

CITY OF SOUTHPORT

Southport, North Carolina

AUDITED FINANCIAL STATEMENTS

June 30, 2012

BOARD OF ALDERMEN

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

ADMINISTRATIVE AND FINANCIAL STAFF

Patrick A. Thomas, City Manager
John A. Philyaw, Finance Director
Regina Alexander, City Clerk

CITY OF SOUTHPORT, NORTH CAROLINA
TABLE OF CONTENTS
June 30, 2012

EXHIBIT

Financial Section:

Independent Auditors' Report

Management's Discussion and Analysis

Basic Financial Statements:

Government-wide Financial Statements:

Statement of Net Assets 1

Statement of Activities 2

Fund Financial Statements:

Balance Sheet - Governmental Funds 3

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets 3

Statement of Revenues, Expenditures, and Changes In Fund Balances - Governmental Funds 4

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities 4

Statement of Revenues, Expenditures, and Changes In Fund Balances - Budget and Actual - General Fund 5

Statement of Fund Net Assets - Proprietary Funds 6

Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds 7

Statement of Cash Flows - Proprietary Funds 8

Notes to the Financial Statements 9

Required Supplemental Financial Data:

Law Enforcement Officers' Special Separation Allowance - Schedule of Funding Progress A-1

Law Enforcement Officers' Special Separation Allowance - Schedule of Employer Contributions A-2

Law Enforcement Officers' Special Separation Allowance - Notes to the Required Schedules A-2

CITY OF SOUTHPORT, NORTH CAROLINA
TABLE OF CONTENTS
June 30, 2012

	<u>EXHIBIT</u>
Other Postemployment Benefits – Schedule of Funding Progress	A-3
Other Postemployment Benefits – Schedule of Employer Contributions	A-4
Other Postemployment Benefits – Notes to the Required Schedules	A-4
 Individual Fund Statements and Schedules:	
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual	
General Fund	B-1
Fire Station Capital Project Fund	B-2
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual:	
Electric Fund	C-1
Water and Sewer Fund	C-2
Wastewater Enhancement Capital Project Phase II	C-3
 Other Schedules:	
Schedule of Ad Valorem Taxes Receivable	D-1
Analysis of Current Tax Levy - City-Wide Levy	D-2
 Compliance Section:	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	
Schedule of Findings and Questioned Costs	E-1
Corrective Action Plan	E-2
Summary Schedule of Prior Audit Findings	E-3

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Southport, North Carolina as of June 30, 2012, and for the year then ended, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the City of Southport, North Carolina. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As noted in Note IIA of the Notes to Financial Statements, the City does not have, and we were not able to obtain sufficient documentation to conclude the validity of certain expenditures.

In our opinion, based on our audit, except for the effects of the expenditures noted in the preceding paragraph on the financial statements, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Southport, North Carolina as of June 30, 2012, and the respective changes in financial position and the cash flows, where appropriate, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 17, 2012 on our consideration of the City of Southport's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and the Law Enforcement Officers' Special Separation Allowance's and the Other Postemployment Benefit's Schedules of Funding Progress and Employer Contributions on Exhibit A-1 through A-4, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the

basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We 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.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the City of Southport's basic financial statements. The 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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The individual fund statements, budgetary schedules and other schedules have 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. In our opinion, the individual fund financial statements, budgetary schedules, and other schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.


Certified Public Accountants

June 17, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS



City of Southport

Management's Discussion and Analysis

As management of the City of Southport, we offer readers of the City of Southport's financial statements this narrative overview and analysis of the financial activities of the City of Southport for the fiscal year ended June 30, 2012. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the City's financial statements, which follow this narrative.

Financial Highlights

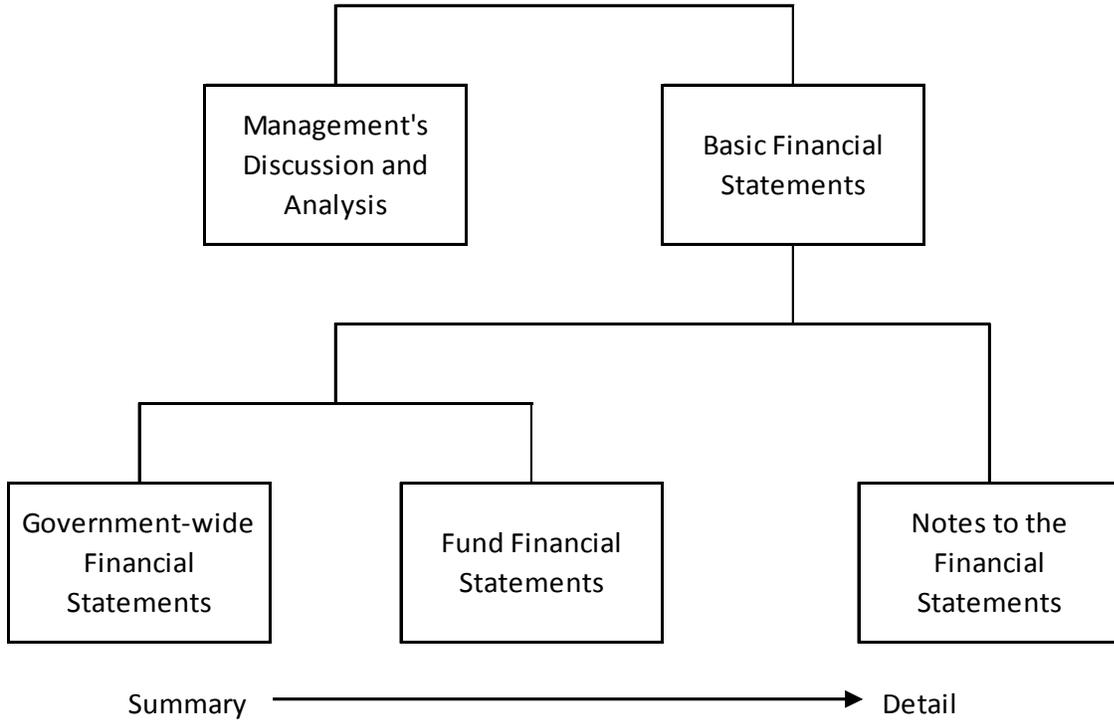
- The assets of the City of Southport exceeded its liabilities at the close of the fiscal year by \$33,831,242 (*net assets*).
- The government's total net assets decreased by \$48,586 as the result of an increase in business-type activities net assets by \$628,970 and a decrease in governmental activities net assets by \$677,556.
- As of the close of the current fiscal year, the City of Southport's governmental funds reported combined ending fund balances of \$2,910,113, a net decrease of \$972,671 from the prior year. Approximately 41.91% of this total amount, or \$1,219,766, is restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,598,819, or 31.35 % of total general fund expenditures for the fiscal year.
- The City of Southport's total debt decreased by \$358,917 (4.76%) during the prior fiscal year.

Overview of the Financial Statements

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

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

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

The next statements (Exhibits 3 through 9) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the City's government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; 3) the proprietary fund statements; and 4) the fiduciary fund statements.

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

Government-Wide Financial Statements

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

The two government-wide statements report the City's net assets and how they have changed. Net assets are the difference between the City's total assets and total liabilities. Measuring net assets is one way to gage the City's financial condition.

The government-wide statements are divided into three categories: 1) governmental activities; 2) business-type activities; and 3) component units. The governmental activities include most of the City's basic services such as public safety, parks and recreation, and general administration. Property taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the City charges customers to provide. These include the water and sewer and electric services offered by the City of Southport. The final category is the component unit. Although legally separate from the City, the ABC Board is important to the City. The City exercises control over the Board by appointing its members and because the Board is required to distribute its profits to the City.

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

Fund Financial Statements

The fund financial statements (see Figure 1) provide a more detailed look at the City's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Southport, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the City's budget ordinance. All of the funds of City of Southport can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

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

Management Discussion and Analysis City of Southport

The City of Southport adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the City, the management of the City, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the City to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the City complied with the budget ordinance and whether or not the City succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the board; 2) the final budget as amended by the board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges.

Proprietary Funds – The City of Southport has two different kinds of proprietary funds. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Southport uses enterprise funds to account for its water and sewer activity and for its electric operations. These funds are the same as those functions shown in the business-type activities in the Statement of Net Assets and the Statement of Activities.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are presented as Exhibit 9 in this report.

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

Management Discussion and Analysis
 City of Southport

Government-Wide Financial Analysis

THE CITY OF SOUTHPORT'S NET ASSETS
 FIGURE 2

	Government Activities		Business-Type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 3,297,536	\$ 4,079,138	\$ 7,119,856	\$ 6,646,505	\$10,417,392	\$10,725,643
Capital assets	<u>12,056,579</u>	<u>11,527,333</u>	<u>19,656,352</u>	<u>20,124,900</u>	<u>31,712,931</u>	<u>31,652,233</u>
Total assets	<u>15,354,115</u>	<u>15,606,471</u>	<u>26,776,208</u>	<u>26,771,405</u>	<u>42,130,323</u>	<u>42,377,876</u>
Long-term liabilities outstanding	4,112,189	4,287,176	1,789,816	3,248,645	5,902,005	7,535,821
Other liabilities	<u>655,263</u>	<u>55,076</u>	<u>1,741,813</u>	<u>907,151</u>	<u>2,397,076</u>	<u>962,227</u>
Total liabilities	<u>4,767,452</u>	<u>4,342,252</u>	<u>3,531,629</u>	<u>4,155,796</u>	<u>8,299,081</u>	<u>8,498,048</u>
Net assets:						
Invested in capital assets, net of related debt	8,426,426	8,070,932	17,487,391	17,187,221	25,913,817	25,258,153
Restricted	1,219,524	1,388,225	2,211,590	-	3,431,114	1,388,225
Unrestricted	<u>940,713</u>	<u>1,805,062</u>	<u>3,545,598</u>	<u>5,428,388</u>	<u>4,486,311</u>	<u>7,233,450</u>
Total net assets	<u>\$ 10,586,663</u>	<u>\$ 11,264,219</u>	<u>\$ 23,244,579</u>	<u>\$ 22,615,609</u>	<u>\$ 33,831,242</u>	<u>\$ 33,879,828</u>

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of the City of Southport exceeded liabilities by \$33,831,242 as of June 30, 2012. The City's net assets decreased by \$48,586 for the fiscal year ended June 30, 2012. However, the largest portion \$25,913,817 (76.60%) reflects the City's investment in capital assets (e.g. land, buildings, machinery, and equipment); less any related debt still outstanding that was issued to acquire those items. The City of Southport uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Southport's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the City of Southport's net assets, \$3,431,114 (10.14%), represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$4,486,311 (13.26%) is unrestricted.

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

Management Discussion and Analysis
City of Southport

THE CITY OF SOUTHPORT'S CHANGES IN NET ASSETS

FIGURE 3

	Government Activities		Business-Type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services	\$ 1,129,417	\$ 1,134,099	\$ 8,885,500	\$ 9,590,242	\$ 10,014,917	\$ 10,724,341
Operating grants and contributions	307,208	173,677	279,720	1,394	586,928	175,071
Capital grants and contributions	10,000	1,717,291	54,650	2,045,813	64,650	3,763,104
General Revenues:						
Property taxes	1,720,392	1,714,198	-	-	1,720,392	1,714,198
Other taxes	670,834	672,163	-	-	670,834	672,163
Grants and contributions not restricted to specific programs	518,206	564,894	-	-	518,206	564,894
Other	19,811	16,896	14,182	12,314	33,993	29,210
Total revenues	<u>4,375,868</u>	<u>5,993,218</u>	<u>9,234,052</u>	<u>11,649,763</u>	<u>13,609,920</u>	<u>17,642,981</u>
Expenses:						
General government	1,133,355	1,212,742	-	-	1,133,355	1,212,742
Public Safety	2,088,220	1,851,810	-	-	2,088,220	1,851,810
Highways/streets	395,147	351,761	-	-	395,147	351,761
Environmental Protection	532,930	119,833	-	-	532,930	119,833
Culture and recreation	186,812	390,589	-	-	186,812	390,589
Interest on long-term debt	154,960	165,494	-	-	154,960	165,494
Water and sewer	-	-	2,562,450	2,243,262	2,562,450	2,243,262
Electric	-	-	6,604,632	6,833,252	6,604,632	6,833,252
Total expenses	<u>4,491,424</u>	<u>4,092,229</u>	<u>9,167,082</u>	<u>9,076,514</u>	<u>13,658,506</u>	<u>13,168,743</u>
Increase (decrease) in net assets before transfers and extraordinary item	(115,556)	1,900,989	66,970	2,573,249	(48,586)	4,474,238
Transfers from (to) other funds	<u>(562,000)</u>	<u>-</u>	<u>562,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net assets before extraordinary item	(677,556)	1,900,989	628,970	2,573,249	(48,586)	4,474,238
Extraordinary item - loss on plant closing	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,061,470)</u>	<u>-</u>	<u>(1,061,470)</u>
Increase (decrease) in net assets	<u>(677,556)</u>	<u>1,900,989</u>	<u>628,970</u>	<u>1,511,779</u>	<u>(48,586)</u>	<u>3,412,768</u>

Management Discussion and Analysis
 City of Southport

THE CITY OF SOUTHPORT'S CHANGES IN NET ASSETS
 FIGURE 3 (Continued)

	Government Activities		Business-Type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Net assets, July 1 (before adjustment)	\$ 11,264,219	\$ 9,363,230	\$ 22,615,609	\$ 20,686,368	\$ 33,879,828	\$ 30,049,598
Prior period adjustment	-	-	-	417,462	-	417,462
Net assets July 1 (as restated)	<u>11,264,219</u>	<u>9,363,230</u>	<u>22,615,609</u>	<u>21,103,830</u>	<u>33,879,828</u>	<u>30,467,060</u>
Net assets, June 30	<u>\$ 10,586,663</u>	<u>\$ 11,264,219</u>	<u>\$ 23,244,579</u>	<u>\$ 22,615,609</u>	<u>\$ 33,831,242</u>	<u>\$ 33,879,828</u>

Governmental activities. Governmental activities decreased the City’s net assets by \$677,556. Key elements of this decrease are as follows:

- An anticipated need to appropriate the General Fund fund balance to balance the FY 2011-2012 budget, due to the decrease in property values, increase in fuel costs and capital equipment purchases
- The purchase of an aerial platform vehicle for use by the Fire Department
- Relocation of the Visitor Center on Moore Street to the Garrison House at Fort Johnston following renovations
- The replacement , net of insurance recovery, of a police cruiser demolished in a traffic accident
- The purchase of kitchen equipment for the Community Building

Business-type activities. Business-type activities increased the City of Southport’s net assets by \$628,970. Key elements of this increase are as follows:

- Transfer from General Fund
- A reduction of debt-service payments

Financial Analysis of the City’s Funds

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

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

The general fund is the chief operating fund of the City of Southport. At the end of the current fiscal year, the City of Southport’s fund balance available in the General Fund was \$1,968,004, while total fund balance declined to \$2,673,023. As a measure of the general fund’s liquidity, it may be useful to

Management Discussion and Analysis
City of Southport

compare both available fund balance and total fund balance to total fund expenditures. Available fund balance represents 41.87% of total General Fund expenditures, while total fund balance represents 56.87% of that same amount.

At June 30, 2012, the governmental funds of City of Southport reported a combined fund balance of \$2,910,113. This combination includes \$2,673,023 for the General Fund and \$237,090 for the Fire Station Capital Project Fund.

General Fund Budgetary Highlights. During the fiscal year, the City revised the budget on several occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services.

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

Proprietary Funds. The City of Southport's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net assets of the Water and Sewer Fund at the end of the fiscal year amounted to \$166,003, and those for the Electric Fund amounted to \$3,379,595. The total change in net assets for both funds was \$508,808 and \$120,162, respectively.

Capital Asset and Debt Administration

Capital Assets. The City of Southport's investment in capital assets for its governmental and business-type activities as of June 30, 2012, totals \$31,712,931 (net of accumulated depreciation). These assets include buildings, roads and bridges, land, utility systems, machinery and equipment, park facilities, and vehicles.

Management Discussion and Analysis
City of Southport

THE CITY OF SOUTHPORT'S CAPITAL ASSETS

FIGURE 4

	Government Activities		Business-Type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Land	\$ 1,878,373	\$ 1,878,373	\$ 2,762,465	\$ 2,762,465	\$ 4,640,838	\$ 4,640,838
Buildings and systems	7,334,505	7,299,812	54,388	54,388	7,388,893	7,354,200
Improvements other than buildings	887,458	870,528	-	-	887,458	870,528
Utility systems	-	-	23,312,392	23,106,024	23,312,392	23,106,024
Furniture and equipment	614,513	571,346	422,639	414,610	1,037,152	985,956
Infrastructure	2,352,272	2,352,272	-	-	2,352,272	2,352,272
Vehicles and motorized equipment	3,111,497	2,263,630	396,793	396,793	3,508,290	2,660,423
Total	16,178,618	15,235,961	26,948,677	26,734,280	43,127,295	41,970,241
Less accumulated depreciation	4,122,039	3,708,628	7,292,325	6,590,630	11,414,364	10,299,258
Net capital assets	<u>\$ 12,056,579</u>	<u>\$ 11,527,333</u>	<u>\$ 19,656,352</u>	<u>\$ 20,143,650</u>	<u>\$ 31,712,931</u>	<u>\$ 31,670,983</u>

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

Long-term Debt. As of June 30, 2012, the City of Southport had total General Obligation Bonded Debt outstanding of \$35,500; Revolving Loan Debt of \$1,623,198; Obligation for Water Tank Agreement for \$75,000; Grant Repayment of \$562,000 and Installment Notes Payable for \$3,405,600. All of this debt is backed by the full faith and credit of the City.

THE CITY OF SOUTHPORT'S OUTSTANDING LONG-TERM LIABILITIES

FIGURE 5

	Government Activities		Business-Type Activities		Totals	
	2012	2011	2012	2011	2012	2011
General obligation bonds	\$ 5,262	\$ 7,929	\$ 30,238	\$ 49,571	\$ 35,500	\$ 57,500
Revolving loan debt	-	-	1,623,198	1,726,599	1,623,198	1,726,599
Grant repayment	-	-	562,000	1,124,000	562,000	1,124,000
Water tank agreement	-	-	75,000	150,000	75,000	150,000
Installment notes payable	3,405,600	3,594,800	-	-	3,405,600	3,594,800
Capitalized leases	413,067	47,206	-	-	413,067	47,206
Accrued interest	154,324	162,473	3,689	4,079	158,013	166,552
Compensated absences	131,568	118,197	19,227	22,552	150,795	140,749
Other postemployment benefits	481,701	341,858	254,887	171,844	736,588	513,702
Net pension obligations	17,143	14,713	-	-	17,143	14,713
Total	<u>\$ 4,608,665</u>	<u>\$ 4,287,176</u>	<u>\$ 2,568,239</u>	<u>\$ 3,248,645</u>	<u>\$ 7,176,904</u>	<u>\$ 7,535,821</u>

Management Discussion and Analysis City of Southport

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to eight (8) percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for City of Southport is \$53,524,391.

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

Economic Factors and Next Year's Budgets and Rates

Significant factors considered in preparing the City of Southport's budget for Fiscal Year 2012-2013 were:

- As noted last year, the state of the National, State and Local economy were major considerations in the development of the City of Southport's FY2012-2013 budget. Revenues and expenditures were very closely scrutinized and a conservative approach was taken in the formulation of revenue projections. Expenditures were limited to what was deemed necessary to continue to maintain a high standard of public service delivery.
- Current and anticipated debt was carefully considered in the preparation of the FY2012-2013 Fiscal Year budget. Staff and the board of Aldermen have placed a priority upon maintaining public debt levels at manageable levels.
- The five-year Capital Improvement Plan continues to be a useful tool in planning capital projects and their funding. This will continue to be updated on an annual basis and as the needs of the City changes.

All of these factors were considered in preparing the City of Southport's budget for the 2012-2013 Fiscal Year.

Request for Information

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

BASIC FINANCIAL STATEMENTS

CITY OF SOUTHPORT, NORTH CAROLINA
STATEMENT OF NET ASSETS
June 30, 2012

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	1,789,307	4,229,278	6,018,585	363,434
Taxes receivable (net)	197,086	-	197,086	
Accounts receivable	34,538	678,988	713,526	-
Accrued interest receivable on taxes	31,550		31,550	
Due from other governments	645,084	-	645,084	
Due from component unit	68,711		68,711	
Inventories	-	-	-	86,984
Prepaid expenses				8,535
Restricted cash and cash equivalent:	531,260	2,211,590	2,742,850	
	<u>3,297,536</u>	<u>7,119,856</u>	<u>10,417,392</u>	<u>458,953</u>
Total current assets				
Capital assets				
Land, non-depreciable improvements, and construction in progress	1,878,373	2,762,465	4,640,838	4,600
Other capital assets, net of depreciation	10,178,206	16,893,887	27,072,093	21,315
	<u>12,056,579</u>	<u>19,656,352</u>	<u>31,712,931</u>	<u>25,915</u>
Total capital assets				
Total Assets				
	<u>15,354,115</u>	<u>26,776,208</u>	<u>42,130,323</u>	<u>484,868</u>
LIABILITIES				
Current liabilities				
Accounts payable and accrued expenses	158,787	887,077	1,045,864	184,435
Customer deposits	-	76,313	76,313	
Due to primary government				68,711
Current portion of long-term liabilities	496,476	778,423	1,274,899	-
	655,263	1,741,813	2,397,076	253,146
Total current liabilities				
Long-term liabilities				
Due in more than one year	4,112,189	1,789,816	5,902,005	101,722
	<u>4,767,452</u>	<u>3,531,629</u>	<u>8,299,081</u>	<u>354,868</u>
Total liabilities				
NET ASSETS				
Invested in capital assets, net of related debt	8,426,426	17,487,391	25,913,817	25,915
Restricted for:				
Stabilization by State Statut	705,019		705,019	
Streets-Powell Bil	277,657	-	277,657	-
Fire protector	236,848	-	236,848	-
Capital outlay	-	2,211,590	2,211,590	-
Unrestricted	940,713	3,545,598	4,486,311	104,085
	<u>10,586,663</u>	<u>23,244,579</u>	<u>33,831,242</u>	<u>130,000</u>
Total net assets				

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

CITY OF SOUTHPORT, NORTH CAROLINA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2012

EXHIBIT 2

Functions/Programs	Net (Expense) Revenue and Changes in Net Assets							
	Expenses	Program Revenue			Primary Government			Component Unit
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Southport ABC Board
Primary government								
Governmental Activities								
General Government	1,133,355	108,378	12,670	-	(1,012,307)		(1,012,307)	
Public Safety	2,088,220	821,608	198,763	10,000	(1,057,849)		(1,057,849)	
Transportation	395,147	625	95,775	-	(298,747)		(298,747)	
Culture and Recreation	532,930	47,427	-	-	(485,503)		(485,503)	
Environmental Protection	186,812	151,379	-	-	(35,433)		(35,433)	
Interest on Long-term debt	154,960	-	-	-	(154,960)		(154,960)	
Total governmental activities	<u>4,491,424</u>	<u>1,129,417</u>	<u>307,208</u>	<u>10,000</u>	<u>(3,044,799)</u>		<u>(3,044,799)</u>	
Business-type activities								
Electric Operations	6,604,632	6,715,221	628	-		111,217	111,217	
Water and Sewer Operations	<u>2,562,450</u>	<u>2,170,279</u>	<u>279,092</u>	<u>54,650</u>		<u>(58,429)</u>	<u>(58,429)</u>	
Total business-type activities	<u>9,167,082</u>	<u>8,885,500</u>	<u>279,720</u>	<u>54,650</u>		<u>52,788</u>	<u>52,788</u>	
Total primary government	<u>13,658,506</u>	<u>10,014,917</u>	<u>586,928</u>	<u>64,650</u>	<u>(3,044,799)</u>	<u>52,788</u>	<u>(2,992,011)</u>	
Component Unit								
Southport ABC Board	<u>2,125,421</u>	<u>2,125,116</u>	<u>-</u>	<u>-</u>				<u>(305)</u>
Total component units	<u>2,125,421</u>	<u>2,125,116</u>	<u>-</u>	<u>-</u>				<u>(305)</u>
General revenues:								
Taxes:								
Property taxes, levied for general purposes					1,720,392	-	1,720,392	-
Other taxes					670,834	-	670,834	-
Grants and contributions not restricted to specific programs					518,206	-	518,206	-
Unrestricted investment earnings					5,169	14,182	19,351	305
Miscellaneous					14,642	-	14,642	-
Transfers					<u>(562,000)</u>	<u>562,000</u>	<u>-</u>	<u>-</u>
Total general revenues					<u>2,367,243</u>	<u>576,182</u>	<u>2,943,425</u>	<u>305</u>
Change in net assets					<u>(677,556)</u>	<u>628,970</u>	<u>(48,586)</u>	<u>-</u>
Net assets - beginning					<u>11,264,219</u>	<u>22,615,609</u>	<u>33,879,828</u>	<u>130,000</u>
Net assets - ending					<u>10,586,663</u>	<u>23,244,579</u>	<u>33,831,242</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, 2012

	<u>Major Funds</u>	<u>Non-Major Funds</u>	
	<u>General Fund</u>	<u>Fire Station Capital Project</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	1,789,307	-	1,789,307
Taxes receivable, net	197,086	-	197,086
Receivable from other governments	601,770	-	601,770
Receivable from other component unit	68,711	-	68,711
Other receivables	34,538	43,314	77,852
Restricted cash and cash equivalents	337,484	193,776	531,260
Total assets	3,028,896	237,090	3,265,986
 LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	148,161	-	148,161
Deferred revenue	197,086	-	197,086
Other accrued expenses	10,626	-	10,626
Total liabilities	355,873	-	355,873
 Fund balances:			
Restricted			
Stabilization by State Statute	705,019	-	705,019
Streets	277,657	-	277,657
Fire protection	-	237,090	237,090
Committed			
Fire protection	41,128	-	41,128
Assigned			
Designated for subsequent year	50,400	-	50,400
Unassigned	1,598,819	-	1,598,819
Total fund balances	2,673,023	237,090	2,910,113
Total liabilities and fund balances	3,028,896	237,090	3,265,986

**CITY OF SOUTHPORT, NORTH CAROLINA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2012**

**EXHIBIT 3
Page 2 of 2**

Total fund balance, governmental fund:		2,910,113
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.		12,056,579
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.		31,550
Liabilities for earned but deferred revenues in fund statement		197,086
Some liabilities are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets.		
Accrued interest payable	(154,324)	
Capital leases payable	(413,067)	
Installment notes payable	(3,405,600)	
General obligation bonds payable	(5,262)	
Compensated absences	(131,568)	
Other postemployment benefits	(481,701)	
Net pension obligation	(17,143)	
	(4,608,665)	(4,608,665)
Net Assets of Governmental Activities in the Statement of Net Asset		10,586,663

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, 2012

EXHIBIT 4
Page 1 of 2

	<u>Major Funds</u>	<u>Non-Major Funds</u>	<u>Total</u>
	<u>General Fund</u>	<u>Fire Station Capital Project</u>	<u>Governmental Funds</u>
REVENUES			
Property taxes	1,633,034	-	1,633,034
Other taxes	71,049	-	71,049
Unrestricted intergovernmental revenue	1,117,991	-	1,117,991
Restricted intergovernmental revenue:	894,340	-	894,340
Licenses and permits	74,077	-	74,077
Sales and services	437,014	-	437,014
Investment earnings	4,927	242	5,169
Miscellaneous	56,589	-	56,589
Total revenues	<u>4,289,021</u>	<u>242</u>	<u>4,289,263</u>
EXPENDITURES			
Current:			
General government	1,078,779	-	1,078,779
Public safety	2,665,853	-	2,665,853
Transportation	292,854	-	292,854
Environmental protection	186,812	-	186,812
Culture and recreation	486,521	-	486,521
Debt Service:			
Principal	226,006	-	226,006
Interest and other charges	163,109	-	163,109
Total expenditures	<u>5,099,934</u>	<u>-</u>	<u>5,099,934</u>
Excess (deficiency) of revenues over expenditures	<u>(810,913)</u>	<u>242</u>	<u>(810,671)</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from capital leases	400,000	-	400,000
Transfers out	(562,000)	-	(562,000)
Total other financing sources and use	<u>(162,000)</u>	<u>-</u>	<u>(162,000)</u>
Net change in fund balances	(972,913)	242	(972,671)
Fund balances - beginning	<u>3,645,936</u>	<u>236,848</u>	<u>3,882,784</u>
Fund balances - ending	<u><u>2,673,023</u></u>	<u><u>237,090</u></u>	<u><u>2,910,113</u></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, 2012

Net change in fund balances - total governmental funds: (972,671)

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 \$982,714 are exceeded by depreciation \$452,715 in the current period. 529,999

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. (753)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.
Change in deferred revenue for tax revenue 87,358

Governmental funds report debt proceeds as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of bond principal as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities.

Principal paid on debt	226,006	
Proceeds of long-term debt	(400,000)	(173,994)

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	8,149
Compensated absences	(13,371)
Net pension obligation	(2,430)
Other postemployment benefits	(139,843)

Change in net assets of governmental activities: (677,556)

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, 2012

EXHIBIT 5

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Ad valorem taxes	1,651,420	1,651,420	1,633,034	(18,386)
Other taxes	76,500	76,500	71,049	(5,451)
Unrestricted intergovernmental revenues	1,163,000	1,163,000	1,117,991	(45,009)
Restricted intergovernmental revenues	726,480	739,385	894,340	154,955
Licenses and permits	87,500	87,500	74,077	(13,423)
Sales and services	440,320	440,320	437,014	(3,306)
Investment earnings	6,150	6,150	4,927	(1,223)
Miscellaneous	42,900	81,180	56,589	(24,591)
Total revenues	<u>4,194,270</u>	<u>4,245,455</u>	<u>4,289,021</u>	<u>43,566</u>
EXPENDITURES				
Current:				
General government	1,179,747	1,241,347	1,078,779	162,568
Public safety	1,932,887	2,822,155	2,665,853	156,302
Transportation	321,896	331,896	292,854	39,042
Environmental protection	136,640	136,640	186,812	(50,172)
Culture and recreation	489,600	500,600	486,521	14,079
Debt Service:				
Principal	405,000	226,092	226,006	86
Interest and other charges	-	163,109	163,109	-
Contingency	10,000	10,000	-	10,000
Total expenditures	<u>4,475,770</u>	<u>5,431,839</u>	<u>5,099,934</u>	<u>331,905</u>
Excess (deficiency) of revenues over expenditures	<u>(281,500)</u>	<u>(1,186,384)</u>	<u>(810,913)</u>	<u>375,471</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from capital leases	-	400,000	400,000	-
Transfers in	23,000	23,000	-	(23,000)
Transfers out	(562,000)	(562,000)	(562,000)	-
Total other financing sources and uses	<u>(539,000)</u>	<u>(139,000)</u>	<u>(162,000)</u>	<u>(23,000)</u>
Fund balance appropriated	<u>820,500</u>	<u>1,325,384</u>	<u>-</u>	<u>(1,325,384)</u>
Net change in fund balance	<u>-</u>	<u>-</u>	<u>(972,913)</u>	<u>(972,913)</u>
Fund balance - beginning			<u>3,645,936</u>	
Fund balance - ending			<u>2,673,023</u>	

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

CITY OF SOUTHPORT, NORTH CAROLINA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2012

EXHIBIT 6

	Major Enterprise Funds		
	<u>Electric Fund</u>	<u>Water and Sewer Fund</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and cash equivalents	3,717,308	511,970	4,229,278
Accounts receivable, net	406,537	272,451	678,988
Total current assets	4,123,845	784,421	4,908,266
Non-current assets:			
Restricted assets			
Cash and cash equivalents	-	2,211,590	2,211,590
Capital assets:			
Land and improvements	-	2,762,465	2,762,465
Utility system	8,545,845	14,766,547	23,312,392
Buildings	54,388	-	54,388
Equipment and furniture	76,496	346,143	422,639
Vehicles	57,548	339,245	396,793
Less: Accumulated depreciation	(2,697,514)	(4,594,811)	(7,292,325)
Total non-current assets	6,036,763	15,831,179	21,867,942
Total assets	10,160,608	16,615,600	26,776,208
LIABILITIES			
Current liabilities:			
Accounts payable	617,916	266,458	884,374
Salaries payable	1,030	1,673	2,703
Customer deposits	76,313	-	76,313
Compensated absences	7,500	7,500	15,000
Accrued interest payable	-	3,689	3,689
Grant repayment	-	562,000	562,000
Bonds, notes and loans payable	-	197,734	197,734
Total current liabilities	702,759	1,039,054	1,741,813
Non-current liabilities:			
Compensated absences	1,906	2,321	4,227
Other postemployment benefits	39,585	215,302	254,887
Bonds, notes and loans payable	-	1,530,702	1,530,702
Total non-current liabilities	41,491	1,748,325	1,789,816
Total liabilities	744,250	2,787,379	3,531,629
NET ASSETS			
Invested in capital assets, net of related debt	6,036,763	11,450,628	17,487,391
Restricted for capital projects	-	2,211,590	2,211,590
Unrestricted	3,379,595	166,003	3,545,598
Total net assets	9,416,358	13,828,221	23,244,579

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

CITY OF SOUTHPORT, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended June 30, 2012

EXHIBIT 7

	Major Enterprise Funds		
	<u>Electric Fund</u>	<u>Water and Sewer Fund</u>	<u>Total</u>
REVENUES			
Charges for services	6,715,221	2,170,279	8,885,500
Miscellaneous	628	449	1,077
Total operating revenues	6,715,849	2,170,728	8,886,577
OPERATING EXPENSES			
Electric operations	6,385,829	-	6,385,829
Water and sewer operations	-	2,073,586	2,073,586
Depreciation	218,803	464,142	682,945
Total operating expenses	6,604,632	2,537,728	9,142,360
Operating income (loss)	111,217	(367,000)	(255,783)
NON-OPERATING REVENUES (EXPENSES)			
Interest and investment revenue	8,945	5,237	14,182
Miscellaneous revenue	-	278,643	278,643
Interest expense	-	(24,722)	(24,722)
Total non-operating revenue (expenses)	8,945	259,158	268,103
Income (loss) before contributions	120,162	(107,842)	12,320
Capital contributions - customers	-	54,650	54,650
Transfers in	-	562,000	562,000
Change in net assets	120,162	508,808	628,970
Total net assets - beginning	9,296,196	13,319,413	22,615,609
Total net assets - ending	9,416,358	13,828,221	23,244,579

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, 2012

EXHIBIT 8
Page 1 of 2

	<u>Major Enterprise Funds</u>		<u>Total</u>
	<u>Electric Fund</u>	<u>Water & Sewer Fund</u>	
Cash flows from operating activities:			
Cash received from customers	6,789,827	2,187,595	8,977,422
Cash paid for goods and services	(6,106,264)	(1,483,225)	(7,589,489)
Cash paid to employees	(188,893)	(316,489)	(505,382)
Customer deposits received	33,403		33,403
Customer deposits returned	(24,509)		(24,509)
Other operating revenues	<u>628</u>	<u>449</u>	<u>1,077</u>
Net cash provided (used) by operating activities	<u>504,192</u>	<u>388,330</u>	<u>892,522</u>
Cash flows from noncapital financing activities:			
Transfers from (to) other funds	<u>-</u>	<u>562,000</u>	<u>562,000</u>
Cash flows from capital and related financing activities:			
Proceeds from debt	-	28,094	28,094
Proceeds from sale of fixed assets	-		-
Acquisition of capital assets	(184,822)	(267,056)	(451,878)
Principal paid on long-term debt	-	(759,734)	(759,734)
Interest paid on long-term debt	-	(25,112)	(25,112)
Refund from Sanitary District		1,365,643	1,365,643
Capital contribution-State grants		218,316	218,316
Contributions from customers	<u>-</u>	<u>54,650</u>	<u>54,650</u>
Net cash provided (used) for capital and related financing activities	<u>(184,822)</u>	<u>614,801</u>	<u>429,979</u>
Cash flows from investing activities:			
Interest on investments	<u>10,003</u>	<u>5,237</u>	<u>15,240</u>
Net increase (decrease) in cash and cash equivalents	329,373	1,570,368	1,899,741
Cash and cash equivalents, beginning	<u>3,387,935</u>	<u>1,153,192</u>	<u>4,541,127</u>
Cash and cash equivalents, ending	<u><u>3,717,308</u></u>	<u><u>2,723,560</u></u>	<u><u>6,440,868</u></u>

**CITY OF SOUTHPORT, NORTH CAROLINA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2012**

**EXHIBIT 8
Page 2 of 2**

	<u>Major Enterprise Funds</u>		<u>Total</u>
	<u>Electric Fund</u>	<u>Water & Sewer Fund</u>	
Reconciliation of operating income to net cash provided by operating activities:			
Operating income (loss)	<u>111,217</u>	<u>(367,000)</u>	<u>(255,783)</u>
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	218,803	464,142	682,945
Changes in assets and liabilities			
(Increase) decrease in accounts receivable	74,606	17,316	91,922
Increase (decrease) in accounts payable	79,624	203,842	283,466
Increase (decrease) in accrued wages	379	981	1,360
Increase (decrease) in collected in advance	-	-	-
Increase (decrease) in customer deposits	8,894	-	8,894
Increase (decrease) in accrued vacation	(5,326)	2,001	(3,325)
Increase (decrease) in OPEB accrual	<u>15,995</u>	<u>67,048</u>	<u>83,043</u>
Total adjustments	<u>392,975</u>	<u>755,330</u>	<u>1,148,305</u>
Net cash provided (used) by operating activities	<u><u>504,192</u></u>	<u><u>388,330</u></u>	<u><u>892,522</u></u>

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

City of Southport ABC Board

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

B. Basis of Presentation

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

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

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

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

The City reports the following major governmental fund:

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

The City reports the following non-major governmental fund:

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

The City reports the following major enterprise funds:

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

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

The City reports the following non-major enterprise fund:

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

The City considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of January 1, 1993, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, Brunswick County is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts in the County, including the City of Southport. For motor vehicles registered under the staggered system, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, the City's vehicle taxes for vehicles registered in Brunswick County from March 2011 through February 2012 apply to the fiscal year ended June 30, 2012. Uncollected taxes that were billed during this period are shown as a receivable in these financial statements and are offset by deferred revenues.

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

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

D. Budgetary Data

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

1. Deposits and Investments

All deposits of the City and of the ABC Board are made in board-designated official depositories and are secured as required by State law (G.S. 15-31). The City and the ABC Board may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the City and the ABC Board may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

State law (G.S. 159-30(c)) authorizes the City and the ABC Board to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; certain high quality issues of commercial paper and bankers'

acceptances; and the North Carolina Capital Management Trust (NCCMT). The City's and the ABC Board's investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT Cash Portfolio, a SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price.

2. Cash and Cash Equivalents

The City pools money from several funds to facilitate disbursement and investment and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents. The ABC Board considers all highly liquid investments (including restricted assets) with maturity of three months or less when purchased to be cash and cash equivalents.

3. Restricted Assets

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

4. Ad Valorem Taxes Receivable

In accordance with State law (G.S. 105-347 and G.S. 159-13(a)), the City levies ad valorem taxes on property other than motor vehicles on July 1st, the beginning of the fiscal year. The taxes are due on September 1st (lien date); however, interest does not accrue until the following January 6th. These taxes are based on the assessed values as of January 1, 2011.

5. Allowances for Doubtful Accounts

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

6. Inventory

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

7. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization cost is \$5,000. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. General infrastructure assets acquired prior to July 1, 2003, consisting mainly of road networks, are not reported, because the City is a Phase III city under GASB 34, and not required to report those assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

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

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

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

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

8. Long-Term Obligations

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

9. Compensated Absences

The vacation policy of the City provides for the accumulation of up to two hundred forty (240) hours earned vacation leave with such leave being fully vested when earned. For the City's government-wide and proprietary funds, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned. The City has assumed a first-in, first-out method of using accumulated compensated time. The portion of that time that is estimated to be used in the next fiscal year has been designated as a current liability in the government-wide financial statements.

The ABC Board employees may earn two weeks vacation each year. This must be taken before the end of the year and does not accumulate. The current portion is not material and is not recorded in these financial statements.

Both the City and the ABC Board's sick leave policies provide for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since neither the City nor the ABC Board has any obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

10. Net Assets/Fund Balances

Net Assets

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

Fund Balances

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

The governmental fund types classify fund balances as follows:

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

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

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

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

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

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

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

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

Assigned fund balance – portion of fund balance that City of Southport intends to use for specific purposes.

Subsequent year's expenditures – Portion of fund balance that is appropriated in the next year's budget that is not already classified in restricted or committed. The governing body approves the appropriation; however the budget ordinance authorizes the manager to modify the appropriations by resource or appropriation within funds up to \$5,000.

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

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

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Pre-audit, Supporting Documentation and Disbursement of Funds

GS 159-28 specifies that before a local government or public authority incurs any obligation, the unit's finance officer, or deputy finance officer appointed by the governing board, must ensure that there is an appropriation in the budget ordinance authorizing the expenditure. This is the pre-audit process for expenditures. For credit card expenditures during the year there was no documented pre-audit procedure.

Expenditure of funds should not be made unless there is sufficient documentation including an invoice showing the entity providing the goods and service, the date of the expenditure, and an itemized list of the goods and services received. Several disbursements were made from statements and not from invoices. This resulted in no verification from entities receiving payment.

GS 159-28 also states that a local government may not pay a bill, invoice, salary or other claim except by a check or draft on an official depository or by bank wire transfer from an official depository. During the year disbursements were made using gift cards which do not comply with this statute. Benefits that were paid by gift card were not included on payroll tax returns. The gift cards were not supported by sufficient documentation acknowledging receipt by the final recipient of the gift cards.

B. Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2012, the expenditures in the City's General Fund exceeded the authorized appropriations made in the Rescue Squad, Code Enforcement and Solid Waste Departments. These over-expenditures occurred because expenditures were not recorded in a timely manner to determine when budget amendments were needed. Management and the Board will see that recording of expenditures is done timely to prevent this from happening in future periods.

C. Daily Deposit Requirement

GS 159-32 requires all monies collected or received by an officer or employee of a local government or public authority be deposited daily with the finance officer or in an official depository. Monies collected at sites other than central collections are not routinely deposited with the finance officer or in an official depository.

D. Bank Accounts Not Reconciled

During the year ended June 30, 2012, the bank accounts were not reconciled from October through the end of the fiscal year. This resulted in certain disbursements not being recorded timely and ultimately in over expenditure of some budget appropriations. This is a violation of adopted policies and a lack of acceptable internal control.

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, 2012, the City's deposits had a carrying amount of \$8,754,426 and a bank balance of \$8,847,683. The carrying amount of deposits of the ABC Board was \$362,734 and the bank balance was \$384,424. \$250,000 of the ABC Board and \$535,163 of the City was covered by federal depository insurance. The balances of the deposits \$8,312,520 for the City and \$134,424 by the ABC Board were collateralized by institutions using the Pooling Method. At June 30, 2012, the City's cash on hand totaled \$350.

2. Investments

At June 30, 2012, the City of Southport had \$ 6,659 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 Assets are net of the following allowances for doubtful accounts:

<u>Fund</u>	<u>6/30/12</u>
General Fund:	
Taxes receivable	34,661
Solid waste accounts	<u>6,289</u>
Total	<u>40,950</u>
Enterprise Funds:	
Electric Fund	65,277
Water and Sewer Fund	<u>48,318</u>
Total	<u>113,595</u>
Total	<u>154,545</u>

4. Capital Assets

Primary Government

Capital asset activity for the Primary Government for the year ended June 30, 2012, was as follows:

	Beginning				Ending
	Balances	Reclassification	Increases	Decreases	Balances
Governmental activities:					
Capital assets not being depreciated:					
Land	1,878,373				1,878,373
Construction in progress					
Total capital assets not being depreciated	<u>1,878,373</u>				<u>1,878,373</u>
Capital assets being depreciated					
Buildings	7,299,812		34,693		7,334,505
Other improvements	870,528		16,930		887,458
Infrastructure	2,352,272				2,352,272
Vehicles and motorized equipment	2,263,630		887,924	40,057	3,111,497
Furniture and equipment	571,346		43,167		614,513
Total capital assets being depreciated	<u>13,357,588</u>		<u>982,714</u>	<u>40,057</u>	<u>14,300,245</u>
Less accumulated depreciation for:					
Buildings	883,601		145,818		1,029,419
Other improvements	234,017		32,725		266,742
Infrastructure	291,098		91,018		382,116
Vehicles and motorized equipment	1,950,032		144,723	39,304	2,055,451
Furniture and equipment	349,880		38,431		388,311
Total accumulated depreciation	<u>3,708,628</u>		<u>452,715</u>	<u>39,304</u>	<u>4,122,039</u>
Total capital assets being depreciated, net	<u>9,648,960</u>				<u>10,178,206</u>
Governmental activity capital assets, net	<u>11,527,333</u>				<u>12,056,579</u>

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

General government	75,874
Public safety	223,835
Transportation	99,735
Cultural and recreational	<u>53,271</u>
Total depreciation expense	<u>452,715</u>

	Beginning			Ending	
	Balances	Reclassification	Increases	Decreases	Balances
Business-type activities:					
<i>Electric Fund</i>					
Capital assets not being depreciated:					
Capital assets being depreciated					
Buildings	54,388				54,388
Utility systems	8,361,023		184,822		8,545,845
Vehicles and motorized equipment	57,548				57,548
Furniture and equipment	76,496				76,496
Total capital assets being depreciated	<u>8,549,455</u>		<u>184,822</u>		<u>8,734,277</u>
Less accumulated depreciation for:					
Buildings	7,407		1,088		8,495
Utility systems	2,367,795		210,158		2,577,953
Vehicles and motorized equipment	51,251		3,022		54,273
Furniture and equipment	52,258		4,535		56,793
Total accumulated depreciation	<u>2,478,711</u>		<u>218,803</u>		<u>2,697,514</u>
Total capital assets being depreciated, net	<u>6,070,744</u>				<u>6,036,763</u>
Electric fund capital assets, net	<u>6,070,744</u>				<u>6,036,763</u>
 <i>Water and Sewer Fund</i>					
Capital assets not being depreciated:					
Land	2,762,465				2,762,465
Total capital assets not being depreciated	<u>2,762,465</u>				<u>2,762,465</u>
Capital assets being depreciated					
Utility systems	14,745,001		21,546		14,766,547
Vehicles and motorized equipment	339,245				339,245
Furniture and equipment	338,114		8,029		346,143
Total capital assets being depreciated	<u>15,422,360</u>		<u>29,575</u>		<u>15,451,935</u>
Less accumulated depreciation for:					
Utility systems	3,564,025		422,421		3,986,446
Vehicles and motorized equipment	270,228		27,401		297,629
Furniture and equipment	296,416		14,320		310,736
Total accumulated depreciation	<u>4,130,669</u>		<u>464,142</u>		<u>4,594,811</u>
Total capital assets being depreciated, net	<u>11,291,691</u>				<u>10,857,124</u>
Water and Sewer fund capital assets, net	<u>14,054,156</u>				<u>13,619,589</u>
Business-type activities capital assets, net	<u>20,124,900</u>				<u>19,656,352</u>

Construction commitments

The government has no active construction commitments as of June 30, 2012.

Discretely presented component unit

Activity for the ABC Board for the year ended June 30, 2012, was as follows:

	Beginning		Ending	
	Balances	Increases	Decreases	Balances
Capital assets not being depreciated:				
Land	4,600			4,600
Capital assets being depreciated				
Buildings	58,755			58,755
Other improvements	36,309	5,652		41,961
Furniture and equipment	36,291			36,291
Total capital assets being depreciated	131,355	5,652		137,007
Less accumulated depreciation for:				
Buildings	58,755			58,755
Other Improvements	28,971	990		29,961
Furniture and equipment	25,137	1,839		26,976
Total accumulated depreciation	112,863	2,829		115,692
	18,492			21,315
ABC capital assets, net	23,092			25,915

B. Liabilities

1. Pension Plan and Postemployment Obligations

a. Local Government Employees' Retirement System

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

Funding Policy – Plan members are required to contribute six percent of their annual covered salary. The City and the ABC Board are required to contribute at an actuarially determined rate. For the City, the current rate for employees not engaged in law enforcement and for law enforcement officers is 6.88% and 6.90%, respectively, of annual covered payroll. For the ABC Board, the current rate for employees not engaged in law enforcement is 7.10% of annual covered payroll. The contribution requirements of members and of the City of Southport and the ABC Board are established and may be amended by the North Carolina General Assembly. The City's contributions to the LGERS for the years ended June 30, 2012, 2011 and 2010 were

\$115,002, \$104,633, and \$84,574, respectively. The ABC Board's contributions to LGERS for the years ended June 30, 2012, 2011 and 2010 were \$5,822, \$4,908, and \$3,699, respectively. The contributions made by the City and the ABC Board equaled the required contribution for each year.

b. Law Enforcement Officers Special Separation Allowance

(1) Plan Description

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

All full-time law enforcement officers of the City are covered by the separation allowance. At December 31, 2011, the Separation Allowance's membership consisted of:

Retirees receiving benefits	1
Terminated plan members entitled to but not yet receiving benefits	0
Active plan members	<u>13</u>
Total	<u>14</u>

A separate report was not issued for the plan.

(2) Summary of Significant Accounting Policies

Basis of Accounting – The City has chosen to fund the Separation Allowance on a pay as you go basis. Pension expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting.

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

(3) Contributions

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

The annual required contribution for the current year was determined as part of the December 31, 2011 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 5.00% investment rate of return (net of administrative expenses) and (b) projected salary increases of 4.25% - 7.85% per year. Both (a) and (b) included an inflation component of 3.00%. The assumptions did not include postretirement benefit increases.

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

Employer annual required contribution	12,466
Interest on net pension obligation	736
Adjustment to annual required contribution	(878)
Annual pension cost	12,324
Contributions made	<u>9,894</u>
Increase (decrease) in net pension obligation	2,430
Net pension obligation beginning of year	<u>14,713</u>
Net pension obligation end of year	<u>17,143</u>

3 Year Trend Information

For Year Ended <u>June 30</u>	Annual Pension <u>Cost (APC)</u>	Percentage of <u>APC Contributed</u>	Net Pension <u>Obligation</u>
2010	10,157	142.35%	25,900
2011	10,692	204.63%	14,713
2012	12,324	80.28%	17,143

(4) Funded Status and Funding Progress.

As of December 31, 2011, 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 \$88,994. The covered payroll (annual payroll of active employees covered by the plan) was \$449,334, and the ratio of the UAAL to the covered payroll was 19.81%.

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, 2012 were \$124,447, which consisted of \$83,490 from the City and \$40,957 from the employees.

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

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

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

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

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

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

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

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

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

Annual require contribution	383,344
Interest on net OPEB obligation	20,548
Adjustment to annual required contribution	<u>(17,727)</u>
Annual OPEB cost	386,165
Contributions made	<u>163,279</u>
Increase (decrease) in net OPEB obligation	222,886
Net OPEB obligation, beginning of year	<u>513,702</u>
OPEB obligation, end of year	<u>736,588</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2012 were as follows:

For Year Ended <u>June 30</u>	Annual <u>OPEB Cost</u>	% of Annual OPEB <u>Cost Contributed</u>	Net OPEB <u>Obligation</u>
2010	383,344	28.3%	274,856
2011	384,853	37.9%	513,702
2012	386,164	42.3%	736,588

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

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

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

2. Other Employment Benefits

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

3. Deferred Revenues/Unearned Revenues

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

	<u>Deferred Revenue</u>	<u>Unearned Revenue</u>
Taxes receivable (General Fund)	<u>197,086</u>	-
Total	<u>197,086</u>	-

4. Risk Management

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

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

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

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

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

5. Claims, Judgments and Contingent Liabilities

According to the City Attorney and City Management at June 30, 2012, the City was not a defendant in any lawsuit whose outcome could affect the City's ability to pay obligations as they become due.

6. Long-Term Obligations

a. Capital Leases

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

Below is a summary of the provisions of these leases:

<u>Date of Lease</u>	<u>Property Leased</u>	<u>Total of Lease</u>	<u>Payment Amount</u>	<u>Remaining of Payments</u>	<u>Frequency of Payments</u>
5-3-11	Spartan Aerial Fire Truck	400,000	84,298	5	Annual
10-5-10	2-Dodge Police Cars	39,210	13,406	1	Annual

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

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

<u>Fund</u>	<u>Class of Property</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
General Fund	Vehicles and motorized equipment	857,801	39,275	818,526

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2012 were as follows:

<u>Year Ending June 30</u>	<u>Total</u>	<u>Governmental Activities</u>
2013	97,703	97,703
2014	84,298	84,298
2015	84,298	84,298
2016	84,298	84,298
2017	<u>84,297</u>	<u>84,297</u>
Total minimum lease payments	434,894	434,894
Less: Amount representing interest	<u>21,897</u>	<u>21,897</u>
Present value of minimum lease payments	<u>413,067</u>	<u>413,067</u>

b. Installment Purchase

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

Annual debt service payments of the installment purchase as of June 30, 2012, including \$1,452,067 of interest is as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2013	189,200	152,911
2014	189,200	144,416
2015	189,200	135,921
2016	189,200	127,426
2017	189,200	118,931
2018-2022	946,000	467,229
2023-2027	946,000	254,852
2028-2031	<u>567,600</u>	<u>50,381</u>
	<u>3,405,600</u>	<u>1,452,067</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	<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2013	103,401	21,079
2014	103,401	19,573
2015	103,401	18,068
2016	103,401	16,562
2017	103,401	15,057
2018-2022	517,004	52,698
2023-2027	448,720	15,056
2028-2031	<u>140,469</u>	<u>-</u>
	<u>1,623,198</u>	<u>158,093</u>

d. General Obligation Indebtedness

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

Bonds payable at June 30, 2012 are comprised of the following individual issues:

\$60,000 1975 bonds due in annual installments of \$3,609 through June 1, 2014; interest at 5.00%	5,262
Serviced by the Water and Sewer Fund:	
\$435,000 1975 bonds due in annual installments of \$23,916 through June 1, 2014; interest at 5.00%	30,238
Total	<u>35,500</u>

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

<u>Years Ending</u> <u>June 30</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2013	2,667	215	19,333	1,560
2014	<u>2,595</u>	<u>200</u>	<u>10,905</u>	<u>593</u>
	<u>5,262</u>	<u>415</u>	<u>30,238</u>	<u>2,153</u>

At June 30, 2012, the City of Southport had a legal debt margin of \$53,524,391.

e. Water Tank Agreement

On November 15, 2004, the City entered into an inter-local agreement with Brunswick County to help finance the construction and operation of an elevated water storage tank. The City agreed to participate in the project by contributing a total of \$375,000 over a five year period with no interest charged. The first payment was to be made on July 1st of the first fiscal year following the completion of construction. The storage tank was completed on December 18, 2007 and the City made the first payment of \$75,000 on July 1, 2009. During the year ended June 30, 2011, the agreement was amended assigning 236,800 gallons or 23.68% of capacity in the tank to the City. There were no additional charges for this change, but the City agrees to pay 23.68% of the annual cost of maintaining the tank. As a result of these changes, the cost in the tank was reclassified as part of the utility system rather than the intangible future storage rights as reported in prior years.

Annual debt service payments on the water tank agreement as of June 30, 2012 were as follows:

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

f. Grant Repayment

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

Annual payments on this agreement as of June 30, 2012 were as follows:

<u>Year</u> <u>Ending</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2013	<u>562,000</u>	<u>0</u>
Total	<u>562,000</u>	<u>0</u>

g. Changes in Long - Term Liabilities

	Balance			Balance	Current
	<u>6/30/11</u>	<u>Increases</u>	<u>Decreases</u>	<u>6/30/12</u>	Portion of <u>Balance</u>
Governmental activities:					
General obligation bonds	7,929		2,667	5,262	2,667
Installment notes payable	3,594,800		189,200	3,405,600	189,200
Capitalized leases	47,206	400,000	34,139	413,067	90,285
Accrued interest	162,473	154,324	162,473	154,324	154,324
Compensated absences	118,197	81,766	68,395	131,568	60,000
Other postemployment benefits	341,858	263,145	123,302	481,701	
Net pension obligation	<u>14,713</u>	<u>12,324</u>	<u>9,894</u>	<u>17,143</u>	<u>-</u>
	<u>4,287,176</u>	<u>911,559</u>	<u>590,070</u>	<u>4,608,665</u>	<u>496,476</u>
Business-type activities:					
General obligation bonds	49,571		19,333	30,238	19,333
Revolving loans	1,726,599		103,401	1,623,198	103,401
Water tank agreement	150,000		75,000	75,000	75,000
Grant repayment	1,124,000		562,000	562,000	562,000
Accrued interest	4,079	3,689	4,079	3,689	3,689
Compensated absences	22,552	20,299	23,624	19,227	15,000
Other postemployment benefits	<u>171,844</u>	<u>123,020</u>	<u>39,977</u>	<u>254,887</u>	<u>-</u>
	<u>3,248,645</u>	<u>147,008</u>	<u>827,414</u>	<u>2,568,239</u>	<u>778,423</u>

Compensated absences for governmental activities have typically been liquidated in the fund that employed the employee.

C. Interfund Balances and Activity

Balances Due to/from Other Funds

Balances due to/from other funds at June 30, 2012 consist of the following:

Due from component unit for City's share of quarterly profits	<u>68,711</u>
Total	<u>68,711</u>

Transfers to/from other funds at June 30, 2012, consist of the following:

From the General Fund to the Water and Sewer Fund	<u>562,000</u>
---	----------------

This purpose of this transfer was to repay the current portion of the Clean Water Management Trust from the General Fund.

D. On-Behalf Payments for Fringe Benefits and Salaries

For the fiscal year ended June 30, 2012, the City of Southport has recognized on-behalf payments for pension contributions made by the state as a revenue and an expenditure of \$4,968 for thirteen volunteer firemen who perform firefighting duties for the City's fire department. The firefighters elected to be members of the Firemen and Rescue Worker's Pension Fund, a cost sharing, multiple employer public retirement system established and administered by the State of North Carolina. The Plan is funded by a \$10 monthly contribution paid by the City for each electing member, investment income, and a State appropriation.

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, 2012. 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.

E. Contracts

1. Electric Maintenance Contract

The City of Southport has awarded a contract to Brunswick Electric Membership Corporation for the operation and maintenance of the Electric Distribution System of the City of Southport. The contract is for a five year term beginning on July 1, 2011. This contract expired on June 30, 2016. The initial cost to the City under the contract is \$327,026 for the twelve months ending on June 30, 2012. Effective each July 1, under the contract the annual fee will be adjusted based on the increase in the Consumer Price Index and City customer growth. For the year ending June 30, 2012, the City made monthly payments of \$27,252. Non-basic operations and maintenance service such as power restoration after catastrophic events, system improvements and upgrades, and system extension are to be provided on a cost plus basis. The cost of non-basic service will be based on cost of materials, equipment and labor. System additions and extensions are to be approved by the City.

The minimum payments on the contract are:

<u>Year Ending June 30</u>	
2013	327,026
2014	327,026
2015	327,026
2016	<u>327,026</u>
Total	<u>1,308,104</u>

For the year ended June 30, 2012, the City payments under this contract totaled \$403,178

2. Solid Waste Collection Contract

The City has a contract with Waste Industries, Inc. to provide solid waste collection to the City and its residents. This contract, expiring in December 2013, bases fees on the number of residents and frequency of collection. The expense to the City for the year ended June 30, 2012 was \$180,262.

F. Fund Balance

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

Total fund balance – General Fund	<u>2,673,023</u>
Less:	
Stabilization by State Statute	705,019
Streets – Powell Bill	277,657
Fire protection – Firemen’s account	41,128
Appropriated Fund Balance in 2012 Budget	<u>50,400</u>
Remaining Fund Balance	<u>1,598,819</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, 2012, the City had no outstanding encumbrances.

III. JOINT VENTURES

The City and the members of the City’s fire department each appoint two members to the five-member local board of trustees for the Firemen’s Relief Fund. The State Insurance Commissioner appoints one additional member to the local board of trustees. The Fireman’s Relief Fund is funded by a portion of the fire and lightning insurance premiums that insurers remit to the State. The State passes these moneys to the local board of the Firemen’s Relief Fund. The funds are used to assist fire fighters in various ways. The City obtains an ongoing financial benefit from the Fund for the on-behalf of payments for salaries and fringe benefits made to members of the City’s fire department by the board of trustees. During the fiscal year ended June 30, 2012, the City reported revenues and expenditures for the 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, 2012. The Firemen’s Relief Fund does not issue separate audited financial statements. Instead, the local board of trustees files an annual financial report with the State Firemen’s Association. This report can be obtained from the Association at 323 West Jones Street, Suite 401, Raleigh, North Carolina 27603.

IV. JOINTLY GOVERNED ORGANIZATIONS

A. North Carolina Eastern Municipal Power Agency

The City is a member of the North Carolina Eastern Municipal Power Agency (Agency). The Agency was formed to enable municipalities that own electric distribution systems to finance, construct, own, operate, and maintain generation and transmission facilities. Each participating government appoints one commissioner to the Agency's governing board. The thirty-two members, who receive power from the Agency, have signed power sales agreements to purchase a specified share of the power generated by the Agency. Except for the power purchase requirements, no local government participant has any obligation, entitlement, or residual interest. The City's purchases of power for the fiscal year ended June 30, 2012 were \$5,345,609.

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, 2012.

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, 2012, 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, 2012. Complete financial information for the Airport Commission can be obtained from the Airport's administrative offices at 380 Long Beach Road, Southport, North Carolina 28461.

V. SUMMARY OF DISCLOSURE OF SIGNIFICANT CONTINGENCIES

Federal and State Assisted Programs

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

VI. SUBSEQUENT EVENTS

Events occurring after June 30, 2012 were evaluated by management on June 17, 2013 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.

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

**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%

**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%

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, 2011
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	19 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%

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

EXHIBIT A-4

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

Notes to the Required Schedules:

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

Valuation date	December 31, 2008
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay, open
Remaining amortization period	30 years
Asset valuation method	Market value of assets
Actuarial assumptions:	
Investment rate of return*	4.00%
Medical cost trend rate	10.50%-5.00%
Year of ultimate trend rate	2016
*Includes inflation at	3.75%

GOVERNMENTAL FUNDS

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:

- The General Fund
- Fire Station Capital Project Fund

**CITY OF SOUTHPORT, NORTH CAROLINA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended June 30, 2012**

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

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues			
Ad valorem taxes			
Current year	1,581,420	1,550,644	(30,776)
Prior years	20,000	25,362	5,362
Motor vehicle taxes	40,000	52,458	12,458
Penalties and interest	10,000	4,570	(5,430)
Total	<u>1,651,420</u>	<u>1,633,034</u>	<u>(18,386)</u>
Other taxes			
Dog tags	1,500	1,410	(90)
Privilege licenses	20,000	14,786	(5,214)
Accommodation tax	55,000	54,853	(147)
Total	<u>76,500</u>	<u>71,049</u>	<u>(5,451)</u>
Unrestricted intergovernmental revenues			
Local option sales tax	635,000	599,785	(35,215)
Beer and wine tax	13,000	12,357	(643)
ABC Profit distribution	225,000	222,015	(2,985)
Utility franchise tax	290,000	283,834	(6,166)
Total	<u>1,163,000</u>	<u>1,117,991</u>	<u>(45,009)</u>
Restricted intergovernmental revenues			
State street-aid allocation	91,000	95,775	4,775
On-behalf of payments - fire and rescue	-	5,968	5,968
Solid waste disposal tax	-	1,947	1,947
ABC Revenue for law enforcement	10,000	8,558	(1,442)
Volunteer rescue EMS grant	12,280	24,560	12,280
Brunswick County rescue contributions	36,000	36,000	-
FEMA Reimbursement	-	109,028	109,028
NCLM-RMS Safety grant	625	1,000	375
Fire district fees	589,480	611,504	22,024
Total	<u>739,385</u>	<u>894,340</u>	<u>154,955</u>
Licenses and permits			
Building permits	80,000	68,477	(11,523)
Re-inspection fees	500	390	(110)
Planning and zoning fees	7,000	5,210	(1,790)
Total	<u>87,500</u>	<u>74,077</u>	<u>(13,423)</u>

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

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

**SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended June 30, 2012**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Sales and services			
Cemetery lot sales	7,000	7,480	480
Refuse collection fees	136,640	143,899	7,259
Boat slip rentals	20,000	18,590	(1,410)
Rescue squad fees	125,295	115,322	(9,973)
Community building rent	100,000	102,236	2,236
Lot cleaning reimbursements	-	25	25
Annex/Stormwater permit fees	500	625	125
Recreation fees	33,000	28,837	(4,163)
Carolina Power & Light	17,000	20,000	3,000
Southern Bell	885	-	(885)
Total	440,320	437,014	(3,306)
Investment earnings			
Interest income	6,150	4,927	(1,223)
Miscellaneous			
Insurance reimbursement	13,500	13,500	-
Donations - Firemen's fund	34,900	7,043	(27,857)
Fire Department Capital Campaign	10,000	10,000	-
Homeowners recovery fund	500	680	180
Miscellaneous - Police department	2,500	6,036	3,536
Miscellaneous - Fire department	-	200	200
Miscellaneous - Rescue squad	12,280	370	(11,910)
Miscellaneous - Tourism	-	6,142	6,142
Forestry Committee - Tree program	2,000	7,000	5,000
Special events - Tourism	-	3,723	3,723
Sales - fixed assets	5,000	-	(5,000)
Sales - promotional items	500	126	(374)
Miscellaneous	-	1,769	1,769
Total	81,180	56,589	(24,591)
Total revenues	4,245,455	4,289,021	43,566
Expenditures			
General government			
Board expense			
Salaries	32,500	31,790	
Travel	5,500	2,276	
Social security	2,500	2,423	
Group insurance	65,000	53,546	
Professional fees	40,000	36,317	
Contract Services	70,000	22,680	
Donations	11,500	5,300	-
Elections	2,000	1,567	-
Total	229,000	155,899	73,101

**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, 2012**

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

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Administration			
Salaries	200,723	175,192	
Social security	17,574	13,070	
Group insurance	67,925	58,266	
Retirement	15,805	11,928	
401 (k) retirement supplement	11,486	8,516	
Computer software upgrade	9,000	10,275	
Telephone and postage	19,000	16,589	
Utilities	14,000	14,206	
Maintenance of equipment	15,000	11,675	
Advertising	4,000	5,140	
Auto expense - manager	3,600	1,253	
Administration expense	50,000	59,017	
Departmental supplies	8,000	19,384	
Miscellaneous equipment	12,000	10,358	
Dues and subscriptions	7,500	6,639	
Codification update	3,500	1,048	
Insurance and bonding	13,000	12,800	-
Total	<u>472,113</u>	<u>435,356</u>	<u>36,757</u>
Buildings and Grounds			
Salaries	38,950	32,223	
Salaries - part-time	7,000	4,080	
Social security	3,515	2,765	
Group insurance	16,563	22,736	
Retirement	2,680	2,226	
401 (k) retirement supplement	1,948	1,591	
Telephone	1,000	1,483	
Travel and training	500	-	
Supplies	3,000	3,577	
Building and grounds maintenance	24,420	20,394	
Equipment maintenance	1,000	255	
Vehicle maintenance	1,000	152	
Tires and fuel	2,000	2,189	
Fire fees paid on City property	6,080	6,080	
Tree trimming and removal	10,000	5,600	
Christmas lights	1,000	404	
Insurance and bonding	7,000	6,691	
OSHA expense	500	81	
Contract services	3,450	4,018	-
Total	<u>131,606</u>	<u>116,545</u>	<u>15,061</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, 2012**

**EXHIBIT B-1
Page 4 of 9**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Tourism			
Salaries	46,228	38,535	
Part-time salaries - cleaning	50,000	41,247	
Social security	7,361	6,059	
Group insurance	10,032	7,309	
Retirement	3,180	2,660	
401 (k) retirement supplement	2,311	1,903	
Telephone	1,750	4,323	
Telephone - Visitor Center	1,700	1,752	
Utilities	20,000	17,621	
Utilities - Visitor Center	5,000	7,254	
Travel and training	1,000	-	
Maintenance and repairs - Community Building	7,000	4,886	
Maintenance and repairs - Visitor Center	2,000	1,446	
Departmental supplies	4,500	7,704	
Supplies - Visitor Center	5,000	7,219	
Insurance and bonding	3,250	3,315	
Insurance and bonding - Visitor Center	2,600	1,819	
Special event expenses	-	500	
Miscellaneous expenses	1,000	958	
Contract services	150	510	
Equipment purchased under capitalization limit	-	13,217	
Capital outlay	<u>55,700</u>	<u>44,403</u>	<u>-</u>
Total	<u>229,762</u>	<u>214,640</u>	<u>15,122</u>
City Garage			
Salaries	83,230	67,299	
Social security	6,100	4,449	
Group insurance	38,665	34,525	
Retirement	5,485	4,595	
401 (k) retirement supplement	3,986	4,034	
Travel and training	500	16	
Telephone	1,000	3,274	
Utilities	18,000	17,512	
Equipment maintenance	1,750	1,170	
Vehicle maintenance	1,000	339	
Gas, oil and tires	2,000	2,199	
Supplies	2,000	2,180	
Uniform rental	9,000	9,071	
OSHA expense	250	28	
Contracted services	1,500	1,478	
Insurance and bonding	<u>4,400</u>	<u>4,170</u>	<u>-</u>
Total	<u>178,866</u>	<u>156,339</u>	<u>22,527</u>
 Total general government	 <u>1,241,347</u>	 <u>1,078,779</u>	 <u>162,568</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, 2012**

EXHIBIT B-1
Page 5 of 9

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Public Safety			
Police			
Salaries	503,915	472,895	
Separation allowance	12,500	11,018	
Salaries - reserve officers	40,000	41,288	
Social security	43,484	38,799	
Group insurance	139,821	155,614	
Retirement	37,038	32,619	
401 (k) retirement supplement	25,196	23,174	
Telephone and postage	5,000	15,764	
Travel and training	14,000	8,462	
Community resource materials	5,000	203	
Equipment maintenance	10,000	7,481	
Vehicle maintenance	10,000	3,810	
Gas, oil and tires	24,500	44,030	
Departmental supplies	5,000	9,587	
Miscellaneous small equipment	13,355	9,529	
Uniforms	12,000	9,105	
Grant expense	-	678	
Information fund	500	-	
P.I.N. rental	1,000	455	
Insurance and bonding	28,600	27,100	
Capital outlay	73,474	78,510	-
Total	<u>1,004,383</u>	<u>990,121</u>	<u>14,262</u>
Fire Department			
Fees paid to volunteers	75,000	77,175	
Incentives paid to volunteers	25,000	11,600	
Salaries	1,980	1,982	
Salaries - part-time	20,000	-	
Social security	8,000	7,629	
Pension plan	6,000	2,990	
On behalf payments - fringe	10,000	5,968	
Retirement - City share	21,000	20,580	
Professional fees	1,000	1,029	
Inspections	2,000	1,465	
Telephone and postage	13,875	10,610	
Utilities	26,000	25,740	
Convention travel	18,000	1,489	
Equipment maintenance	32,000	7,266	
Vehicle maintenance	10,000	16,945	
Gas, oil and tires	7,000	5,123	
Departmental supplies	38,000	37,620	
Uniforms	9,000	46,920	
Fire prevention	3,000	1,447	
Health physicals	6,000	3,249	
Contract services	4,000	3,810	
Insurance and bonding	6,500	5,070	
Equipment purchased under capitalization limit	-	20,551	
Capital outlay	923,327	814,615	-
Total	<u>1,266,682</u>	<u>1,130,873</u>	<u>135,809</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, 2012**

**EXHIBIT B-1
Page 6 of 9**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Firemen's Fund			
Southport firemen's expenses	<u>35,050</u>	<u>2,728</u>	<u>32,322</u>
Rescue Squad			
Fees paid to volunteers	84,500	87,486	
Salaries	1,980	1,983	
Social security	6,300	6,751	
Bill collection expense	10,000	11,043	
Telephone and postage	1,000	1,748	
Utilities	6,500	8,104	
Travel and training	500	40	
Equipment maintenance	6,720	5,734	
Vehicle maintenance	6,000	9,181	
Gas, oil and tires	6,000	8,578	
Departmental supplies	11,000	41,293	
Other equipment	5,207	3,355	
Medical supplies	9,000	11,284	
Uniforms	3,000	2,476	
Miscellaneous small equipment	4,000	3,571	
Insurance and bonding	6,000	6,007	-
Capital outlay	<u>29,855</u>	<u>-</u>	<u>-</u>
Total	<u>197,562</u>	<u>208,634</u>	<u>(11,072)</u>
Code Enforcement			
Salaries	197,495	201,436	
Salaries - part-time	2,500	10,104	
Social security	15,300	15,403	
Group insurance	37,620	42,016	
Retirement	13,588	13,785	
401 (k) retirement supplement	9,875	9,849	
Telephone	1,500	3,597	
Utilities	3,500	2,978	
Travel and training	3,500	2,856	
Vehicle maintenance	500	108	
Equipment maintenance	2,000	3,380	
Tires and fuel	2,000	4,753	
Supplies	4,000	5,166	
Miscellaneous small equipment	1,500	2,450	
Cleanup overgrown lots	2,600	4,425	
Removal of condemned buildings	10,000	4,938	
Contracted services - inspections	1,000	870	
Insurance	6,000	5,383	
Capital outlay	<u>4,000</u>	<u>-</u>	<u>-</u>
Total	<u>318,478</u>	<u>333,497</u>	<u>(15,019)</u>
Total public safety	<u>2,822,155</u>	<u>2,665,853</u>	<u>156,302</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, 2012**

**EXHIBIT B-1
Page 7 of 9**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Transportation			
Street			
Salaries	84,911	72,382	
Social security	6,763	5,467	
Group insurance	30,619	23,926	
Retirement	6,083	4,941	
401 (k) retirement supplement	4,420	3,526	
Telephone	1,000	2,255	
Utilities-Street lights	27,533	30,074	
Equipment maintenance	2,032	1,979	
Vehicle maintenance	1,500	1,205	
Gas, oil and tires	10,000	13,270	
Departmental supplies	2,500	2,314	
Mosquito control supplies	2,000	126	
Contract mowing	935	935	
OSHA expenses	600	510	
Insurance and bonding	12,000	10,500	-
Total	<u>192,896</u>	<u>173,410</u>	<u>19,486</u>
Powell Bill			
Sidewalk repairs	5,500	800	
Street repairs	10,000	11,037	
Storm drainage supplies	10,000	648	
Street resurfacing	100,000	94,485	
Capital outlay - sidewalks	13,500	12,474	-
Total	<u>139,000</u>	<u>119,444</u>	<u>19,556</u>
Total transportation	<u>331,896</u>	<u>292,854</u>	<u>39,042</u>
Environmental Protection			
Solid Waste			
Annual cleanup	8,000	6,550	
Collection contract	128,640	180,262	-
Total	<u>136,640</u>	<u>186,812</u>	<u>(50,172)</u>
Total environmental protection	<u>136,640</u>	<u>186,812</u>	<u>(50,172)</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, 2012**

**EXHIBIT B-1
Page 8 of 9**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Cultural and Recreational			
Parks and recreation			
Salaries	147,787	141,385	
Salaries - part-time	61,290	67,490	
Social security	15,994	15,448	
Group insurance	49,272	44,751	
Retirement	10,168	9,917	
401 (k) retirement supplement	7,389	7,086	
Telephone	4,800	9,669	
Travel and training	1,500	1,212	
Fort Johnson expenses	54,550	73,265	
Equipment maintenance	5,300	5,349	
Vehicle maintenance	1,500	1,219	
Gas, oil and tires	9,000	11,385	
Departmental supplies	8,000	14,500	
Miscellaneous small equipment	-	562	
Youth athletic programs	3,800	2,508	
Special events and programs	13,000	13,151	
Recreation programs	17,500	17,336	
Senior citizens programs	9,000	4,008	
Beautification projects	1,000	-	
Forestry projects	6,000	5,880	
Insurance and bonding	7,500	7,688	
Capital outlay	66,250	32,712	-
Total cultural and recreational	<u>500,600</u>	<u>486,521</u>	<u>14,079</u>
Debt service			
Principal	226,092	226,006	
Interest	163,109	163,109	-
Total debt service	<u>389,201</u>	<u>389,115</u>	<u>86</u>
Contingency	<u>10,000</u>	<u>-</u>	<u>10,000</u>
Total expenditures	<u>5,431,839</u>	<u>5,099,934</u>	<u>331,905</u>
Revenues over (under) expenditures	<u>(1,186,384)</u>	<u>(810,913)</u>	<u>375,471</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, 2012

EXHIBIT B-1
Page 9 of 9

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u> <u>Positive</u> <u>(Negative)</u>
Other financing sources (uses)			
Proceeds of capital leases	400,000	400,000	-
Transfers from other funds			
Transfer from Electric Fund	6,000	-	(6,000)
Transfer from Water Sewer Fund	17,000	-	(17,000)
Transfers to other funds			
Transfer to Water Sewer Fund	<u>(562,000)</u>	<u>(562,000)</u>	<u>-</u>
Total other financing sources (uses)	(139,000)	(162,000)	(23,000)
Appropriated fund balance	<u>1,325,384</u>	<u>-</u>	<u>(1,325,384)</u>
Net change in fund balance	<u>-</u>	(972,913)	<u>(972,913)</u>
Fund Balance			
Beginning of year		<u>3,645,936</u>	
End of year		<u>2,673,023</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, 2012

EXHIBIT B-2

	<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	-	4,116	242	4,358	4,358
Miscellaneous					
Miscellaneous receipts	-	43,314	-	43,314	43,314
Total revenues	-	47,430	242	47,672	47,672
Expenditures					
Professional Services - Design	194,666	94,666	-	94,666	100,000
Construction	3,416,694	3,416,694	-	3,416,694	-
Furnishings and telephone system	92,993	83,222	-	83,222	9,771
Contingency	79,647	-	-	-	79,647
Total expenditures	3,784,000	3,594,582	-	3,594,582	189,418
Excess of (under) revenues over expenditures	(3,784,000)	(3,547,152)	242	(3,546,910)	237,090
Other financing sources (uses)					
Financing proceeds	3,784,000	3,784,000	-	3,784,000	-
Excess of revenues and other sources over expenditures	-	236,848	242	237,090	237,090
Fund balance					
Beginning of year			236,848		
End of year			237,090		

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, 2012**

**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	7,002,500	6,562,092	(440,408)
Underground service	175,000	49,148	(125,852)
Load management switches	2,500	1,691	(809)
Service charges	100,000	102,290	2,290
Total charges for services	7,280,000	6,715,221	(564,779)
Other operating revenues			
Miscellaneous	-	628	628
Total operating revenues	7,280,000	6,715,849	(564,151)
Nonoperating revenues			
Interest on investments	10,000	8,945	(1,055)
Total nonoperating revenues	10,000	8,945	(1,055)
Total revenues	7,290,000	6,724,794	(565,206)
Expenditures			
Expenditures other than depreciation			
Salaries	227,699	189,272	
Professional services	47,500	39,973	
Collection agency	1,500	945	
Social security	17,448	14,192	
Group insurance	78,500	68,749	
Retirement	15,348	11,653	
401 (k) retirement supplement	11,155	8,327	
Computer software update	2,500	35	
OSHA expenses	150	-	
Telephone and postage	24,000	19,409	
Travel and training	1,000	879	

**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, 2012**

**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	6,000	46,290	
Vehicle maintenance	1,000	5,774	
Gas, oil and tires	2,000	1,899	
Garage expense	6,000	4,500	
Departmental supplies	6,000	13,032	
Utility sales tax	177,000	149,157	
Power purchased	5,900,000	5,345,609	
Electricities dues	5,250	-	
Contract maintenance	325,000	403,178	
Contract services	27,193	26,088	
Insurance and bonding	13,000	12,300	
Load management repairs	13,500	13,674	-
Rebates paid	1,000	225	-
Total expenditures other than depreciation	<u>6,909,743</u>	<u>6,375,160</u>	<u>534,583</u>
Supplemental budget expenditures			
Capital outlay	398,500	184,822	-
Total supplemental expenditures	<u>398,500</u>	<u>184,822</u>	<u>213,678</u>
Total expenditures	<u>7,308,243</u>	<u>6,559,982</u>	<u>748,261</u>
Excess of revenues over (under) expenditures	<u>(18,243)</u>	<u>164,812</u>	<u>183,055</u>
Other financing sources (uses)			
Appropriated fund balance	18,243	-	(18,243)
Other financing sources over (under) uses	<u>18,243</u>	<u>-</u>	<u>(18,243)</u>
Revenues and other sources over expenditures and other uses	<u>-</u>	<u>164,812</u>	<u>164,812</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, 2012

EXHIBIT C-1
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:				
Excess of revenues and other sources over (under) expenditures and other uses		164,812		
Depreciation		(218,803)		
Total supplemental budget expenditures		184,822		
(Increase) decrease in unfunded OPEB liability		(15,995)		
(Increase) decrease in accrued vacation		<u>5,326</u>		
Change in net assets		<u><u>120,162</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, 2012**

**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	2,188,066	2,166,029	(22,037)
Water and sewer tap fees	<u>6,000</u>	<u>4,250</u>	<u>(1,750)</u>
Total charges for services	2,194,066	2,170,279	(23,787)
Other operating revenues			
Miscellaneous	<u>-</u>	<u>449</u>	<u>449</u>
Total operating revenues	<u>2,194,066</u>	<u>2,170,728</u>	<u>(23,338)</u>
Nonoperating revenues			
Interest on investments	3,000	4,989	1,989
Impact fees	<u>109,000</u>	<u>54,650</u>	<u>(54,350)</u>
Total nonoperating revenues	<u>112,000</u>	<u>59,639</u>	<u>(52,361)</u>
Supplemental budget revenues			
SBSD Reimbursement	<u>-</u>	<u>1,365,643</u>	<u>1,365,643</u>
Total supplemental budget revenues	<u>-</u>	<u>1,365,643</u>	<u>1,365,643</u>
Total revenues	<u>2,306,066</u>	<u>3,596,010</u>	<u>1,289,944</u>
Expenditures			
Expenditures other than depreciation			
Salaries	334,746	319,471	
Professional fees	79,700	62,538	
Social security	25,667	23,438	
Group insurance	80,674	74,392	
Retirement	22,390	21,216	
401 (k) retirement supplement	16,275	15,168	
Computer software update	2,500	895	
Telephone and postage	19,300	21,092	
Utilities	75,000	64,155	
Travel and training	1,000	1,120	
System maintenance	30,100	37,507	

**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, 2012**

**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	5,500	5,525	
Vehicle repair	2,000	1,203	
Garage expense	17,000	12,744	
Gas, oil and tires	18,500	16,161	
Water and sewer supplies	52,351	57,938	
Annual permits and fees	5,000	2,635	
OSHA expenses	1,000	780	
Contract services	417,459	374,486	
Meter reading contract	26,992	26,553	
Water analysis	7,270	3,192	
Sewer analysis	2,600	1,159	
Water purchases	440,000	507,167	
Sewer capital charge	300,000	329,307	
Insurance and bonding	25,700	24,502	-
	<u>2,008,724</u>	<u>2,004,344</u>	<u>4,380</u>
Supplemental budget expenditures			
Capital outlay	108,050	29,575	
Long-term debt payments	149,734	122,734	
CWMTF Grant repayment	562,000	562,000	
Water tank payment to Brunswick County	75,000	75,000	
Interest expense	-	25,112	-
	<u>894,784</u>	<u>814,421</u>	<u>80,363</u>
	<u>2,903,508</u>	<u>2,818,765</u>	<u>84,743</u>
Revenues over (under) expenditures	<u>(597,442)</u>	<u>777,245</u>	<u>1,374,687</u>
Other financing sources (uses)			
Fund balance appropriated	35,442	-	(35,442)
Transfer from other funds			
Transfer from General Fund	562,000	562,000	-
	<u>562,000</u>	<u>562,000</u>	<u>-</u>
Revenues and other sources over (under) expenditures and other uses	<u>-</u>	<u>1,339,245</u>	<u>1,339,245</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, 2012

EXHIBIT C-2
Page 3 of 3

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Reconciliation of modified accrual basis to full accrual basis:			
Revenues and other sources over expenditures and other uses		1,339,245	
Total supplemental budget expenditures		814,421	
Depreciation		(464,142)	
(Increase) decrease in accrued vacation pay		(2,001)	
(Increase) decrease in interest payable		390	
(Increase) decrease in OPEB liability		(67,048)	
Interest expense included in debt payments		(25,112)	
Basis difference in SBSB settlement		(1,087,000)	
Interest income recorded in capital projects		248	
Expenses recorded in capital projects		<u>(193)</u>	
Change in net assets in Water and Sewer Fund		<u>508,808</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, 2012

EXHIBIT C-3

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Actual Current Year</u>	<u>Total To Date</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues					
Restricted intergovernmental revenues					
Principal Forgiveness grant (ARRA)	-	702,347	-	702,347	702,347
Clean Water grant	<u>3,000,000</u>	<u>2,606,197</u>	<u>-</u>	<u>2,606,197</u>	<u>(393,803)</u>
Total restricted intergovernmental	<u>3,000,000</u>	<u>3,308,544</u>	<u>-</u>	<u>3,308,544</u>	<u>308,544</u>
Investment earnings					
Interest earned	<u>-</u>	<u>7,727</u>	<u>248</u>	<u>7,975</u>	<u>7,975</u>
Total revenues	<u>3,000,000</u>	<u>3,316,271</u>	<u>248</u>	<u>3,316,519</u>	<u>316,519</u>
Expenditures					
Professional services	959,945	788,090	193	788,283	171,662
Legal and administrative fees	56,985	-	-	-	56,985
Easement and land acquisition	43,070	5,000	-	5,000	38,070
Construction	3,203,995	3,104,109	-	3,104,109	99,886
Contingency	<u>140,700</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>140,700</u>
Total expenditures	<u>4,404,695</u>	<u>3,897,199</u>	<u>193</u>	<u>3,897,392</u>	<u>507,303</u>
Excess of (under) revenues over expenditures	<u>(1,404,695)</u>	<u>(580,928)</u>	<u>55</u>	<u>(580,873)</u>	<u>823,822</u>
Other financing sources (uses)					
Financing proceeds					
Federal Revolving Loan (ARRA)	<u>1,404,695</u>	<u>702,348</u>	<u>-</u>	<u>702,348</u>	<u>(702,347)</u>
Other financing sources over (under) uses	<u>1,404,695</u>	<u>702,348</u>	<u>-</u>	<u>702,348</u>	<u>(702,347)</u>
Excess of revenues and other sources over expenditures	<u>-</u>	<u>121,420</u>	<u>55</u>	<u>121,475</u>	<u>121,475</u>
Fund balance					
Beginning of year			<u>121,420</u>		
End of year			<u>121,475</u>		

OTHER SCHEDULES

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

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

**CITY OF SOUTHPORT, NORTH CAROLINA
SCHEDULE OF AD VALOREM TAXES RECEIVABLE
June 30, 2012**

EXHIBIT D-1

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2011</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2012</u>
2011 - 2012		1,725,983	1,599,570	126,413
2010 - 2011	70,227		20,618	49,609
2009 - 2010	29,260		7,760	21,500
2008 - 2009	12,252		1,609	10,643
2007 - 2008	5,819		-	5,819
2006 - 2007	4,111		-	4,111
2005 - 2006	4,006		350	3,656
2004 - 2005	3,509		-	3,509
2003 - 2004	2,940		-	2,940
2002 - 2003	3,547		-	3,547
2001 - 2002	<u>3,827</u>	<u>-</u>	<u>3,827</u>	<u>-</u>
 Total	 <u>139,498</u>	 <u>1,725,983</u>	 <u>1,633,734</u>	 <u>231,747</u>
 Less allowance for uncollectible taxes receivable				 <u>34,661</u>
 Ad Valorem taxes receivable - net				 <u>197,086</u>
 Reconcilement with revenues				
Taxes - ad valorem - General Fund				1,633,034
 Amounts written off for tax year				
2000 - 2001 per statute of limitations				3,827
 Releases and adjustments				 <u>1,443</u>
 Subtotal				 1,638,304
 Less: Interest collected				 <u>4,570</u>
 Total collections and credits				 <u>1,633,734</u>

**CITY OF SOUTHPORT, NORTH CAROLINA
ANALYSIS OF CURRENT TAX LEVY
CITY-WIDE LEVY
June 30, 2012**

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	645,662,866	0.002456	1,585,748	1,542,963	42,785
Registered motor vehicles taxed prior years' rate	<u>7,668,889</u>	0.001800	<u>13,804</u>	<u>-</u>	<u>13,804</u>
Total	<u>653,331,755</u>		<u>1,599,552</u>	<u>1,542,963</u>	<u>56,589</u>
Discoveries					
Current year taxes	15,723,127	0.002456	38,616	38,616	
Prior year taxes			87,009	87,009	
Penalties	<u>-</u>		<u>806</u>	<u>806</u>	<u>-</u>
Total valuation	<u>669,054,882</u>				
Net levy			1,725,983	1,669,394	56,589
Uncollected taxes at June 30, 2012			<u>126,413</u>	<u>119,553</u>	<u>6,860</u>
Current year's taxes collected			<u>1,599,570</u>	<u>1,549,841</u>	<u>49,729</u>
Current levy collection percentage			<u>92.68%</u>	<u>92.84%</u>	<u>87.88%</u>

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, 2012, which collectively comprises the City of Southport's basic financial statements, and have issued our report thereon, dated June 17, 2013. 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 deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses: 12-1, 12-2, 12-3 and 12-4.

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 deficiencies described in the accompany schedule of findings and questioned cost to be significant deficiencies: 12-5 and 12-6.

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: 12-1, 12-2, 12-3, 12-4, 12-5 and 12-6. We noted certain other matters that we reported to management of the City of Southport in a separate letter dated June 17, 2013

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

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


Certified Public Accountants

June 17, 2013

**City of Southport, North Carolina
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2012**

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Qualified

Internal control over financial reporting:

- Material weakness identified? X yes __no

- Significant Deficiencies identified that are not considered to be material weaknesses X yes __no

- Noncompliance material to financial statements noted X yes __no

II. Financial Statement Findings

MATERIAL WEAKNESS

Finding 12-1 Pre-audit, Supporting Documentation and Disbursement of Funds

Criteria: GS 159-28 specifies that before a local government incurs any obligation, the finance officer must ensure that there is an appropriation in the budget ordinance authorizing the expenditure. This is the pre-audit process for expenditures. For credit card expenditures, there was no documented pre-audit procedure.

Expenditure of funds should not be made unless there is sufficient documentation including an invoice showing the entity providing the goods and services, the date of the expenditure, and an itemized list of the goods and services received. Several disbursements were made from statements and not from invoices. This resulted in no verification from entities receiving payment.

GS 159-28 also states that a local government may not pay a bill, invoice, salary or other claim except by a check or draft on an official depository or by bank wire transfer from an official depository. During the year disbursements were made by gift cards, resulting in noncompliance with this statute. Benefits that were paid by gift card were not included on payroll tax returns. The gift cards were not supported by sufficient documentation acknowledging receipt by the final recipient of the gift cards.

Condition: The use of credit cards and purchases made without prior approved purchases orders preempts the approval and pre-audit of expenditures. Disbursement of funds by use of check, credit card, gift card or cash were made without supporting evidence of purchase or receipt of gift card from an individual or business was for a purpose approved by the board.

Effect: The lack of pre-audit procedures, insufficient documentation of expenditures and use of gift cards violates GS 159-28.

Cause: Failure to follow and enforce City policy.

Recommendation: Management enforces expenditure policies to ensure compliance with state statutes

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

II. Financial Statement Findings
MATERIAL WEAKNESS (continued)

Finding 12-2 Excess Expenditures over Appropriations

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

Condition: Expenditures in the City's General Fund exceeded the authorized appropriation made in the Rescue, Code Enforcement and Solid Waste Departments

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

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

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

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

Finding 12-3 Daily Deposit Requirement

Criteria: GS 159-32 requires all monies collected or received by an officer or employee of a local government be deposited daily with the finance officer or in an official depository.

Condition: Monies collected at sites other than central collections is not routinely deposited daily.

Effect: Violation of state statute and failure to properly secure and record the city's assets.

Cause: Employees have not been properly trained in implementation of GS 159-32.

Recommendation: Training of all employees receiving money on behalf of the city on how to properly implement GS 159-32.

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

Finding 12-4 Bank Accounts not Reconciled

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

Condition: The bank accounts were not reconciled from October 2011 through the end of the fiscal year until early 2013.

Effect: Certain disbursements were not recorded timely and ultimately caused over-expenditure of some budget appropriations.

Cause: Failure to follow and enforce City policy.

Recommendation: Reconcile bank accounts timely.

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

II. Financial Statement Findings

SIGNIFICANT DEFICIENCIES

Finding 12-5 Advertising of Tax Liens on Real Taxes for Failure to Pay Taxes

Criteria: GS 105-369(c) states the municipal tax collector shall advertise municipal tax liens by posting a notice of the liens at city hall.

Condition: The advertisement of tax liens was not posted at city hall.

Effect: Failure to comply with North Carolina General Statute.

Cause: Lack of training of tax collector.

Recommendation: Development and oversight of tax collector training plan.

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

SIGNIFICANT DEFICIENCIES (continued)

Finding 12-6 Reconciliation of Financial Statement and Powell Bill Expenditures Report

Criteria: The State of North Carolina requires annual reporting of revenues, expenditures and reserves of Powell Bill funds and also the record the Reserve by State Statute on their Financial Statements.

Condition: The revenues, expenditures and reserves reported on the Annual Powell Bill Expenditures Report and the general ledger do not agree.

Effect: NC Department of Transportation and the City Board have incomplete information for available Powell Bill funds.

Cause: Failure to reconcile differences.

Recommendation: The reconciliation of the Powell Bill Expenditures Report and financial statements.

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, 2012**

Exhibit E-2

I. Financial Statement Findings

Finding 12-1

Name of contact person: Bonita L. Bray, Finance Director

Corrective Action: Employees with access to credit cards and employees with authority to make or approve purchases will receive additional training on city purchasing policies.

Proposed completion date: July 31, 2013

Finding 12-2

Name of contact person: Bonita L. Bray

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

Proposed completion date: June 30, 2013

Finding 12-3

Name of contact person: Bonita L. Bray

Corrective Action: All employees receiving monies on behalf of the City will receive additional training regarding the state statute and the City policy on daily deposits.

Proposed completion date: July 31, 2013

Finding 12-4

Name of contact person: Bonita L. Bray

Corrective Action: Bank accounts will be reconciled timely.

Proposed completion date: April 30, 2013

Finding 12-5

Name of contact person: Bonita L. Bray

Corrective Action: The tax collector will receive training on the duties of that position.

Proposed completion date: December 31, 2013.

**City of Southport, North Carolina
Corrective Action Plan
For the Year Ended June 30, 2012**

Exhibit E-2

I. Financial Statement Findings (continued)

Finding 12-6

Name of contact person: Bonita L. Bray

Corrective Action: The Powell Bill Expenditures Report will be reconciled to the reserve reported on the financial statements.

Proposed completion date: July 31, 2013.

City Of Southport, North Carolina
Summary Schedule of Prior Year Findings
For the Year Ended June 30, 2012

Exhibit E-3

Finding: 2011-1

Status: The condition continues.

Finding: 2011-2

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

Finding: 2011-3

Status: The condition continues.

Finding: 2011-4

Status: Corrected.