23,114	20,448	346,957
Furniture and equipment	372,127	149,851		521,978
Total capital assets being depreciated	16,080,167	2,184,018	20,448	18,243,737
Less accumulated depreciation for:				
Utility systems	4,652,623	365,231		5,017,854
Vehicles and motorized equipment	339,245	2,912	20,448	321,709
Furniture and equipment	338,511	7,234		345,745
Total accumulated depreciation	5,330,379	375,377	20,448	5,685,308
Total capital assets being depreciated, net	10,749,788			12,558,429
Water and Sewer fund capital assets, net	13,512,253			15,386,414
Business-type activities capital assets, net	19,757,277			21,868,009

Construction Commitments

The City had outstanding construction commitments of \$25,018 at June 30, 2015.

Discretely presented component unit

Activity for the ABC Board for the year ended June 30, 2015, 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
Building improvements	69,461			69,461
Furniture and fixtures	15,695		10,258	5,437
Equipment	20,596	16,217	15,235	21,578
Total capital assets being depreciated	164,507	16,217	25,493	155,231
Less accumulated depreciation for:				
Buildings	58,755			58,755
Building improvements	33,312	2,844		36,156
Furniture and fixtures	9,966	296	5,299	4,963
Equipment	20,593	2,630	15,236	7,987
Total accumulated depreciation	122,626	5,770	20,535	107,861
Total capital assets being depreciated, net	41,881			47,370
ABC capital assets, net	46,481			51,970

B. Liabilities

1. Pension Plan and Postemployment Obligations

a. Local Government Employees' Retirement System

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

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

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

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. City of Southport employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The City of Southport's contractually required contribution rate for the year ended June 30, 2015, was 7.41 % for law enforcement officers and 7.07% for general employees, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the City of Southport were \$133,568 for the year ended June 30, 2015.

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

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

At June 30, 2015, the City reported an asset of \$167,016 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2014. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2013. The total pension liability was then rolled forward to the measurement date of June 30, 2014 utilizing update procedures incorporating the actuarial assumptions. The City's proportion of the net pension asset was based on a projection of the City's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2014, the City's proportion was 0.02832%, which was a decrease of 0.00048% from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the City recognized pension expense of \$12,234. At June 30, 2015, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience		18,249
Changes of assumptions		-
Net difference between projected and actual earnings on pension plan investments		388,810
Changes in proportion and differences between City contributions and proportionate share of contributions	7,030	
City contributions subsequent to the measurement date	<u>133,568</u>	
Total	<u><u>140,598</u></u>	<u><u>407,059</u></u>

\$133,568 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as an increase of the net pension asset in the year ended June 30, 2016. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2016	(100,014)
2017	(100,014)
2018	(100,014)
2019	(99,987)
	<u>(400,029)</u>

Actuarial Assumptions. The total pension liability in the December 31, 2013 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary Increases	4.25 to 8.55 percent, including inflation and productivity factor
Investment rate of return	7.25 percent, net of pension plan investment expense, including inflation

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

The actuarial assumptions used in the December 31, 2013 valuation were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2014 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Fixed Income	36.0%	2.5%
Global Equity	40.5%	6.1%
Real Estate	8.0%	5.7%
Alternatives	6.5%	10.5%
Credit	4.5%	6.8%
Inflation Protection	4.5%	3.7%
Total	<u>100.0%</u>	

The information above is based on 30 year expectations developed with the consulting actuary for the 2013 asset liability and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.19%. All rates of return and inflation are annualized.

A new asset allocation policy was finalized during the fiscal year ended June 30, 2014 to be effective July 1, 2014. The new asset allocation policy utilizes different asset classes, changes in the structure of certain asset classes, and adopts new benchmarks. Using the asset class categories in the preceding table, the new long-term expected arithmetic real rates of return are: Fixed Income 2.2%, Global Equity 5.8%, Real Estate 5.2%, Alternatives 9.8%, Credit 6.8% and Inflation Protection 3.4%.

Discount rate. The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's proportionate share of the net pension asset to changes in the discount rate. The following presents the City's proportionate share of the net pension asset calculated using the discount rate of 7.25 percent, as well as what the City's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25 percent) or one percentage point higher (8.25 percent) than the current rate:

	1% Decrease <u>(6.25%)</u>	Discount Rate <u>(7.25%)</u>	1% Increase <u>(8.25%)</u>
City's proportionate share of the net pension liability (asset)	566,925	(167,016)	(784,971)

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

b. Law Enforcement Officers Special Separation Allowance

(1) Plan Description

The 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, 2014, the Separation Allowance's membership consisted of:

Retirees receiving benefits	-
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	<u>13</u>
Total	<u>13</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. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

The Separation Allowance has no assets accumulated in a trust that meets the following criteria which are outlined in GASB 67 and 68:

- Contributions to the pension plan and earnings on those contributions are irrevocable
- Pension plan assets are dedicated to providing benefits to plan members
- Pension plan assets are legally protected from the creditors or employers, non-employer contributing entities, the plan administrator, and plan members.

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, 2014 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:

Annual required contribution	14,969
Interest on net pension obligation	1,118
Adjustment to annual required contribution	<u>(1,890)</u>
Annual pension cost	14,197
Contributions made	<u>4,947</u>
Increase (decrease) in net pension obligation	9,250
Net pension obligation beginning of year	<u>22,368</u>
Net pension obligation end of year	<u><u>31,618</u></u>

For Year Ended <u>June 30</u>	3 Year Trend Information		
	Annual Pension Cost <u>(APC)</u>	Percentage of <u>APC Contributed</u>	Net Pension <u>Obligation</u>
2013	12,377	79.94%	19,626
2014	12,636	78.30%	22,368
2015	14,197	34.85%	31,618

(4) Funded Status and Funding Progress.

As of December 31, 2014, 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 \$95,729. The covered payroll (annual payroll of active employees covered by the plan) was \$596,916, and the ratio of the UAAL to the covered payroll was 16.04%.

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, 2015 were \$140,101, which consisted of \$93,195 from the City and \$46,906 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, 2014, the date of the latest actuarial valuation:

Law enforcement officers	6
General Employees	22
Retirees	<u>20</u>
Total	<u>48</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 28.62% of covered payroll. For the current year, the City contributed \$158,219 or 12.5%. 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 required contribution	382,458
Interest on net OPEB obligation	44,617
Adjustment to annual required contribution	<u>(62,025)</u>
Annual OPEB cost	365,050
Contributions made	<u>158,219</u>
Increase (decrease) in net OPEB obligation	206,831
Net OPEB obligation, beginning of year	<u>1,115,436</u>
Net OPEB obligation, end of year	<u>1,322,267</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, 2015 were as follows:

For Year Ended <u>June 30</u>	3 Year Trend Information		Net OPEB <u>Obligation</u>
	<u>Annual OPEB Cost</u>	<u>% of Annual OPEB Cost Contributed</u>	
2013	317,794	39.8%	927,746
2014	318,136	41.0%	1,115,436
2015	365,050	43.3%	1,322,267

Funded Status and Funding Progress – As of December 31, 2014, 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 \$4,344,557. The covered payroll (annual payroll of active employees covered by the plan) was \$1,263,982, and the ratio of the UAAL to covered payroll was 343.7%. 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, 2014 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 7.5 to 5 percent annually for pre-Medicare costs and 5.5 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 at a level dollar amount on an open basis. The remaining amortization period at December 31, 2014 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. Because all death benefit payments are made from the Death Benefit Plan and not by the City, the City does not determine the number of eligible participants. 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. Contributions are determined as a percentage of monthly payroll based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers.

For the year ended June 30, 2015, the City made no contributions to the State for death benefits. The City's required contributions for employees not engaged in law enforcement and for law enforcement officers represented 0.00% and 0.00% of covered payroll, respectively. Due to a surplus in the death benefit, a decision was made by the State to temporarily stop employer contributions to the LGERS Death Benefit Plan beginning July 1, 2012. A temporary relief period based on the number of years the employer has contributed as of December 31, 2010 was established. Employers, like the City of Southport, with more than twenty years of contributing to the plan were given three years of relief from making contributions. The City of Southport will resume making contributions on July 1, 2015, for employees not engaged in law enforcement and law enforcement officers.

3. Deferred Outflows and Inflows of Resources

The City has several deferred outflows of resources. Deferred outflows of resources consist of the following:

<u>Source</u>	<u>Amount</u>
Contributions to pension plan in current fiscal year	133,568
Pension costs deferred	<u>7,030</u>
Total	<u><u>140,598</u></u>

Deferred Inflows of resources at year end is comprised of the following:

Prepaid taxes (General Fund)	285
Taxes receivable (General Fund)	186,589
Pension deferrals	407,059

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 \$1 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. The liability and property exposures are reinsured through commercial carriers for claims in excess of retentions as selected by the Board of Trustees each year. Stop loss insurance is purchased by the Board of Trustees to protect against large medical claims that exceed certain dollar cost levels. Specific information on the limits of the reinsurance, excess and stop loss policies purchased by the Board of Trustees can be obtained by contacting the Risk Management Services Department of the NC League of Municipalities. The pools are audited annually by certified public accountants, and the audited financial statements are available to the City upon request.

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.

5. Claims, Judgments and Contingent Liabilities

According to the City Attorney and City Management at June 30, 2015, 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 Payments</u>	<u>Frequency of Payments</u>
5/3/12	Spartan Aerial Fire Truck	400,000	84,298	2	Annual
9/14/12	GMC 4500 Ambulance	119,285	31,137	2	Annual
1/12/14	GMC 4500 Ambulance	119,985	25,171	4	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	1,052,991	442,235	610,756

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2015 were as follows:

<u>Year Ending June 30</u>	<u>Total</u>	<u>Governmental Activities</u>
2016	140,606	140,606
2017	140,606	140,606
2018	25,171	25,171
2019	25,171	25,171
Total minimum lease payments	331,554	331,554
Less: Amount representing interest	10,694	10,694
Present value of minimum lease payments	320,860	320,860

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%. Effective with the July 2014 payment, these notes were refinanced reducing the interest rate to 2.85% while annual principal payments remain the same.

Annual debt service payments of the installment purchase as of June 30, 2015, including \$646,615 of interest is as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2016	189,200	80,883
2017	189,200	75,491
2018	189,200	70,099
2019	189,200	64,706
2020	189,200	59,314
2021-2025	946,000	215,688
2026-2029	946,000	80,434
	<u>2,838,000</u>	<u>646,615</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:

Year Ending June 30	Business-type Activities	
	Principal	Interest
2016	103,401	16,562
2017	103,401	15,057
2018	103,401	13,551
2019	103,401	12,045
2020	103,401	10,540
2021-2025	517,004	30,113
2026-2030	243,869	1,506
2031	35,117	-
	<u>1,312,995</u>	<u>99,374</u>

At June 30, 2015, the City of Southport had a legal debt margin of \$59,346,294.

d. Changes in Long - Term Liabilities

	Balance 6/30/14	Increases	Decreases	Balance 6/30/15	Current Portion of Balance
Governmental activities:					
Installment notes payable	3,027,200		189,200	2,838,000	189,200
Capitalized leases	454,418		133,558	320,860	134,766
Compensated absences	127,518	109,149	105,989	130,678	70,000
Other postemployment benefits	778,108	261,408	102,800	936,716	
Net Pension liability (LGERS)	223,704		223,704	-	
Net pension obligation	22,368	14,197	4,947	31,618	-
	<u>4,633,316</u>	<u>384,754</u>	<u>760,198</u>	<u>4,257,872</u>	<u>393,966</u>
Business-type activities:					
Revolving loans	1,416,396		103,401	1,312,995	103,401
Compensated absences	17,612	17,641	18,219	17,034	13,500
Net Pension liability (LGERS)	123,447		123,447	-	
Other postemployment benefits	337,328	103,642	55,419	385,551	-
	<u>1,894,783</u>	<u>121,283</u>	<u>300,486</u>	<u>1,715,580</u>	<u>116,901</u>

The LGERS plan had a net pension asset as of June 30, 2015; however, the plan had a net pension liability at the beginning of the fiscal year.

C. Interfund Balances and Activity

Transfers to/from other funds at June 30, 2015, consist of the following:

Transfer from Powell Bill to Safe Routes to School Sidewalk Project	13,416
Transfer from Fire Station Capital Project to General Fund	151,739
Transfer from the Wastewater Enhancement Project to the General Fund	<u>121,134</u>
Total	<u>286,289</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. Remaining funds after capital projects are completed are moved to funds designated by the Board.

D. 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 expires 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, 2015, the City made monthly payments of \$28,699. 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

2016	<u>327,026</u>
Total	<u>327,026</u>

For the year ended June 30, 2015, the City payments under this contract totaled \$353,356.

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 June 30, 2018, bases fees on the number of residents and frequency of collection. The expense to the City for the year ended June 30, 2015 was \$217,468.

E. On-Behalf Payments for Fringe Benefits and Salaries

The City has recognized as a revenue and an expenditure, on-behalf payments for fringe benefits and salaries of \$1,000 for the salary supplement and stipend benefits paid to eligible firemen by the local board of trustees of the Firemen's Relief Fund during the fiscal year ended June 30, 2015. Under State law the local board of trustees for the Fund receives an amount each year, which the board may use at its own discretion for eligible firemen or their departments.

F. Net Investment in Capital Assets

The City's Net Investment in Capital Assets at June 30, 2015, consisted of the following:

	Governmental <u>Funds</u>	Business-type <u>Funds</u>
Capital assets	14,127,104	21,868,009
Less: Long-term Debt	<u>(3,158,860)</u>	<u>(1,312,995)</u>
Net investment in capital assets	<u>10,968,244</u>	<u>20,555,014</u>

G. 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>1,991,537</u>
Less:	
Stabilization by State Statute	471,420
Streets - Powell Bill	119,351
Appropriated fund balance in 2016 Budget	15,000
Capital outlay (Capital Reserve Fund)	164,165
Committed for fire protection	<u>44,483</u>
Remaining fund balance	<u><u>1,177,118</u></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, 2015, the City had outstanding encumbrances of \$84,154 in the General Fund.

IV. 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, 2015, the City reported revenues and expenditures for payments of \$1,000 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, 2015. 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.

V. 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 twenty-one 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, 2015 were \$5,578,523.

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, 2015.

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, 2015, 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, 2015. 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.

VI. 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.

VII. SUBSEQUENT EVENTS

Events occurring after June 30, 2015 were evaluated by management on February 8, 2016 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.

VIII. CHANGE IN ACCOUNTING PRINCIPALS/RESTATEMENT

The City implemented Governmental Accounting Standards Board (GASB) statement 68, *Accounting and Financial Reporting for Pensions (an amendment of GASB Statement No. 27)*, in the fiscal year ending June 30, 2015. The implementation of the statement required the City to record beginning net pension liability and the effects on net position of contributions made by the City during the measurement period (fiscal year ending June 30, 2014). As a result, net position for the governmental and business-type activities decreased by \$142,270 and \$78,509, respectively.

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
- Proportionate Share of Net Pension Liability (Asset)
- City of Southport's Contributions – Local Government Employee's Retirement System

**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%
12/31/2013	0	87,917	87,917	0.00%	455,582	19.30%
12/31/2014	0	95,729	95,729	0.00%	596,916	16.04%

**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%
2014	14,969	33.04%

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, 2014
Actuarial cost method	Projected unit credit
Amortization method	Level dollar closed
Remaining amortization period	16 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%
12/31/2014	0	4,344,557	4,344,557	0.00%	1,263,982	343.72%

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

EXHIBIT A-4

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2010	383,344	28.30%
2011	383,344	38.08%
2012	383,344	42.59%
2013	316,477	40.01%
2014	316,477	41.00%
2015	382,458	41.36%

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, 2014
Actuarial cost method	Projected unit credit
Amortization method	Level dollar amount, open
Remaining amortization period	30 years
Amortization factor	17.9837
Asset valuation method	Market value of assets
Actuarial assumptions:	
Investment rate of return*	4.00%
Medical cost trend rate	
Pre-Medicare Trend Rate	7.50%-5.00%
Post-Medicare Trend Rate	5.50%-5.00%
Year of ultimate trend rate	2020
*Includes inflation at	3.00%

CITY OF SOUTHPORT, NORTH CAROLINA
CITY OF SOUTHPORT'S PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET)
REQUIRED SUPPLEMENTARY INFORMATION
LAST TWO FISCAL YEARS

Exhibit A-5

LOCAL GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

	<u>2015</u>	<u>2014</u>
City of Southport's proportion of the net pension liability (asset) (%)	0.02832%	0.02880%
City of Southport's proportion of the net pension liability (asset) (\$)	(167,016)	347,151
City of Southport's covered payroll	1,773,533	1,752,169
City of Southport's proportionate share of the net pension liability (asset) as a percentage of it's covered -employee payroll	(9.42%)	19.81%
Plan fiduciary net position as a percentage of the total pension liability	102.64%	94.35%

**CITY OF SOUTHPORT, NORTH CAROLINA
CITY OF SOUTHPORT'S CONTRIBUTIONS
REQUIRED SUPPLEMENTARY INFORMATION
LAST TWO FISCAL YEARS**

Exhibit A-6

LOCAL GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

	<u>2015</u>	<u>2014</u>
Contractually required contribution	133,568	126,372
Contributions in relation to the contractually required contribution	<u>133,568</u>	<u>126,372</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>
City of Southport's covered-employee payroll	1,863,345	1,773,533
Contributions as percentage of covered- employee payroll	7.17%	7.13%

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
- Safe Routes To School Sidewalks 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, 2015**

**EXHIBIT B-1
Page 1 of 10**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues			
Ad valorem taxes			
Current year	1,685,028	1,690,105	5,077
Prior years	60,000	76,459	16,459
Motor vehicle taxes	57,700	68,262	10,562
Penalties and interest	14,400	15,303	903
Total	<u>1,817,128</u>	<u>1,850,129</u>	<u>33,001</u>
Other taxes			
Dog tags	1,200	1,090	(110)
Privilege licenses	18,000	19,696	1,696
Itinerant Peddler Permit	-	50	50
Accommodation tax	78,000	80,283	2,283
Total	<u>97,200</u>	<u>101,119</u>	<u>3,919</u>
Unrestricted intergovernmental revenues			
Local option sales tax	689,900	729,575	39,675
Beer and wine tax	13,200	14,594	1,394
ABC Profit distribution	250,000	225,077	(24,923)
Utility franchise tax	333,500	366,929	33,429
Total	<u>1,286,600</u>	<u>1,336,175</u>	<u>49,575</u>
Restricted intergovernmental revenues			
State street-aid allocation	100,000	108,045	8,045
On-behalf of payments - fire and rescue	-	1,000	1,000
Solid waste disposal tax	1,600	1,974	374
ABC Revenue for law enforcement	10,000	8,798	(1,202)
Fire - Misc. grants	10,000	10,000	-
Volunteer rescue EMS grant	7,500	-	(7,500)
Brunswick County rescue contributions	36,000	36,000	-
Police grants	17,300	13,588	(3,712)
Fire district fees	682,000	663,886	(18,114)
Total	<u>864,400</u>	<u>843,291</u>	<u>(21,109)</u>
Licenses and permits			
Building permits	160,300	163,821	3,521
Planning and zoning fees	6,000	3,775	(2,225)
Total	<u>166,300</u>	<u>167,596</u>	<u>1,296</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, 2015**

**EXHIBIT B-1
Page 2 of 10**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Sales and services			
Cemetery lot sales	-	820	820
Refuse collection fees	210,200	201,532	(8,668)
Boat slip rentals	20,000	13,200	(6,800)
Rescue squad fees	181,900	140,964	(40,936)
Community building rent	90,000	93,238	3,238
Community building annex rentals	15,000	-	(15,000)
Lease revenue	88,500	78,543	(9,957)
CAM Revenues	-	7,844	7,844
Tourism - Visitor Center sales	49,400	55,188	5,788
Lot cleaning reimbursements	300	-	(300)
Recreation fees	29,212	22,305	(6,907)
Duke Energy Progress	30,000	30,000	-
Total	<u>714,512</u>	<u>643,634</u>	<u>(70,878)</u>
Investment earnings			
Interest income	3,000	1,603	(1,397)
Miscellaneous			
Insurance reimbursement	8,500	8,310	(190)
Donations - Firemen's fund	-	6,707	6,707
Donations - Recreation department	19,000	5,250	(13,750)
Donations - Beautification	30,000	29,931	(69)
Fire Department Response fees	10,000	5,596	(4,404)
Homeowners recovery fund	600	303	(297)
Miscellaneous - Police department	-	5,121	5,121
Miscellaneous - Fire department	400	9,670	9,270
Miscellaneous - Rescue squad	-	975	975
Miscellaneous - Tourism	11,000	4,216	(6,784)
Special events - Tourism	14,795	-	(14,795)
Sales - fixed assets	8,300	6,761	(1,539)
Miscellaneous	-	17,644	17,644
Total	<u>102,595</u>	<u>100,484</u>	<u>(2,111)</u>
Total revenues	<u>5,051,735</u>	<u>5,044,031</u>	<u>(7,704)</u>
Expenditures			
General government			
Board expense			
Full-Time employees	46,675	47,567	
Social security	3,571	3,640	
Group insurance	300	251	
Unemployment expense	300	92	
Workers compensation	200	109	
Other personnel costs	16,800	16,800	
Professional fees	32,000	32,851	
Departmental supplies	18,500	22,768	

**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, 2015**

**EXHIBIT B-1
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	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Training and travel	9,500	5,446	
Utilities	6,600	5,576	
Miscellaneous	51,687	-	
Other services	8,550	12,550	
Contract Services	5,904	4,162	
Insurance and bonds	3,100	2,779	-
Total	<u>203,687</u>	<u>154,591</u>	<u>49,096</u>
Administration			
Full-time employees	66,311	66,340	
Part-time employees	-	(410)	
401(k) Retirement supplement	3,283	3,285	
Social security	5,476	5,530	
Group insurance	36,346	36,346	
Retirement	4,700	4,642	
Unemployment expense	300	510	
Workers compensation	700	582	
Other personnel costs	2,400	2,126	
Vehicle supplies	1,105	1,177	
Departmental supplies	7,200	12,959	
Training and travel	4,203	3,290	
Communications	10,200	9,551	
Mileage allowance	-	200	
Utilities	11,000	6,302	
Advertising	4,640	5,393	
Other services	8,300	7,880	
Contract services	11,600	11,714	
Insurance and bonding	11,392	11,392	
Capital outlay - equipment	11,246	-	-
Total	<u>200,402</u>	<u>188,809</u>	<u>11,593</u>
Finance			
Full-time employees	65,512	63,779	
401(k) Retirement supplement	3,400	3,168	
Social security	5,200	4,931	
Group insurance	24,978	24,978	
Retirement	4,800	4,477	
Unemployment expense	400	7,754	
Workers compensation	884	884	
Departmental supplies	17,000	16,964	
Training and travel	3,700	1,424	
Communications	18,696	9,792	
Utilities	12,000	3,500	
Other services	-	179	

**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, 2015**

**EXHIBIT B-1
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	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Contract services	37,234	39,021	
Property tax collection fees	-	16,910	
Insurance and bonding	<u>3,300</u>	<u>2,144</u>	-
Total	<u>197,104</u>	<u>199,905</u>	<u>(2,801)</u>
Buildings and Grounds			
Full-time employees	193,772	192,414	
401(k) Retirement supplement	9,492	9,424	
Social security	15,016	14,933	
Group insurance	70,205	70,205	
Retirement	13,400	13,318	
Workers compensation	1,730	1,730	
Uniforms and protective gear	6,000	6,031	
Vehicle supplies	6,689	7,094	
Departmental supplies	14,551	14,850	
Training and travel	633	633	
Communications	1,545	1,255	
Repairs and maintenance - equipment	4,000	4,004	
Repairs and maintenance - vehicles	800	911	
Repairs and maintenance - facilities	79,322	71,224	
Other services	8,000	7,973	
Contract services	2,160	2,310	
Insurance and bonding	1,154	1,154	
Capital outlay - buildings	<u>50,972</u>	<u>35,700</u>	-
Total	<u>479,441</u>	<u>455,163</u>	<u>24,278</u>
Tourism			
Full-time employees	79,096	76,718	
401(k) Retirement supplement	3,827	3,840	
Social security	5,952	5,840	
Group insurance	19,478	21,249	
Retirement	5,412	5,367	
Unemployment expense	-	155	
Workers compensation	933	933	
Departmental supplies	25,996	25,612	
Purchased for resale	33,620	33,300	
Tourism community events	9,717	9,717	
Training and travel	1,471	1,471	
Communications	2,146	2,203	
Utilities	12,339	10,062	
Repairs and maintenance - facilities	5,561	5,566	
Contract services	1,103	1,193	
Insurance and bonding	<u>3,611</u>	<u>3,611</u>	-
Total	<u>210,262</u>	<u>206,837</u>	<u>3,425</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, 2015**

**EXHIBIT B-1
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	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Community Building			
Full-time employees	31,682	31,439	
Part-time employees	28,479	17,387	
401(k) Retirement supplement	1,563	1,551	
Social security	3,784	3,747	
Group insurance	3,771	1,558	
Retirement	2,212	2,193	
Unemployment expense	-	1,055	
Workers compensation	1,600	1,394	
Departmental supplies	9,200	6,022	
Communications	3,902	3,959	
Utilities	19,933	16,475	
Repairs and maintenance - facilities	10,022	10,022	
Contract services	1,488	1,488	
Insurance and bonding	5,000	5,000	
Capital outlay - buildings	9,500	6,368	-
Total	132,136	109,658	22,478
1029 North Howe Street			
Repairs and maintenance - facilities	11,107	10,912	
Contract services	6,414	175,616	
Insurance and bonding	4,630	4,630	
Capital outlay - other	122,461	-	
Capital outlay - facilities	1,306,466	264,121	-
Total	1,451,078	455,279	995,799
City Garage			
Full-time employees	88,031	87,344	
401 (k) retirement supplement	4,318	4,284	
Social security	7,026	6,890	
Group insurance	30,955	30,955	
Retirement	6,106	6,054	
Unemployment expense	-	493	
Workers compensation	3,080	3,080	
Uniforms and protective gear	4,029	4,029	
Vehicle supplies	1,400	1,034	
Departmental supplies	6,954	6,466	
Training and travel	221	221	
Communications	1,663	1,362	
Utilities	23,429	20,223	
Repairs and maintenance - equipment	500	283	
Repairs and maintenance - vehicles	500	141	
Contracted services	2,200	1,728	
Insurance and bonding	3,420	3,196	

**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, 2015**

**EXHIBIT B-1
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	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Capital outlay - buildings	1,290	-	-
Total	<u>185,122</u>	<u>177,783</u>	<u>7,339</u>
 Total general government	 <u>3,059,232</u>	 <u>1,948,025</u>	 <u>1,111,207</u>
Public Safety			
Police			
Full-time employees	493,293	492,703	
Separation allowance	4,947	4,700	
Part-time employees	28,817	28,460	
401 (k) retirement supplement	24,435	24,396	
Social security	40,976	40,690	
Group insurance	154,110	154,110	
Retirement	36,078	36,092	
Unemployment expense	-	1,038	
Workers compensation	15,662	15,662	
Vehicle supplies	31,203	33,784	
Departmental supplies	12,955	12,948	
Uniforms and protective gear	11,131	10,719	
Training and travel	6,495	6,467	
Communications	19,151	19,151	
Utilities	13,940	11,912	
Repairs and maintenance - equipment	3,142	3,305	
Repairs and maintenance - vehicles	14,342	14,374	
Other services	171	171	
Contract services	9,133	9,463	
Insurance and bonding	13,729	13,729	
Capital outlay	46,994	46,994	-
Total	<u>980,704</u>	<u>980,868</u>	<u>(164)</u>
 Fire Department			
Part-time employees	2,580	2,877	
Volunteer fees	104,620	104,570	
Volunteer incentives	14,175	13,584	
Social security	11,066	11,084	
Firefighter retirement	4,710	4,710	
Payments to retirees	23,270	23,851	
Unemployment expense	-	240	
Workers compensation	5,353	5,353	
Other personnel costs	323	1,323	
Vehicle supplies	6,714	7,361	
Departmental supplies	32,963	73,069	
Uniforms and protective gear	16,495	16,495	
Inspections	13,213	13,213	

**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, 2015**

**EXHIBIT B-1
Page 7 of 10**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Fire prevention	11,192	11,192	
Training and travel	13,962	13,412	
Communications	10,252	10,328	
Utilities	35,448	30,165	
Repairs and maintenance - equipment	9,408	9,473	
Repairs and maintenance - vehicles	21,681	48,909	
Repairs and maintenance - facilities	2,590	3,279	
Contract services	30,518	31,145	
Southport firemen's expenses	-	7,619	
Insurance and bonding	31,410	31,410	
Capital outlay	116,161	46,827	-
Total	518,104	521,489	(3,385)
 Rescue Squad			
Part-time employees	2,000	2,030	
Fees paid to volunteers	96,502	89,163	
Social security	7,000	6,958	
Unemployment expense	-	180	
Workers compensation	5,400	5,137	
Uniforms and protective gear	3,000	2,561	
Vehicle supplies	6,241	6,636	
Departmental supplies	18,196	17,011	
Training and travel	900	900	
Communications	2,600	2,109	
Utilities	8,360	7,034	
Repairs and maintenance - equipment	1,000	877	
Repairs and maintenance - vehicles	2,000	1,297	
Repairs and maintenance - facilities	894	926	
Contract services	14,106	14,709	
Insurance and bonding	5,701	5,701	-
Total	173,900	163,229	10,671
 Code Enforcement			
Full-time employees	169,012	167,810	
Part-time employees	13,288	13,288	
401 (k) retirement supplement	8,316	8,248	
Social security	13,967	13,875	
Group insurance	32,698	32,698	
Retirement	11,747	11,656	
Unemployment payments	-	357	
Workers compensation	1,992	1,992	
Professional fees	100	100	
Vehicle supplies	3,097	3,357	
Departmental supplies	5,459	6,839	
Training and travel	3,000	2,856	
Communications	4,280	3,291	

**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, 2015**

**EXHIBIT B-1
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	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Utilities	4,082	1,892	
Repairs and maintenance - vehicles	2,919	2,919	
Other services	6,038	6,038	
Contract services	6,708	7,494	
Insurance and bonding	1,999	1,999	
Capital outlay - equipment	2,600	-	
Capital outlay - vehicles	24,800	23,330	-
Total	<u>316,102</u>	<u>310,039</u>	<u>6,063</u>
Total public safety	<u>1,988,810</u>	<u>1,975,625</u>	<u>13,185</u>
Transportation			
Street			
Full-time employees	91,030	90,451	
401 (k) retirement supplement	4,266	4,236	
Social security	7,352	7,308	
Group insurance	31,750	31,750	
Retirement	6,033	5,987	
Unemployment expense	-	178	
Workers compensation	10,707	10,878	
Uniforms and protective gear	3,006	2,806	
Vehicle supplies	11,806	12,283	
Departmental supplies	3,120	3,876	
Communications	731	731	
Utilities	33,639	26,525	
Repairs and maintenance - equipment	1,310	1,439	
Repairs and maintenance - vehicles	1,475	1,459	
Insurance and bonding	2,089	2,089	
Capital outlay - equipment	7,819	7,819	
Capital outlay - other	13,468	13,468	-
Total	<u>229,601</u>	<u>223,283</u>	<u>6,318</u>
Powell Bill			
Departmental supplies	16,760	17,994	
Street resurfacing	2,000	2,000	
Contract services	-	2,475	
Capital outlay - other	81,240	15,130	-
Total	<u>100,000</u>	<u>37,599</u>	<u>62,401</u>
Total transportation	<u>329,601</u>	<u>260,882</u>	<u>68,719</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, 2015**

**EXHIBIT B-1
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	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Environmental Protection			
Solid Waste			
Contract services	221,600	217,468	-
Total	<u>221,600</u>	<u>217,468</u>	<u>4,132</u>
Total environmental protection	<u>221,600</u>	<u>217,468</u>	<u>4,132</u>
Cultural and Recreational			
Parks and recreation			
Full-time employees	89,770	89,181	
Part-time employees	66,981	65,739	
401 (k) retirement supplement	4,416	4,387	
Social security	12,128	11,989	
Group insurance	24,344	24,344	
Retirement	6,243	6,199	
Unemployment expense	-	2,665	
Workers compensation	6,330	6,330	
Professional fees	470	4,150	
Uniforms and protective gear	537	537	
Vehicle supplies	3,101	3,158	
Departmental supplies	40,682	38,764	
Training and tavel	819	819	
Communications	7,561	6,726	
Utilities	45,184	38,904	
Repairs and maintenance - vehicles	1,441	1,598	
Repairs and maintenance - facilities	16,907	17,092	
Contract services	14,100	14,160	
Insurance and bonding	9,500	9,500	
Capital outlay	<u>40,060</u>	<u>40,060</u>	<u>-</u>
Total cultural and recreational	<u>390,574</u>	<u>386,302</u>	<u>4,272</u>
Debt service			
Principal	322,919	322,758	
Interest and fees	<u>143,000</u>	<u>142,969</u>	<u>-</u>
Total debt service	<u>465,919</u>	<u>465,727</u>	<u>192</u>
Contingency	<u>17,199</u>	<u>-</u>	<u>17,199</u>
Total expenditures	<u>6,472,935</u>	<u>5,254,029</u>	<u>1,218,906</u>
Revenues over (under) expenditures	<u>(1,421,200)</u>	<u>(209,998)</u>	<u>1,211,202</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, 2015**

**EXHIBIT B-1
Page 10 of 10**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Other financing sources (uses)			
Proceeds of capital leases	1,280,000	-	(1,280,000)
Transfers from other funds			
Transfer from Capital Reserve Fund	56,000	-	(56,000)
Transfer from Fire Station Capital Project Fund	-	151,739	151,739
Transfer from Electric Fund	6,500	0	(6,500)
Transfer from Water and Sewer Fund	24,000	121,134	97,134
Transfers to other funds			
Transfer to Safe Routes to School Sidewalk Project	<u>-</u>	<u>(13,416)</u>	<u>(13,416)</u>
Total other financing sources (uses)	1,366,500	259,457	(1,107,043)
Appropriated fund balance	<u>54,700</u>	<u>-</u>	<u>(54,700)</u>
Net change in fund balance	<u>-</u>	49,459	<u>49,459</u>
Fund Balance			
Beginning of year		<u>1,777,913</u>	
End of year		<u>1,827,372</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, 2015

EXHIBIT B-2

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues			
Investment earnings			
Interest income	-	165	165
	<hr/>	<hr/>	<hr/>
Total revenues	-	165	165
	<hr/>	<hr/>	<hr/>
Revenues over (under) expenditures	-	165	165
	<hr/>	<hr/>	<hr/>
Net change in fund balance	-	165	165
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Fund Balance			
Beginning of year		164,000	
		<hr/>	
End of year		164,165	
		<hr/>	

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, 2015

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	-	246	-	246	246
Miscellaneous					
Lease termination proceeds	36,800	36,819	-	36,819	19
Total revenues	<u>36,800</u>	<u>37,065</u>	<u>-</u>	<u>37,065</u>	<u>265</u>
Expenditures					
Professional fees	-	15,252	-	15,252	(15,252)
Building costs	1,970,000	1,907,743	39,779	1,947,522	22,478
Capital Outlay	-	6,697	-	6,697	(6,697)
Total expenditures	<u>1,970,000</u>	<u>1,929,692</u>	<u>39,779</u>	<u>1,969,471</u>	<u>529</u>
Excess of (under) revenues over expenditures	<u>(1,933,200)</u>	<u>(1,892,627)</u>	<u>(39,779)</u>	<u>(1,932,406)</u>	<u>794</u>
Other financing sources (uses)					
Transfers from other funds	<u>1,933,200</u>	<u>1,933,200</u>	<u>-</u>	<u>1,933,200</u>	<u>-</u>
Excess of revenues and other sources over expenditures	<u>-</u>	<u>40,573</u>	<u>(39,779)</u>	<u>794</u>	<u>794</u>
Fund balance					
Beginning of year			<u>40,573</u>		
End of year			<u>794</u>		

City of Southport, North Carolina
 Combining Balance Sheet
 Non-Major Governmental Funds
 June 30, 2015

EXHIBIT B-4

	<u>Fire Station Capital Project</u>	<u>Building Capital Improvement Fund</u>	<u>Safe Routes to School Sidewalks Fund</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents		13,954	-	13,954
Receivable from other governments	-	1,625	-	1,625
Total assets	<u>-</u>	<u>15,579</u>	<u>-</u>	<u>15,579</u>
LIABILITIES				
Liabilities:				
Accounts payable	-	14,785	-	14,785
Total liabilities	<u>-</u>	<u>14,785</u>	<u>-</u>	<u>14,785</u>
FUND BALANCES				
Committed for:				
Capital outlay		794	-	794
Total fund balances	<u>-</u>	<u>794</u>	<u>-</u>	<u>794</u>
Total liabilities, deferred inflows of resources and fund balances	<u>-</u>	<u>15,579</u>	<u>-</u>	<u>15,579</u>

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, 2015

EXHIBIT B-5

	<u>Fire Station Capital Project</u>	<u>Building Capital Improvement Fund</u>	<u>Safe Routes to School Sidewalks Fund</u>	<u>Total-Other Governmental Funds</u>
REVENUES				
Restricted intergovernmental	-	-	86,638	86,638
Investment earnings	87	-	-	87
Total revenues	<u>87</u>	<u>-</u>	<u>86,638</u>	<u>86,725</u>
EXPENDITURES				
Current:				
General government	-	39,779	-	39,779
Public Safety	12,075	-	-	12,075
Streets	-	-	100,054	100,054
Total Expenditures	<u>12,075</u>	<u>39,779</u>	<u>100,054</u>	<u>151,908</u>
Excess (deficiency) of revenues over expenditures	<u>(11,988)</u>	<u>(39,779)</u>	<u>(13,416)</u>	<u>(65,183)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	13,416	13,416
Transfers out	<u>(151,739)</u>	<u>-</u>	<u>-</u>	<u>(151,739)</u>
Total other financing sources and uses	<u>(151,739)</u>	<u>-</u>	<u>13,416</u>	<u>(138,323)</u>
Net change in fund balances	(163,727)	(39,779)	-	(203,506)
Fund balances - beginning	<u>163,727</u>	<u>40,573</u>	<u>-</u>	<u>204,300</u>
Fund balances - ending	<u>-</u>	<u>794</u>	<u>-</u>	<u>794</u>

CITY OF SOUTHPORT, NORTH CAROLINA
 FIRE STATION CAPITAL PROJECT
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
 IN FUND BALANCE - BUDGET AND ACTUAL
 For the Year Ended June 30, 2015

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	4,826	4,826	87	4,913	87
Miscellaneous					
Miscellaneous receipts	43,314	43,314	-	43,314	-
Total revenues	48,140	48,140	87	48,227	87
Expenditures					
Professional Services - Design	94,666	94,666	-	94,666	-
Construction	3,420,270	3,420,270	-	3,420,270	-
Furnishings and telephone system	165,551	153,477	12,075	165,552	(1)
Contingency	41,653	-	-	-	41,653
Total expenditures	3,722,140	3,668,413	12,075	3,680,488	41,652
Excess of (under) revenues over expenditures	(3,674,000)	(3,620,273)	(11,988)	(3,632,261)	41,739
Other financing sources (uses)					
Financing proceeds	3,784,000	3,784,000	-	3,784,000	-
Transfer to other funds	(163,727)	-	(151,739)	(151,739)	11,988
Other financing sources exceed other financing uses	3,620,273	3,784,000	(151,739)	3,632,261	11,988
Fund balance appropriated	53,727	-	-	-	(53,727)
Excess of revenues and other sources over expenditures	-	163,727	(163,727)	-	-
Fund balance					
Beginning of year			163,727		
End of year			-		

CITY OF SOUTHPORT, NORTH CAROLINA
SAFE ROUTES TO SCHOOL SIDEWALKS PROJECT FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended June 30, 2015

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	<u>125,000</u>	<u>34,720</u>	<u>86,638</u>	<u>121,358</u>	<u>(3,642)</u>
Total revenues	<u>125,000</u>	<u>34,720</u>	<u>86,638</u>	<u>121,358</u>	<u>(3,642)</u>
Expenditures					
Transportation					
Sidewalk design and construction	<u>125,000</u>	<u>34,720</u>	<u>100,054</u>	<u>134,774</u>	<u>(9,774)</u>
Total expenditures	<u>125,000</u>	<u>34,720</u>	<u>100,054</u>	<u>134,774</u>	<u>(9,774)</u>
Excess of (under) revenues over expenditures	<u>-</u>	<u>-</u>	<u>(13,416)</u>	<u>(13,416)</u>	<u>(13,416)</u>
Other financing sources (uses)					
Transfers from other funds	<u>-</u>	<u>-</u>	<u>13,416</u>	<u>13,416</u>	<u>(13,416)</u>
Excess of revenues and other sources over expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance					
Beginning of year			<u>-</u>		
End of year			<u>-</u>		

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, 2015**

**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	7,527,700	7,434,903	(92,797)
Underground service	130,000	170,399	40,399
Load management switches	3,800	4,530	730
Service charges	90,000	100,537	10,537
Total charges for services	7,751,500	7,710,369	(41,131)
Other operating revenues			
Miscellaneous	-	1,899	1,899
Total operating revenues	7,751,500	7,712,268	(39,232)
Nonoperating revenues			
Interest on investments	5,000	3,411	(1,589)
Total nonoperating revenues	5,000	3,411	(1,589)
Total revenues	7,756,500	7,715,679	(40,821)
Expenditures			
Expenditures other than depreciation			
Salaries	222,408	220,503	
Professional services	16,800	16,433	
Social security	16,946	16,799	
Group insurance	93,380	70,201	
Retirement	15,570	15,394	
401 (k) retirement supplement	10,991	10,891	
Unemployment expense	1,100	436	
Workers compensation insurance	1,200	966	
Uniforms and protective gear	1,065	1,064	
Telephone and postage	15,324	14,324	
Travel and training	4,200	2,501	

**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, 2015**

**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	2,500	2,106	
Vehicle maintenance	1,000	274	
Gas, oil and tires	1,600	748	
Departmental supplies	23,000	23,573	
Utility sales tax	492,500	507,385	
Power purchased	5,725,600	5,578,523	
Contract services	461,800	462,884	
Insurance and bonding	4,900	3,894	
Load management repairs	24,157	30,038	
Discretionary	39,505	-	-
Total expenditures other than depreciation	<u>7,175,546</u>	<u>6,978,937</u>	<u>196,609</u>
Supplemental budget expenditures			
Capital outlay	554,454	481,221	-
Total supplemental expenditures	<u>554,454</u>	<u>481,221</u>	<u>73,233</u>
Total expenditures	<u>7,730,000</u>	<u>7,460,158</u>	<u>269,842</u>
Excess of revenues over (under) expenditures	<u>26,500</u>	<u>255,521</u>	<u>229,021</u>
Other financing sources (uses)			
Transfers to other funds			
Capital Reserve Fund	(26,500)	-	26,500
Other financing sources over (under) uses	<u>(26,500)</u>	<u>-</u>	<u>26,500</u>
Revenues and other sources over expenditures and other uses	<u>-</u>	<u>255,521</u>	<u>255,521</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, 2015

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		255,521	
Depreciation		(244,650)	
Total supplemental budget expenditures		481,221	
(Increase) decrease in unfunded OPEB liability		(20,899)	
Deferred outflows of resources for contributions made to pension plan in current year		15,394	
Pension expense		(1,452)	
(Increase) decrease in accrued vacation		<u>1,627</u>	
Change in net position		<u><u>486,762</u></u>	

-

**CITY OF SOUTHPORT, NORTH CAROLINA
WATER AND SEWER FUND
SCHEDULE OF REVENUES, EXPENSES, AND
SUPPLEMENTAL BUDGET EXPENDITURES - BUDGET AND ACTUAL (NON-GAAP)
For the Year Ended June 30, 2015**

**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	2,677,000	2,742,849	65,849
Water and sewer tap fees	20,000	21,000	1,000
Total charges for services	2,697,000	2,763,849	66,849
Other operating revenues			
Miscellaneous	11,900	5,400	(6,500)
Total operating revenues	2,708,900	2,769,249	60,349
Nonoperating revenues			
Interest on investments	1,000	2,966	1,966
Impact fees	125,000	467,478	342,478
Total nonoperating revenues	126,000	470,444	344,444
Total revenues	2,834,900	3,239,693	404,793
Expenditures			
Expenditures other than depreciation			
Salaries	353,373	317,982	
Professional fees	36,800	30,642	
Social security	26,993	25,206	
Group insurance	147,739	111,571	
Retirement	25,062	22,190	
401 (k) retirement supplement	17,629	15,702	
Unemployment expense	1,700	637	
Workers compensation insurance	5,934	6,105	
Uniforms and protective gear	5,000	4,958	
Telephone and postage	29,075	28,869	
Utilities	47,143	40,720	
Travel and training	5,400	4,474	
System maintenance	81,806	83,000	

**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, 2015**

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

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Expenditures			
Expenditures other than depreciation			
Equipment repair	6,900	7,826	
Building repair	-	-	
Vehicle repair	2,500	1,826	
Garage expense	-	-	
Gas, oil and tires	12,835	13,541	
Water and sewer supplies	122,635	136,830	
Annual permits and fees	3,630	3,630	
Water purchases	491,000	472,312	
Sewer capital charge	387,300	445,833	
Contract services	429,300	464,829	
Insurance and bonding	6,877	6,876	-
Contingency	23,344	-	-
	2,269,975	2,245,559	24,416
Total expenditures other than depreciation			
Supplemental budget expenditures			
Capital outlay	339,230	287,244	51,986
Long-term debt payments	191,695	103,401	88,294
Interest expense	20,000	18,068	1,932
	550,925	408,713	142,212
Total supplemental expenditures			
Total expenditures	2,820,900	2,654,272	166,628
Revenues over (under) expenditures	14,000	585,421	571,421
Other financing sources (uses)			
Fund balance appropriated	30,000	-	(30,000)
Transfer to other funds			
Transfer to Capital Reserve Fund	(44,000)	-	44,000
	(14,000)	-	14,000
Other financing sources over (under) uses			
Revenues and other sources over (under) expenditures and other uses	-	585,421	585,421

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, 2015

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		585,421	
Principal retirement		103,401	
Capital outlay		287,244	
Depreciation		(375,377)	
(Increase) decrease in accrued vacation pay		(1,049)	
(Increase) decrease in interest payable		251	
Deferred outflows of resources for contributions made to pension plan in current fiscal year		22,190	
Pension expense		(2,898)	
(Increase) decrease in OPEB liability		(27,324)	
System contributed by developers		1,962,294	
Transfer recorded in capital projects		<u>(121,134)</u>	
Change in net position of Water and Sewer Fund		<u>2,433,019</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, 2015

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>2,606,197</u>	<u>(393,803)</u>
Total restricted intergovernmental	<u>3,000,000</u>	<u>3,308,544</u>	-	<u>3,308,544</u>	<u>308,544</u>
Investment earnings					
Interest earned	-	<u>8,216</u>	-	<u>8,216</u>	<u>8,216</u>
Total revenues	<u>3,000,000</u>	<u>3,316,760</u>	-	<u>3,316,760</u>	<u>316,760</u>
Expenditures					
Professional services	959,945	788,589	-	788,589	171,356
Legal and administrative fees	56,985	276	-	276	56,709
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>19,566</u>	-	-	-	<u>19,566</u>
Total expenditures	<u>4,283,561</u>	<u>3,897,974</u>	-	<u>3,897,974</u>	<u>385,587</u>
Excess of (under) revenues over expenditures	<u>(1,283,561)</u>	<u>(581,214)</u>	-	<u>(581,214)</u>	<u>702,347</u>
Other financing sources (uses)					
Financing proceeds					
Federal Revolving Loan (ARRA)	1,404,695	702,348	-	702,348	(702,347)
Transfer to General Fund	<u>(121,134)</u>	-	<u>(121,134)</u>	<u>(121,134)</u>	-
Other financing sources over (under) uses	<u>1,283,561</u>	<u>702,348</u>	<u>(121,134)</u>	<u>581,214</u>	<u>(702,347)</u>
Excess of revenues and other sources over expenditures	<u>-</u>	<u>121,134</u>	<u>(121,134)</u>	<u>-</u>	<u>-</u>
Fund balance					
Beginning of year			<u>121,134</u>		
End of year			<u>-</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
SCHEDULE OF AD VALOREM TAXES RECEIVABLE
June 30, 2015

EXHIBIT D-1

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2014.</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2015</u>
2014 - 2015		1,822,906	1,758,367	64,539
2013 - 2014	79,175		38,811	40,365
2012 - 2013	48,851		17,529	31,322
2011 - 2012	34,575		10,516	24,059
2010 - 2011	35,133		5,111	30,022
2009 - 2010	16,935		2,350	14,585
2008 - 2009	7,689		1,414	6,275
2007 - 2008	4,359		522	3,837
2006 - 2007	2,878		495	2,383
2005 - 2006	2,633		503	2,130
2005 - 2005	<u>2,764</u>	<u>-</u>	<u>2,764</u>	<u>-</u>
Total	<u>234,992</u>	<u>1,822,906</u>	<u>1,838,382</u>	219,517
Less allowance for uncollectible taxes receivable				<u>32,928</u>
Ad Valorem taxes receivable - net				<u>186,589</u>
Reconcilement with revenues				
Taxes - ad valorem - General Fund				1,850,129
Amounts written off for tax year				
2004 - 2005 per statute of limitations				2,253
Taxes collected beyond ten year statute of limitations				(1,375)
Releases and adjustments				<u>2,678</u>
Subtotal				1,853,685
Less: Interest collected				<u>15,303</u>
Total collections and credits				<u>1,838,382</u>

**CITY OF SOUTHPORT
ANALYSIS OF CURRENT TAX LEVY
CITY-WIDE LEVY
June 30, 2015**

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	736,760,265	0.002456	1,809,483	1,741,170	68,313
Total	736,760,265		1,809,483	1,741,170	68,313
Discoveries					
Current year taxes	6,627,036	0.002456	16,276	16,276	-
Penalties			975	975	-
Abatements	(1,558,632)	0.002456	(3,828)	(3,828)	-
Total valuation	741,828,669				
Net levy			1,822,906	1,754,593	68,313
Uncollected taxes at June 30, 2015			64,539	64,488	51
Current year's taxes collected			1,758,367	1,690,105	68,262
Current levy collection percentage			96.46%	96.32%	99.93%

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, 2015, which collectively comprises the City of Southport's basic financial statements, and have issued our report thereon, dated February 8, 2016. 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: 15-1 and 15-2.

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: 15-3, 15-4 and 15-5.

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.

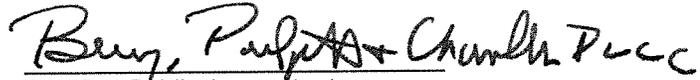
Compliance and Other Matters

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: 15-1, 15-2, 15-3, 15-4 and 15-5. We noted certain other matters that we reported to management of the City of Southport in a separate letter dated February 8, 2016.

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.

Purpose of the Report

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


Certified Public Accountants

Southport, North Carolina
February 8, 2016

**City of Southport, North Carolina
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2015**

**Exhibit E-1
Page 1 of 3**

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness identified? Xyes _no

- Significant Deficiencies identified that are not considered to be material weaknesses Xyes _no

- Noncompliance material to financial statements noted _yes Xno

II. Financial Statement Findings

MATERIAL WEAKNESS

Finding 15-1 Bank Accounts not Reconciled

Criteria: Internal Control Policies of the City require monthly reconciliation of bank accounts with the general ledger to ensure that transactions are accounted for through the bank and the City's general ledger..

Condition: All bank accounts were not reconciled every month.

Effect: Certain deposits and disbursements were not recorded timely and ultimately could cause reporting to be inaccurate and not timely.

Cause: Failure to follow and enforce City policy.

Recommendation: Reconcile bank accounts timely and present to the board and management with the monthly reports.

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

Finding 15-2 Subsidiary Ledgers not Reconciled to the General Ledger

Criteria: Internal Control Policies of the City require monthly reconciliation of subsidiary ledgers with the general ledger to ensure that transactions are accounted for through the subsidiary ledgers and the City's general ledger.

Condition: All subsidiary ledgers were not reconciled every month.

Effect: Certain transactions controlled by subsidiary ledgers were not recorded timely and could cause reporting to be inaccurate and not timely.

Cause: Failure to follow and enforce City policy.

**City of Southport, North Carolina
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2015**

**Exhibit E-1
Page 2 of 3**

Recommendation: Reconcile subsidiary ledgers to the general ledger.

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

SIGNIFICANT DEFICIENCIES

Finding 15-3 Annual Powell Bill Report

Criteria: NC General Statute 136.41.1 thru 136.41.2 requires an annual Powell Bill Expenditures report by August 1 each year.

Condition: The annual Powell Bill Expenditure Report was not provided to the Department of Transportation when due and could cause a delay in the receipt of future Powell Bill monies..

Effect: Violation statute statute in that timely reporting is required of expenditures.

Cause: New City personnel not aware of requirement.

Recommendation: That City personnel be made aware of the Powell Bill Requirements.

View of responsible officials: The City agrees with the finding..

Finding 15-4 LGC 203 Report of Deposits and Investments

Criteria: NC G. S.159-33 and G.S. 115C-446 requires December 31 and June 30 reports of cash and investments held by the local government or public authority thirty days after the reporting date.

Condition: The LGC 203,s were not provided to the Local Government Commission when due and could cause a delay in the receipt of future state shared revenues.

Effect: Violation statute statute in that timely reporting is required.

Cause: New City personnel not aware of requirement.

Recommendation: That City personnel be made aware of the Cash and Investments reporting requirements.

View of responsible officials: The City agrees with the finding.

**City of Southport, North Carolina
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2015**

**Exhibit E-1
Page 3 of 3**

Finding 15-5 Lack of Informal Bids on Renovation of new City Hall

Criteria: NC General Statute 143-131 requires informal bids for construction of repair work involving the expenditure of public money in the amount of \$30,000 or more, but less than the limits prescribed in G.S. 143-29.

Condition: Expenditures in the renovation of the new City Hall exceeded \$30,000 and no informal bids were obtained.

Effect: Violation of state statute in that expenditures exceeded the informal bid requirements.

Cause: Expenditures exceeded original estimates.

Recommendation: That informal bids be obtained when estimating cost for repairs or renovations are expected to approximate the level where bids are required.

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

**City of Southport, North Carolina
Corrective Action Plan
For the Year Ended June 30, 2015**

Exhibit E-2

I. Financial Statement Findings

Finding 15-1

Name of contact person: Melanie Trexler, Finance Officer

Corrective Action: Bank accounts will be reconciled timely and provided to the board and management

Proposed completion date: June 30, 2016

Finding 15-2

Name of contact person: Melanie Trexler

Corrective Action: Subsidiary ledgers will be reconciled to the general ledger timely and reported to the board and management.

Proposed completion date: June 30, 2016

Finding 15-3

Name of contact person: Melanie Trexler

Corrective Action: A calendar of required due dates for reports will be maintained to ensure timely filing of reports..

Proposed completion date: June 30, 2016

Finding 15-4

Name of contact person: Melanie Trexler

Corrective Action: See 15-3 above.

Proposed completion date: June 30, 2016

Finding 15-5

Name of contact person: Kerry McDuffie, City Manager

Corrective Action: The bid requirements prescribed by State Statues will be reviewed and discussed in planning of future projects.

Proposed completion date: June 30, 2016

**City Of Southport, North Carolina
Summary Schedule of Prior Year Findings
For the Year Ended June 30, 2015**

Exhibit E-3

Finding: 2014-1

Status: The condition has been corrected.

Finding: 2014-2

Status: The condition continues.

Finding: 2014-3

Status: The condition has been corrected.

Finding: 2014-4

Status: The condition has been corrected.