

CITY OF SOUTHPORT

Southport, North Carolina

AUDITED FINANCIAL STATEMENTS

June 30, 2016

BOARD OF ALDERMEN

JV Dove, Mayor  
Mary Ellen Poole, Mayor Pro Tem  
Nelson E. Adams  
Todd Coring  
Karen Mosteller  
James F. Powell, III  
Rick Pukenas

ADMINISTRATIVE AND FINANCIAL STAFF

Kerry N. McDuffie, City Manager  
Melanie Trexler, Finance Director  
Michele Windham, City Clerk

**CITY OF SOUTHPORT, NORTH CAROLINA**  
**TABLE OF CONTENTS**  
**June 30, 2016**

**EXHIBIT**

Financial Section:

Independent Auditors' Report

Management's Discussion and Analysis

Basic Financial Statements:

Government-wide Financial Statements:

Statement of Net Position 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 Position 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 Position - Proprietary Funds 6

Statement of Revenues, Expenses, and Changes in Fund Net Position - 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 - Notes to the Required Schedules A-1

**CITY OF SOUTHPORT, NORTH CAROLINA  
TABLE OF CONTENTS  
June 30, 2016**

**EXHIBIT**

Other Postemployment Benefits – Schedule of Funding Progress	A-2
Other Postemployment Benefits – Notes to the Required Schedules	A-2
Proportionate Share of Net Pension Liability (Asset)	A-3
City of Southport’s Contributions Local Government Employee’s Retirement System	A-4
 Individual Fund Statements and Schedules:	
Governmental Funds	
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual	B-1
Capital Reserve Fund	B-2
Building Capital Improvement Fund	B-3
 Enterprise Funds	
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual:	
Electric Fund	C-1
Water and Sewer Fund	C-2
 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

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Southport, North Carolina, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Southport ABC Board, which represents 100 percent of the assets, net position and revenues of the discretely presented component units. Those statements were audited by another auditor whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Southport ABC Board, is based solely on the report of another auditor. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the City of Southport Board of Alcoholic Control were not audited in accordance with *Government Auditing Standards*.

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

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

## ***Opinions***

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Southport, North Carolina as of June 30, 2016, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Law Enforcement Officers' Special Separation Allowance's and the Other Postemployment Benefits' Schedules of Funding Progress and Schedules of Employer Contributions, on Exhibit A-1 through A-2, respectively, and the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Asset and Contributions on Exhibit A-3 and A-4, be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Supplementary and Other Information*

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

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 2016 on our consideration of City of Southport's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Southport's internal control over financial reporting and compliance.

Berry Padgett & Chandler, PLLC  
Certified Public Accountants

Southport, North Carolina  
February 8, 2017

## 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, 2016. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the City's financial statements, which follow this narrative.

### Financial Highlights

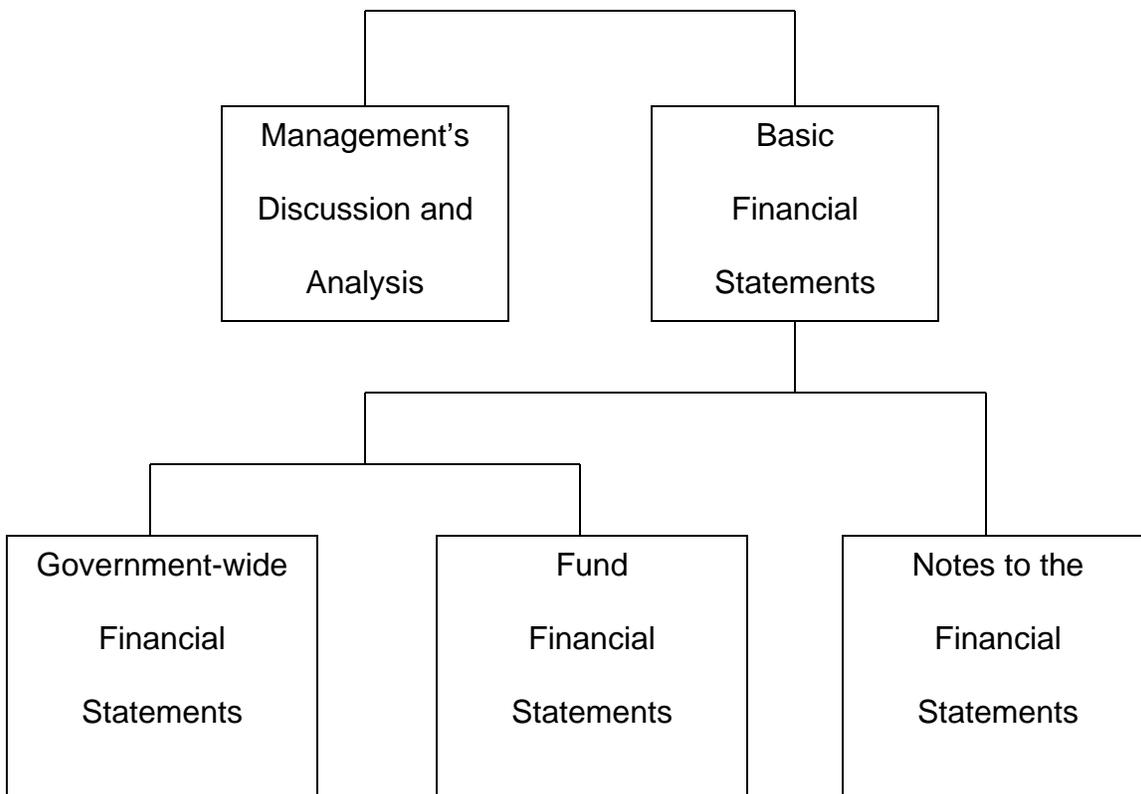
- The assets and deferred outflows of resources of the City of Southport exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$38,902,153 (*net position*).
- The government's total net position increased by \$588,964 primarily due to savings in electrical utility cost.
- As of the close of the current fiscal year, the City of Southport's governmental funds reported combined ending fund balances of \$1,940,605 with a net decrease of \$51,726 in fund balance from the previous year. Approximately 41.0% of this total amount, or \$794,784, is non-spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,100,229, or 20.7% of total general fund expenditures for the fiscal year.
- The City of Southport's total debt decreased by \$427,367 (9.6%) during the current fiscal year.

### Overview of the Financial Statements

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

**Required Components of Annual Financial Report**

**Figure 1**



Summary → Detail

**Basic Financial Statements**

## Management Discussion and Analysis City of Southport

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

The next statements (Exhibits 3 through 8) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the City's government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; 3) the proprietary fund statements.

The next section of the basic financial statements is the **notes** (Exhibit 9). The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show details about the City's individual funds. Budgetary information required by the North Carolina General Statutes also can be found in this part of the statements.

### **Government-Wide Financial Statements**

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

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

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

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

### **Fund Financial Statements**

The fund financial statements (see Figure 1) provide a more detailed look at the City's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Southport, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-

## Management Discussion and Analysis City of Southport

compliance) with finance-related legal requirements, such as the General Statutes or the City's budget ordinance. All of the funds of City of Southport can be divided into two categories: governmental funds and proprietary funds.

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

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

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

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

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

**Interdependence with Other Entities:** The City depends on financial resources flowing from, or associated with, both the federal government and the State of North Carolina. Because of this

Management Discussion and Analysis  
City of Southport

dependency, the City is subject to changes in specific flows of intergovernmental revenues based on modifications to federal and State laws and federal and State appropriations. It is also subject to changes in investment earnings and asset values associated with U.S. Treasury Securities because of actions by foreign governments and other holders of publicly held U.S. Treasury Securities.

**Government-Wide Financial Analysis**

**City of Southport's Net Position**

**Figure 2**

	Activities		Activities		Total	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 2,507,996	\$ 2,447,450	\$ 7,235,792	\$ 7,183,273	\$ 9,743,788	\$ 9,630,723
Capital assets	14,096,071	14,234,728	23,348,683	21,927,401	37,444,754	36,162,129
Deferred outflows of resources	116,329	100,515	45,926	-	162,255	100,515
Total assets and deferred outflows of resources	16,720,396	16,782,693	30,630,401	29,110,674	47,350,797	45,792,852
Long-term liabilities outstanding	4,080,848	4,257,872	1,659,517	1,715,580	5,740,365	5,973,452
Other liabilities	517,265	308,085	2,120,042	931,380		
Deferred inflows of resources	49,992	262,594	20,980	144,750	144,750	407,344
Total liabilities and deferred inflows of resources	4,648,105	4,828,551	3,800,539	2,791,710	5,885,115	6,380,796
Net position:						
Net investment in capital ass	11,261,177	10,968,244	22,139,089	20,555,014	33,400,266	31,523,258
Restricted	699,528	862,560	2,074,903	1,960,325	2,774,431	2,822,885
Unrestricted	111,586	123,338	2,615,870	3,843,708	2,727,456	3,967,046
Total net position	\$ 12,072,291	\$ 11,954,142	\$ 26,829,862	\$ 26,359,047	\$ 38,902,153	\$ 38,313,189

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of the City of Southport exceeded liabilities and deferred inflows by \$38,902,153 as of June 30, 2016. The City's net position increased by \$588,964 for the fiscal year ended June 30, 2016. However, the largest portion (85.9%) reflects the City's net investment in capital assets (e.g. land, buildings, machinery, and equipment). The City of Southport uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. An additional portion of the City of Southport's net position, \$2,774,431 represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$2,727,456 is unrestricted.

Management Discussion and Analysis  
City of Southport

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

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 97.33%.
- Increased sales tax revenues of approximately \$55,800 due to economic growth in the City.
- Continued spending control of departmental budgets.

Management Discussion and Analysis  
City of Southport

**City of Southport's Changes in Net Position**  
**Figure 3**

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 1,563,863	\$ 1,509,566	\$ 10,599,741	\$ 10,474,802	\$ 12,163,604	\$ 11,984,368
Operating grants and contributions	218,482	207,128	19,785	6,715	238,267	213,843
Capital grants and contributions	168,417	182,120	-	2,429,772	168,417	2,611,892
General revenues:						
Property taxes	1,859,721	1,840,777	-	-	1,859,721	1,840,777
Other taxes	874,984	830,694	-	-	874,984	830,694
Grants and contributions not restricted to specific programs	627,486	606,600	-	-	627,486	606,600
Unrestricted Investment earnings	1,253	1,855	4,444	6,377	5,697	8,232
Other	52,780	30,765	-	-	52,780	30,765
<b>Total revenues</b>	<b>5,366,986</b>	<b>5,209,505</b>	<b>10,623,970</b>	<b>12,917,666</b>	<b>15,990,956</b>	<b>18,127,171</b>
<b>Expenses:</b>						
General government	1,663,663	1,765,429	-	-	1,663,663	1,765,429
Public safety	2,319,419	2,250,766	-	-	2,319,419	2,250,766
Transportation	494,316	345,751	-	-	494,316	345,751
Environmental protection	223,938	217,468	-	-	223,938	217,468
Economic and physical development	-	-	-	-	-	-
Cultural and recreation	467,674	414,941	-	-	467,674	414,941
Interest on long-term debt	79,827	90,868	-	-	79,827	90,868
Water and sewer	-	-	3,158,086	2,647,834	3,158,086	2,647,834
Electric	-	-	6,182,691	7,228,917	6,182,691	7,228,917
<b>Total expenses</b>	<b>5,248,837</b>	<b>5,085,223</b>	<b>9,340,777</b>	<b>9,876,751</b>	<b>14,589,614</b>	<b>14,961,974</b>
Change in net position before transfers	118,149	124,282	1,283,193	3,040,915	1,401,342	3,165,197
Transfers	-	121,134	-	(121,134)	-	-
<b>Change in net position</b>	<b>118,149</b>	<b>245,416</b>	<b>1,283,193</b>	<b>2,919,781</b>	<b>1,401,342</b>	<b>3,165,197</b>
Net position, July 1 previously reported	11,954,142	11,850,996	26,359,047	23,517,775	38,313,189	35,368,771
Restatement	-	(142,270)	(812,378)	(78,509)	(812,378)	(220,779)
<b>Net position, beginning, restated</b>	<b>11,954,142</b>	<b>11,708,726</b>	<b>25,546,669</b>	<b>23,439,266</b>	<b>37,500,811</b>	<b>35,147,992</b>
<b>Net position, June 30</b>	<b>\$ 12,072,291</b>	<b>\$ 11,954,142</b>	<b>\$ 26,829,862</b>	<b>\$ 26,359,047</b>	<b>\$ 38,902,153</b>	<b>\$ 38,313,189</b>

**Governmental activities.** Governmental activities increased the City's net position by \$118,149, thereby accounting for 20.1% of the total growth in the net position of the City of Southport. Management believes healthy investment in the City will result in additional revenues, and in that vein added to the City's net position by investing in capital assets. City management acknowledges that 2016

## Management Discussion and Analysis City of Southport

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

Key elements of this increase are as follows:

**Business-type activities.** Business-type activities increased the City of Southport's net position by \$470,815, accounting for 79.9% of the total growth in the government's net position.

Key elements of this increase are as follows:

- July 31, 2015 the City of Southport, as part of the NC Eastern Municipal Power Agency, sold its ownership in the nuclear and coal power plants. This allowed for a decrease in the electrical rates and budgeting additional money for infrastructure. In the 2015-2016 Budget, additional infrastructure money was spent to install an AMI (automated meter infrastructure). The AMI project decreases the cost and time to read meters. Decreasing the time allows for a shorter bill cycle and in-turn decreases the uncollected utilities. Going forward the Board has set a priority for using the infrastructure money to move the electrical lines from overhead to underground. This will reduce Southport's liability exposure to hurricane and storm damage.
- In the water and sewer fund, AMI meters system was installed. As in the electrical, this will reduce the cost and time to read meter and decrease the uncollected utilities payments. Also, both of the AMI systems will provide the customer with more timely information. For instance, if a customer has a water leak, the staff will receive an email the day after the leak starts and let the customer know immediately. This reduces the customer cost and conflict after leaks.
- The water and sewer fund had an operating loss due to the increase in the capital charge for sewer availability fees paid to Brunswick County. Water and sewer rates remained unchanged for the year.
- In September 2016, a court case challenged the ability of cities to charge impact fees for future use. The case is being appealed. The effect on the net position of the water and sewer fund is a potential liability for the prior three years of fees collected in the amount of \$986,348.

### Financial Analysis of the City's Funds

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

**Governmental Funds.** The focus of the City of Southport's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the City of Southport's financing requirements.

The general fund is the chief operating fund of the City of Southport. At the end of the current fiscal year, City of Southport's fund balance available in the General Fund was \$1,100,229 while total fund

Management Discussion and Analysis  
City of Southport

balance reached \$1,939,331. The City currently has an available fund balance of 20.74% of general fund expenditures, and total fund balance represents 36.55% of the same amount.

**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, and 3) increases in appropriations that become necessary to maintain services.

**Proprietary Funds.** The City of Southport's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Water and Sewer Fund at the end of the fiscal year amounted to (\$1,222,995) and for the Electric Fund, \$3,835,865. The total change in net position for the Water and Sewer Fund from operations was a decrease of \$157,081. Prior year restatement of \$812,378 due to the impact fee court decision resulted in a total decrease in net position of \$969,459. The Electric Fund reported an increase of \$1,440,274 in net position. The increase in net position of the electric fund was the result of the sale of the assets of NC Eastern Municipal Power Agency and the effect it had on our rates and purchase of power.

### **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, 2016, totals \$37,444,754 (net of accumulated depreciation). These assets include buildings, roads and piers, land, machinery and equipment, park facilities, and vehicles.

Major capital asset transactions during the year include the following:

- Automated Meter Reading system installed for the Water and Sewer Department cost \$866,990.
- Electric Meters and pay station installed throughout the city to enable billing and collection of electric usage cost \$754,227.
- Nextgrid Load Management system install in the city cost \$199,695.
- 2 Police department vehicles and a speed sign cost \$71,639.
- 2 Fire department vehicles, Scuba gear, scissors lift and other donated equipment cost \$211,514.
- Remodeling of the Fire department substation on Nash Street \$40,106.
- Donated streets in the amount of \$115,168.
- Yacht Basin Drainage improvements in the amount of \$134,827.

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

**Figure 4** Error! Not a valid link.

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, 2016, the City of Southport had debt and long term liabilities of the following:

**Outstanding Debt and Long Term Liabilities**  
**Figure 5**

	Governmental Activites		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Installment notes payable	\$ 2,648,800	\$ 2,838,000	\$ 1,209,594	\$ 1,312,995	\$ 3,858,394	\$ 4,150,995
Capitalized leases	186,094	320,860	-	-	186,094	320,860
Compensated absences	129,557	130,678	18,308	17,034	147,865	147,712
Postemployment benefits	1,067,603	936,716	431,615	385,551	1,499,218	1,322,267
Net (LGERS) liability	80,880	-	54,882	-	135,762	-
Net pension obligation	48,794	31,618	-	-	48,794	31,618
	<u>\$ 4,161,728</u>	<u>\$ 4,257,872</u>	<u>\$ 1,714,399</u>	<u>\$ 1,715,580</u>	<u>\$ 5,876,127</u>	<u>\$ 5,973,452</u>

**City of Southport’s Outstanding Debt**

The City of Southport’s total issued no new debt during the current year. Debt decreased by \$427,367 while compensation related liabilities increased by \$330,042.

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8% of the total assessed value of taxable property located within that government’s boundaries. The legal debt margin for City of Southport is \$60,015,505.

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

**Economic Factors and Next Year’s Budgets and Rates**

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

- New residential homes construction is increasing at the rate of 6.0% annually.

**Budget Highlights for the Fiscal Year Ending June 30, 2017**

Management Discussion and Analysis  
City of Southport

**Governmental Activities:** Property taxes (benefiting from the economic growth) and revenues from permits and fees are expected to lead the increase in budgeted revenue by 2%. The City will use these increases in revenues to finance programs currently in place.

Budgeted expenditures in the General Fund are expected to increase at 1.8%. The increase is in employee compensation, including compensation and benefits adjustments.

The City has chosen not to appropriate fund balance in the fiscal year 2017 budget. Management believes that increased revenues and continued restrictions on spending will maintain the City's financial position. Management believes current growth will generate enough revenue to support City operations.

**Business-type Activities:** General operating expenses will increase by 1.8% to cover increased personnel costs. Rates for services will remain the same.

### **Requests for Information**

This report is designed to provide an overview of the City's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Director of Finance, City of Southport, 1029 N Howe St, Southport NC 28461. One can also call (910)-457-7900, visit our website [www.CityofSouthportnc.com](http://www.CityofSouthportnc.com).

## BASIC FINANCIAL STATEMENTS

**CITY OF SOUTHPORT, NORTH CAROLINA**  
**STATEMENT OF NET POSITION**  
June 30, 2016

EXHIBIT 1

	Primary Government			Component Unit
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	<u>Southport ABC Board</u>
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	1,430,468	3,993,970	5,424,438	370,501
Taxes receivable (net)	163,120	-	163,120	
Accounts receivable	13,345	1,112,317	1,125,662	-
Accrued interest receivable on taxes	47,689		47,689	
Due from other governments	416,896	-	416,896	
Due from component unit	98,810		98,810	
Inventories				332,714
Prepaid expenses	95,256		95,256	11,026
Restricted cash and cash equivalents	242,412	2,129,505	2,371,917	
Total current assets	2,507,996	7,235,792	9,743,788	714,241
Non-current assets				
Capital assets				
Land, non-depreciable improvements, and construction in progress	2,631,873	2,827,985	5,459,858	4,600
Other capital assets, net of depreciation	11,464,198	20,520,698	31,984,896	184,905
Total capital assets	14,096,071	23,348,683	37,444,754	189,505
Total non-current assets	14,096,071	23,348,683	37,444,754	189,505
Total Assets	16,604,067	30,584,475	47,188,542	903,746
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Pension payments subsequent to measurement period	97,722	38,034	135,756	10,854
Pension costs deferred	18,607	7,892	26,499	5,237
Total deferred outflows of resources	116,329	45,926	162,255	16,091
<b>LIABILITIES</b>				
Current liabilities				
Accounts payable and accrued expenses	278,027	1,017,641	1,295,668	323,905
Customer deposits	-	58,696	58,696	
Accrued interest	80,213	2,475	82,688	-
Due to primary government				98,810
Payable from restricted assets	78,145	986,348	1,064,493	
Current portion of long-term liabilities	385,944	114,401	500,345	27,931
Total current liabilities	822,329	2,179,561	3,001,890	450,646
Long-term liabilities				
Net pension liability	80,880	54,882	135,762	4,533
Due in more than one year	3,694,904	1,545,116	5,240,020	332,302
Total liabilities	4,598,113	3,779,559	8,377,672	787,481
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Pension deferrals	49,582	20,980	70,562	2,356
Unearned income	410	-	410	-
Total deferred inflows of resources	49,992	20,980	70,972	2,356
<b>NET POSITION</b>				
Net investment in capital assets	11,261,177	22,139,089	33,400,266	47,038
Restricted for:				
Stabilization by State Statute	535,261		535,261	
Capital outlay	164,267	2,074,903	2,239,170	-
Unrestricted	111,586	2,615,870	2,727,456	82,962
Total net position	12,072,291	26,829,862	38,902,153	130,000

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

**CITY OF SOUTHPORT, NORTH CAROLINA  
STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2016**

EXHIBIT 2

<u>Functions/Programs</u>	<u>Net (Expense) Revenue and Changes in Net Position</u>							
	<u>Expenses</u>	<u>Program Revenue</u>			<u>Primary Government</u>			<u>Component Unit</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	<u>Southport ABC Board</u>
<b>Primary government</b>								
Governmental Activities								
General Government	1,663,663	250,307	8,703	-	(1,404,653)	(1,404,653)		
Public Safety	2,319,419	1,055,531	93,175	13,500	(1,157,213)	(1,157,213)		
Transportation	494,316	-	109,954	125,167	(259,195)	(259,195)		
Culture and Recreation	467,674	38,284	6,650	29,750	(392,990)	(392,990)		
Environmental Protection	223,938	219,741	-	-	(4,197)	(4,197)		
Interest on Long-term debt	79,827	-	-	-	(79,827)	(79,827)		
Total governmental activities	<u>5,248,837</u>	<u>1,563,863</u>	<u>218,482</u>	<u>168,417</u>	<u>(3,298,075)</u>	<u>(3,298,075)</u>		
Business-type activities								
Electric Operations	6,182,691	7,604,270	15,785	-		1,437,364	1,437,364	
Water and Sewer Operations	3,158,086	2,995,471	4,000	-		(158,615)	(158,615)	
Total business-type activities	<u>9,340,777</u>	<u>10,599,741</u>	<u>19,785</u>	<u>-</u>		<u>1,278,749</u>	<u>1,278,749</u>	
Total primary government	<u>14,589,614</u>	<u>12,163,604</u>	<u>238,267</u>	<u>168,417</u>	<u>(3,298,075)</u>	<u>1,278,749</u>	<u>(2,019,326)</u>	
<b>Component Unit</b>								
Southport ABC Board	2,678,162	2,677,444	-	-			(718)	
Total component units	<u>2,678,162</u>	<u>2,677,444</u>	<u>-</u>	<u>-</u>			<u>(718)</u>	
General revenues:								
Taxes:								
Property taxes, levied for general purposes				1,859,721	-	1,859,721	-	
Other taxes				874,984	-	874,984	-	
Grants and contributions not restricted to specific programs				627,486	-	627,486	-	
Unrestricted investment earnings				1,253	4,444	5,697	718	
Miscellaneous				52,780	-	52,780	-	
Total general revenues not including transfers				<u>3,416,224</u>	<u>4,444</u>	<u>3,420,668</u>	<u>718</u>	
Transfers				-	-	-	-	
Total general revenues and transfers				<u>3,416,224</u>	<u>4,444</u>	<u>3,420,668</u>	<u>718</u>	
Change in net position				<u>118,149</u>	<u>1,283,193</u>	<u>1,401,342</u>	<u>-</u>	
Net position - beginning as previously reported				11,954,142	26,359,047	38,313,189	130,000	
Restatement				-	(812,378)	(812,378)	-	
Net position - beginning restated				<u>11,954,142</u>	<u>25,546,669</u>	<u>37,500,811</u>	<u>130,000</u>	
Net position - ending				<u>12,072,291</u>	<u>26,829,862</u>	<u>38,902,153</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, 2016**

**EXHIBIT 3  
Page 1 of 2**

	<b>Major Fund</b>	<b>Non-Major Funds</b>	
	<b>General Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>			
Cash and cash equivalents	1,429,194	1,274	1,430,468
Restricted cash and cash equivalents	242,412	-	242,412
Taxes receivable, net	163,120	-	163,120
Receivable from other governments	416,896	-	416,896
Receivable from other component unit	98,810	-	98,810
Other receivables	13,345	-	13,345
Prepaid expenses	95,256	-	95,256
Total assets	2,459,033	1,274	2,460,307
 <b>LIABILITIES</b>			
Liabilities:			
Accounts payable	191,714	-	191,714
Other accrued expenses	86,313	-	86,313
Accounts payable from restricted assets	78,145	-	78,145
Total liabilities	356,172	-	356,172
 <b>DEFERRED INFLOWS OF RESOURCES</b>			
Property taxes receivable	163,120	-	163,120
Prepaid property taxes	410	-	410
Total deferred inflows of resources	163,530	-	163,530
 <b>FUND BALANCES</b>			
Non Spendable			
Prepaid expenses	95,256		95,256
Restricted			
Stabilization by State Statute	535,261		535,261
Streets	-	-	-
Capital outlay	164,267		164,267
Committed			
Fire protection	44,318		44,318
Capital outlay	-	1,274	1,274
Assigned			
Designated for subsequent year	-		-
Unassigned	1,100,229		1,100,229
Total fund balances	1,939,331	1,274	1,940,605
Total liabilities, deferred inflows of resources and fund balances	2,459,033	1,274	2,460,307

**CITY OF SOUTHPORT, NORTH CAROLINA  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
June 30, 2016**

**EXHIBIT 3  
Page 2 of 2**

Total fund balance, governmental fund: 1,940,605

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position. 14,096,071

Contributions to the pension plan in the current fiscal year are deferred outflow of resources on the Statement of Net Position 97,722

Certain other long-term assets (accrued interest receivable from taxes) are not available to pay current period expenditures and therefore are deferred in the funds. 47,689

Liabilities for earned revenues considered deferred inflows of resources in fund statements 163,120

Deferred outflows of resources related to pensions are not reported in the funds 18,607

Some liabilities are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Position.

Accrued interest payable	(80,213)	
Capital leases payable	(186,094)	
Installment notes payable	(2,648,800)	
Compensated absences	(129,557)	
Other postemployment benefits	(1,067,603)	
Net pension liability (LGERS)	(80,880)	
Net pension obligation (LEO)	(48,794)	
	(4,241,941)	(4,241,941)

Deferred inflows of resources related to pensions are not reported in the funds (49,582)

Net position of governmental activities 12,072,291

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, 2016**

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

	<u>Major Fund</u>	<u>Non-Major Funds</u>	
	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>			
Property taxes	1,882,770	-	1,882,770
Other taxes	89,558	-	89,558
Unrestricted intergovernmental revenues	1,412,912	-	1,412,912
Restricted intergovernmental revenues	881,847	-	881,847
Licenses and permits	165,282	-	165,282
Sales and services	669,718	480	670,198
Investment earnings	1,253	-	1,253
Miscellaneous	150,235	-	150,235
Total revenues	<u>5,253,575</u>	<u>480</u>	<u>5,254,055</u>
<b>EXPENDITURES</b>			
Current:			
General government	1,601,172	-	1,601,172
Public safety	2,154,759	-	2,154,759
Transportation	519,212	-	519,212
Environmental protection	223,938	-	223,938
Culture and recreation	396,011	-	396,011
Debt Service:			
Principal	323,966	-	323,966
Interest and other charges	86,723	-	86,723
Total expenditures	<u>5,305,781</u>	<u>-</u>	<u>5,305,781</u>
Excess (deficiency) of revenues over expenditures	<u>(52,206)</u>	<u>480</u>	<u>(51,726)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(52,206)	480	(51,726)
Fund balances - beginning	<u>1,991,537</u>	<u>794</u>	<u>1,992,331</u>
Fund balances - ending	<u><u>1,939,331</u></u>	<u><u>1,274</u></u>	<u><u>1,940,605</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, 2016**

Net change in fund balances - total governmental funds: (51,726)

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 \$480,173 are exceeded by depreciation \$647,186 in the current period. (167,013)

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. (2,687)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Amount of donated assets 138,667  
Change in unavailable revenue for tax revenue (23,049)

Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities 97,722

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

Principal paid on debt 323,966

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 6,896  
Compensated absences 1,121  
Pension expense (57,685)  
Net pension obligation (17,176)  
Other postemployment benefits (130,887)

Change in net position of governmental activities 118,149

**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, 2016**

**EXHIBIT 5**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Ad valorem taxes	1,788,353	1,788,353	1,882,770	94,417
Other taxes	83,000	83,000	89,558	6,558
Unrestricted intergovernmental revenues	1,305,600	1,305,600	1,412,912	107,312
Restricted intergovernmental revenues	852,700	870,552	881,847	11,295
Licenses and permits	210,000	200,000	165,282	(34,718)
Sales and services	700,329	710,329	669,718	(40,611)
Investment earnings	4,000	-	1,151	1,151
Miscellaneous	107,500	162,901	150,235	(12,666)
Total revenues	5,051,482	5,120,735	5,253,473	132,738
<b>EXPENDITURES</b>				
Current:				
General government	1,635,193	1,640,437	1,601,172	39,265
Public safety	3,502,474	3,636,030	2,154,759	1,481,271
Transportation	415,992	543,514	519,212	24,302
Environmental protection	227,000	227,000	223,938	3,062
Culture and recreation	454,940	429,562	396,011	33,551
Debt Service:				
Principal	410,883	323,969	323,966	3
Interest and other charges	-	86,723	86,723	-
Total expenditures	6,646,482	6,887,235	5,305,781	1,581,454
Excess (deficiency) of revenues over expenditures	(1,595,000)	(1,766,500)	(52,308)	1,714,192
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from capital leases	1,500,000	1,500,000	-	(1,500,000)
Transfers in	-	-	-	-
Total other financing sources and uses	1,500,000	1,500,000	-	(1,500,000)
Fund balance appropriated	95,000	266,500	-	(266,500)
Net change in fund balance	-	-	(52,308)	(52,308)
Fund balance - beginning			1,827,372	
Fund balance - ending			1,775,064	
A legally budgeted Capital Reserve Fund is consolidated into the General Fund for reporting purposes:				
Interest income			102	
Fund balance - beginning			164,165	
Fund balance - ending			164,267	
Fund balance - ending (Exhibit 4)			1,939,331	

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

**CITY OF SOUTHPORT, NORTH CAROLINA**  
**STATEMENT OF FUND NET POSITION**  
**PROPRIETARY FUNDS**  
**June 30, 2016**

**EXHIBIT 6**  
**Page 1 of 2**

	<b>Major Enterprise Funds</b>		
	<b><u>Electric Fund</u></b>	<b><u>Water and Sewer Fund</u></b>	<b><u>Total</u></b>
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	3,624,331	369,639	3,993,970
Accounts receivable customers, net	414,018	286,904	700,922
Accounts receivable BEMC	411,395	-	411,395
Restricted assets			
Cash and cash equivalents	25,331	2,104,174	2,129,505
Total current assets	4,475,075	2,760,717	7,235,792
Non-current assets:			
Capital assets:			
Land and improvements	-	2,827,985	2,827,985
Utility system	10,700,557	18,241,792	28,942,349
Buildings	94,816	-	94,816
Equipment and furniture	196,781	606,992	803,773
Vehicles	21,156	419,802	440,958
Less: Accumulated depreciation	(3,636,694)	(6,124,504)	(9,761,198)
Total capital assets	7,376,616	15,972,067	23,348,683
Total non-current assets	7,376,616	15,972,067	23,348,683
Total assets	11,851,691	18,732,784	30,584,475
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Contributions to pension plan	15,862	22,172	38,034
Pension deferrals	3,082	4,810	7,892
Total deferred outflows of resources	18,944	26,982	45,926
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	478,625	515,567	994,192
Salaries payable	8,428	15,021	23,449
Customer deposits	25,331	33,365	58,696
Accounts payable from restricted assets	-	986,348	986,348
Compensated absences	6,000	5,000	11,000
Accrued interest payable	-	2,475	2,475
Bonds, notes and loans payable	-	103,401	103,401
Total current liabilities	518,384	1,661,177	2,179,561
Non-current liabilities:			
Compensated absences	4,241	3,067	7,308
Other postemployment benefits	107,739	323,876	431,615
Net pension liability	16,583	38,299	54,882
Bonds, notes and loans payable	-	1,106,193	1,106,193
Total non-current liabilities	128,563	1,471,435	1,599,998
Total liabilities	646,947	3,132,612	3,779,559

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

CITY OF SOUTHPORT, NORTH CAROLINA  
 STATEMENT OF FUND NET POSITION  
 PROPRIETARY FUNDS  
 June 30, 2016

EXHIBIT 6  
 Page 2 of 2

	<b>Major Enterprise Funds</b>		
	<u>Electric Fund</u>	<u>Water and Sewer Fund</u>	<u>Total</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Pension deferrals	8,207	12,773	20,980
 <b>NET POSITION</b>			
Net investment in capital assets	7,376,616	14,762,473	22,139,089
Restricted for capital projects	-	2,074,903	2,074,903
Unrestricted	3,838,865	(1,222,995)	2,615,870
Total net position	11,215,481	15,614,381	26,829,862

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

**CITY OF SOUTHPORT, NORTH CAROLINA**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION**  
**PROPRIETARY FUNDS**  
**For the Year Ended June 30, 2016**

**EXHIBIT 7**

	<b>Major Enterprise Funds</b>		
	<u><b>Electric Fund</b></u>	<u><b>Water and Sewer Fund</b></u>	<u><b>Total</b></u>
<b>REVENUES</b>			
Charges for services	7,603,625	2,995,471	10,599,096
Miscellaneous	16,430	-	16,430
Total operating revenues	7,620,055	2,995,471	10,615,526
<b>OPERATING EXPENSES</b>			
Electric operations	5,914,053	-	5,914,053
Water and sewer operations	-	2,702,613	2,702,613
Depreciation	268,638	439,196	707,834
Total operating expenses	6,182,691	3,141,809	9,324,500
Operating income (loss)	1,437,364	(146,338)	1,291,026
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Interest and investment revenue	2,910	1,534	4,444
Operating grants and contributions	-	4,000	4,000
Interest expense	-	(16,277)	(16,277)
Total non-operating revenue (expenses)	2,910	(10,743)	(7,833)
Change in net position	1,440,274	(157,081)	1,283,193
Total net position - beginning, previously reported	9,775,207	16,583,840	26,359,047
Restatement	-	(812,378)	(812,378)
Total net position - beginning, restated	9,775,207	15,771,462	25,546,669
 Total net position - ending	 11,215,481	 15,614,381	 26,829,862

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, 2016**

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

	<u>Major Enterprise Funds</u>		
	<u>Electric</u>	<u>Water &amp; Sewer</u>	
	<u>Fund</u>	<u>Fund</u>	<u>Total</u>
<b>Cash flows from operating activities:</b>			
Cash received from customers	7,188,442	2,882,385	10,070,827
Cash paid for goods and services	(5,754,932)	(2,072,554)	(7,827,486)
Cash paid to employees	(231,964)	(341,785)	(573,749)
Customer deposits received	29,060	33,365	62,425
Customer deposits returned	(99,306)	-	(99,306)
Other operating revenues	16,430	-	16,430
	<u>1,147,730</u>	<u>501,411</u>	<u>1,649,141</u>
Net cash provided (used) by operating activities			
<b>Cash flows from capital and related financing activities:</b>			
Acquisition of capital assets	(1,163,659)	(1,024,849)	(2,188,508)
Principal paid on long-term debt	-	(103,401)	(103,401)
Interest paid on long-term debt	-	(16,562)	(16,562)
Contributions from customers	-	173,970	173,970
	<u>(1,163,659)</u>	<u>(966,842)</u>	<u>(2,130,501)</u>
Net cash provided (used) for capital and related financing activities			
<b>Cash flows from investing activities:</b>			
Interest on investments	2,910	1,534	4,444
	<u>2,910</u>	<u>1,534</u>	<u>4,444</u>
Net increase (decrease) in cash and cash equivalents	(13,019)	(463,897)	(476,916)
Cash and cash equivalents, beginning	3,662,681	2,937,710	6,600,391
	<u>3,662,681</u>	<u>2,937,710</u>	<u>6,600,391</u>
Cash and cash equivalents, ending	<u>3,649,662</u>	<u>2,473,813</u>	<u>6,123,475</u>

**CITY OF SOUTHPORT, NORTH CAROLINA**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**For the Year Ended June 30, 2016**

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

	<u>Major Enterprise Funds</u>		<u>Total</u>
	<u>Electric Fund</u>	<u>Water &amp; Sewer Fund</u>	
Reconciliation of operating income to net cash provided by operating activities:			
Operating income (loss)	<u>1,437,364</u>	<u>(146,338)</u>	<u>1,291,026</u>
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	268,638	439,196	707,834
Changes in assets and liabilities			
(Increase) decrease in accounts receivable	(416,349)	(113,086)	(529,435)
Decrease in net pension asset	19,809	39,583	59,392
Increase in deferred outflows of resources - pensions	(2,717)	(3,126)	(5,843)
Increase in net pension liability	16,583	38,299	54,882
Decrease in deferred inflows of resources - pensions	(40,071)	(83,699)	(123,770)
Increase (decrease) in accounts payable	(91,585)	259,821	168,236
Increase (decrease) in accrued wages	5,249	9,947	15,196
Increase (decrease) in customer deposits	(70,246)	33,365	(36,881)
Increase (decrease) in accrued vacation	363	911	1,274
Increase (decrease) in OPEB accrual	<u>19,526</u>	<u>26,538</u>	<u>46,064</u>
Total adjustments	<u>(289,634)</u>	<u>647,749</u>	<u>358,115</u>
Net cash provided (used) by operating activities	<u><u>1,147,730</u></u>	<u><u>501,411</u></u>	<u><u>1,649,141</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 position and the statement of activities display information about the primary government and its component unit. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

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

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

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

The City reports the following major governmental fund:

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

The City reports the following non-major governmental fund:

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

The City reports the following 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.

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

#### D. Budgetary Data

The City's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund, The Capital Reserve Fund and the Enterprise Funds. All annual appropriations lapse at the fiscal-year end. A project ordinance has been adopted for the Building Capital Improvement Fund. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the project level for the multi-year funds. The City Manager is authorized to transfer appropriations within a fund as he sees necessary; however, a report of such transfers shall be made in the next regular financial report. All other transfers of cash between appropriations or budget funds shall be accomplished by Board amendment of the budget ordinance. During the year, several amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers the time until the annual ordinance can be adopted.

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

1. Deposits and Investments

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

State law (G.S. 159-30(c)) authorizes the City and the ABC Board to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust (NCCMT). The City's investment in the securities of the NCCMT Cash Portfolio, a SEC-registered (2a-7) external investment pool, is measured at amortized cost, which is the NCCMT's share price.

2. Cash and Cash Equivalents

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

3. Restricted Assets

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

City of Southport Restricted Cash

Governmental Activities	
General Fund	
Streets	78,145
Capital outlay	<u>164,267</u>
Total governmental activities	<u>242,412</u>
Business-type Activities	
Electric Fund	
Customer deposits	25,331
Water and Sewer Fund	
Customer deposits	29,271
Impact fees collected	<u>2,074,903</u>
Total Business-type Activities	<u>2,129,505</u>
Total Restricted Cash	<u><u>2,371,917</u></u>

4. Ad Valorem Taxes Receivable

In accordance with State law (G.S. 105-347 and G.S. 159-13(a)), the City levies ad valorem taxes on property other than motor vehicles on July 1st, the beginning of the fiscal year. The taxes are due on September 1st (lien date); however, interest does not accrue until the following January 6th. These taxes are based on the assessed values as of January 1, 2015.

5. Allowances for Doubtful Accounts

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

6. Inventory and Prepaid Items

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

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

7. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization cost is \$5,000. Donated capital assets received prior to June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015 are reported at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. 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

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

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

8. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and will not be recognized as an expense or expenditure until then. The City has two items meeting this criterion, contributions made to the pension plan in the 2016 fiscal year and pension costs that will be recognized in future periods. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The City has several items that meets the criterion for this category – prepaid taxes, property taxes receivable and deferrals of pension expense that result from the implementation of GASB Statement 68.

9. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bonds payable are reported net of the applicable bond premiums or discount. Bond issuance costs, except for prepaid insurance costs, are expensed in the reporting period in which they are incurred. Prepaid insurance costs are expensed over the life of the debt.

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

10. Compensated Absences

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

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

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

11. Net Position/Fund Balances

Net Position

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

Fund Balances

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

The governmental fund types classify fund balances as follows:

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

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

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

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

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

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

Committed Fund Balance – portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of City of Southport's governing body (highest level of decision-making authority). The governing body can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

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

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

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

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

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

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

## 12. Pensions

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

## II. 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, 2016, the City's deposits had a carrying amount of \$7,743,446 and a bank balance of \$8,547,932. The carrying amount of deposits of the ABC Board was \$369,001 and the bank balance was \$343,300. \$250,000 of the ABC Board and \$745,904 of the City was covered by federal depository insurance. The balances of the deposits \$7,802,028 for the City and \$93,300 by the ABC Board were collateralized by institutions using the Pooling Method. At June 30, 2016, the City's cash on hand totaled \$450.

2. Investments

At June 30, 2016, the City of Southport had \$ 52,459 invested with the North Carolina Capital Management Trust's Cash Portfolio which accrued a credit rating of AAAM by Standard and Poor's. The City has no policy regarding credit risk.

3. Receivables - Allowances for Doubtful Accounts

The amounts presented in the Balance Sheet and the Statement of Net Position for the year ended June 30, 2016 are net of the following allowances for doubtful accounts:

General Fund:	
Taxes receivable	28,786
Solid waste accounts receivable	<u>1,259</u>
Total General Fund	<u>30,045</u>
Enterprise Funds	
Electric Fund - accounts receivable	6,425
Water and Sewer Fund - accounts receivable	<u>7,552</u>
Total Enterprise Funds	<u>13,977</u>
Total	<u><u>44,022</u></u>

4. Capital Assets

Primary Government

Capital asset activity for the Primary Government for the year ended June 30, 2016, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	2,509,952	10,000		2,519,952
Construction in progress	73,554	38,367		111,921
Total capital assets not being depreciated	<u>2,583,506</u>	<u>48,367</u>	-	<u>2,631,873</u>
Capital assets being depreciated				
Buildings	8,909,884	40,106		8,949,990
Other improvements	965,130			965,130
Infrastructure	2,877,290	277,535		3,154,825
Vehicles and motorized equipment	3,295,141	132,461	18,683	3,408,919
Furniture and equipment	1,022,870	120,371	42,687	1,100,554
Total capital assets being depreciated	<u>17,070,315</u>	<u>570,473</u>	<u>61,370</u>	<u>17,579,418</u>
Less accumulated depreciation for:				
Buildings	1,493,615	178,385		1,672,000
Other improvements	384,485	42,045		426,530
Infrastructure	686,392	116,450		802,842
Vehicles and motorized equipment	2,404,186	229,537	18,683	2,615,040
Furniture and equipment	558,039	80,769	40,000	598,808
Total accumulated depreciation	<u>5,526,717</u>	<u>647,186</u>	<u>58,683</u>	<u>6,115,220</u>
Total capital assets being depreciated, net	<u>11,543,598</u>			<u>11,464,198</u>
Governmental activity capital assets, net	<u>14,127,104</u>			<u>14,096,071</u>

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

General government	111,903
Public safety	352,990
Transportation	123,348
Cultural and recreational	58,945
Total depreciation expense	<u>647,186</u>

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
<i>Electric Fund</i>				
Capital assets not being depreciated:	-	-	-	-
Capital assets being depreciated				
Buildings	94,816			94,816
Utility systems	9,536,898	1,163,659		10,700,557
Vehicles and motorized equipment	21,156			21,156
Furniture and equipment	196,781			196,781
Total capital assets being depreciated	9,849,651	1,163,659	-	11,013,310
Less accumulated depreciation for:				
Buildings	12,566	2,370		14,936
Utility systems	3,250,195	251,954		3,502,149
Vehicles and motorized equipment	21,156			21,156
Furniture and equipment	84,139	14,314		98,453
Total accumulated depreciation	3,368,056	268,638	-	3,636,694
Total capital assets being depreciated, net	6,481,595			7,376,616
Electric fund capital assets, net	6,481,595			7,376,616
<i>Water and Sewer Fund</i>				
Capital assets not being depreciated:				
Land	2,827,985			2,827,985
Total capital assets not being depreciated	2,827,985	-	-	2,827,985
Capital assets being depreciated				
Utility systems	17,374,802	866,990		18,241,792
Vehicles and motorized equipment	346,957	72,845		419,802
Furniture and equipment	521,978	85,014		606,992
Total capital assets being depreciated	18,243,737	1,024,849	-	19,268,586
Less accumulated depreciation for:				
Utility systems	5,017,854	401,207		5,419,061
Vehicles and motorized equipment	321,709	9,226		330,935
Furniture and equipment	345,745	28,763		374,508
Total accumulated depreciation	5,685,308	439,196	-	6,124,504
Total capital assets being depreciated, net	12,558,429			13,144,082
Water and Sewer fund capital assets, net	15,386,414			15,972,067
Business-type activities capital assets, net	21,868,009			23,348,683

Construction Commitments

The City had outstanding construction commitments of \$267,135 at June 30, 2016.

Discretely presented component unit

Activity for the ABC Board for the year ended June 30, 2016, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets not being depreciated:				
Land	4,600	-	-	4,600
Capital assets being depreciated				
Buildings	58,755	62,282		121,037
Building improvements	69,461	73,901	16,375	126,987
Furniture and fixtures	5,437		2,261	3,176
Equipment	21,578	12,679	4,069	30,188
Total capital assets being depreciated	155,231	148,862	22,705	281,388
Less accumulated depreciation for:				
Buildings	58,755	908		59,663
Building improvements	36,156	5,572	16,375	25,353
Furniture and fixtures	4,963	125	2,261	2,827
Equipment	7,987	4,722	4,069	8,640
Total accumulated depreciation	107,861	11,327	22,705	96,483
Total capital assets being depreciated, net	47,370			184,905
ABC capital assets, net	51,970			189,505

B. Liabilities

1. Pension Plan and Postemployment Obligations

a. Local Government Employees' Retirement System

Plan Description. The City of Southport is a contributing employer in the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS membership is comprised of general employees and local law enforcement officers (LEOs) of participating local government entities. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and the State School Superintendent, who serve as ex-officio members. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454 or at [www.osc.nc.gov](http://www.osc.nc.gov).

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

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

*Contributions.* Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. City of Southport employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The City of Southport's contractually required contribution rate for the year ended June 30, 2016, was 7.15 % for law enforcement officers and 6.67% for general employees, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the City of Southport were \$135,756 for the year ended June 30, 2016.

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

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

At June 30, 2016, the City reported a liability of \$135,762 for its proportionate share of the net pension asset. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014. The total pension liability was then rolled forward to the measurement date of June 30, 2015 utilizing update procedures incorporating the actuarial assumptions. The City's proportion of the net pension liability was based on a projection of the City's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2015, the City's proportion was 0.03025%, which was an increase of 0.00193% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the City recognized pension expense of \$69,304. At June 30, 2016, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience		31,912
Changes of assumptions		-
Net difference between projected and actual earnings on pension plan investments		38,650
Changes in proportion and differences between City contributions and proportionate share of contributions	26,499	
City contributions subsequent to the measurement date	<u>135,756</u>	
Total	<u><u>162,255</u></u>	<u><u>70,562</u></u>

\$135,756 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2017	(37,715)
2018	(37,715)
2019	(37,683)
2020	69,050
2021	-
Thereafter	<u>-</u>
	<u><u>(44,063)</u></u>

*Actuarial Assumptions.* The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

The actuarial assumptions used in the December 31, 2014 valuation were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2015 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Fixed Income	29.0%	2.2%
Global Equity	42.0%	5.8%
Real Estate	8.0%	5.2%
Alternatives	8.0%	9.8%
Credit	7.0%	6.8%
Inflation Protection	6.0%	3.4%
Total	<u>100.0%</u>	

The information above is based on 30 year expectations developed with the consulting actuary for the 2014 asset liability and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

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

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

	<b>1% Decrease <u>(6.25%)</u></b>	<b>Discount Rate <u>(7.25%)</u></b>	<b>1% Increase <u>(8.25%)</u></b>
City's proportionate share of the net pension liability (asset)	946,673	135,760	(547,417)

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

b. Law Enforcement Officers Special Separation Allowance

(1) Plan Description

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

All full-time law enforcement officers of the City are covered by the separation allowance. At December 31, 2015, the Separation Allowance’s membership consisted of:

Retirees receiving benefits	-
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	<u>11</u>
Total	<u>11</u>

A separate report was not issued for the plan.

(2) Summary of Significant Accounting Policies

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

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

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

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

(3) Contributions

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

The annual required contribution for the current year was determined as part of the December 31, 2015 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 5.00% investment rate of return (net of administrative expenses) and (b) projected salary increases of 4.25% - 7.85% per year. Both (a) and (b) included an inflation component of 3.00%. The assumptions did not include postretirement benefit increases.

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

Annual required contribution	18,373
Interest on net pension obligation	1,581
Adjustment to annual required contribution	<u>(2,778)</u>
Annual pension cost	17,176
Contributions made	<u>-</u>
Increase (decrease) in net pension obligation	17,176
Net pension obligation beginning of year	<u>31,618</u>
Net pension obligation end of year	<u><u>48,794</u></u>

For Year Ended <u>June 30</u>	3 Year Trend Information		
	Annual Pension Cost <u>(APC)</u>	Percentage of <u>APC Contributed</u>	Net Pension <u>Obligation</u>
2014	12,636	78.30%	22,368
2015	14,197	34.85%	31,618
2016	17,176	0.00%	48,794

(4) Funded Status and Funding Progress.

As of December 31, 2015, 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 \$119,542. The covered payroll (annual payroll of active employees covered by the plan) was \$552,419, and the ratio of the UAAL to the covered payroll was 21.64%.

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 law enforcement officers employed by the City. The City has elected to also contribute to the plan for 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 law officer's salary. 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.

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

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

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

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

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

Membership in the HCB Plan consisted of the following at December 31, 2014, the date of the latest actuarial valuation:

Law enforcement officers	6
General Employees	22
Retirees	<u>20</u>
Total	<u>48</u>

Funding Policy - The City has chosen to fund the healthcare benefits on a pay as you go basis. The current annual required contribution (ARC) is 29.93% of covered payroll. For the current year, the City contributed \$184,872 or 14.7%. The City's obligation to contribute to the HCB Plan is established and may be amended by the Board of Aldermen.

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

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

Annual required contribution	382,458
Interest on net OPEB obligation	52,891
Adjustment to annual required contribution	<u>(73,526)</u>
Annual OPEB cost	361,823
Contributions made	<u>184,872</u>
Increase (decrease) in net OPEB obligation	176,951
Net OPEB obligation, beginning of year	<u>1,322,267</u>
Net OPEB obligation, end of year	<u>1,499,218</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, 2016 were as follows:

For Year Ended <u>June 30</u>	3 Year Trend Information		Net OPEB <u>Obligation</u>
	<u>Annual OPEB Cost</u>	<u>% of Annual OPEB Cost Contributed</u>	
2014	318,136	41.0%	1,115,436
2015	365,050	43.3%	1,322,267
2016	361,823	51.1%	1,499,218

Funded Status and Funding Progress – As of December 31, 2014, the most recent actuarial valuation date, the plan was not funded. The actuarial liability for benefits and, this, the unfunded actuarial accrued liability (UAAL) was \$4,344,557. The covered payroll (annual payroll of active employees covered by the plan) was \$1,263,982, and the ratio of the UAAL to covered payroll was 343.7%. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

At December 31, 2014 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.00 percent investment rate of return (net of administrative expenses), which is the expected long-term investment returns on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual medical cost trend increase of 7.5 to 5 percent annually for pre-Medicare costs and 5.5 to 5.0 percent for post-Medicare costs. The investment rate included a 3.00% inflation assumption. The assumed investment rate of return reflects the fact that no assets are set aside within the City of Southport. If a Trust or equivalent arrangement were set up for this purpose, the investment rate of return may be increased. The UAAL is being amortized at a level dollar amount on an open basis. The remaining amortization period at December 31, 2014 was 30 years.

2. Other Employment Benefits

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

3. Deferred Outflows and Inflows of Resources

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

<u>Source</u>	<u>Amount</u>
Contributions to pension plan in current fiscal year	135,756
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>26,499</u>
Total	<u><u>162,255</u></u>

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

Prepaid taxes (General Fund)	410
Taxes receivable (General Fund)	163,120
Differences between expected and actual experience	31,912
Net difference between projected and actual earnings on pension plan investments	<u>38,650</u>
Total	<u><u>234,092</u></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 \$1 million per occurrence, property coverage up to the total insurance values of the property policy, workers' compensation coverage up to the statutory limits, and employee health coverage. The liability and property exposures are reinsured through commercial carriers for claims in excess of retentions as selected by the Board of Trustees each year. Excess insurance coverage is purchased by the Board of Trustees to protect against large workers' compensation claims that exceed certain dollar cost levels. Specific information on the limits of the reinsurance, excess and stop loss policies purchased by the Board of Trustees can be obtained by contacting the Risk Management Services Department of the NC League of Municipalities. The pools are audited annually by certified public accountants, and the audited financial statements are available to the City upon request.

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

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

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

5. Claims, Judgments and Contingent Liabilities

According to the City Attorney and City Management at June 30, 2016, the City was not a defendant in any lawsuit whose outcome could affect the City's ability to pay obligations as they become due.

6. Long-Term Obligations

a. Capital Leases

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

Below is a summary of the provisions of these leases:

<u>Date of Lease</u>	<u>Property Leased</u>	<u>Total of Lease</u>	<u>Payment Amount</u>	<u>Remaining Payments</u>	<u>Frequency of Payments</u>
5/3/12	Spartan Aerial Fire Truck	400,000	84,298	1	Annual
9/14/12	GMC 4500 Ambulance	119,285	31,137	1	Annual
1/12/14	GMC 4500 Ambulance	119,985	25,171	3	Annual

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

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

<u>Fund</u>	<u>Class of Property</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
General Fund	Vehicles and motorized equipment	1,052,991	592,663	460,328

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2016 were as follows:

<u>Year Ending June 30</u>	<u>Total</u>	<u>Governmental Activities</u>
2017	140,606	140,606
2018	25,171	25,171
2019	25,171	25,171
Total minimum lease payments	190,948	190,948
Less: Amount representing interest	4,854	4,854
Present value of minimum lease payments	<u>186,094</u>	<u>186,094</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%. Effective with the July 2014 payment, these notes were refinanced reducing the interest rate to 2.85% while annual principal payments remain the same.

Annual debt service payments of the installment purchase as of June 30, 2016, including \$565,732 of interest is as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2017	189,200	75,491
2018	189,200	70,099
2019	189,200	64,706
2020	189,200	59,314
2021	189,200	53,922
2022-2026	946,000	188,727
2027-2029	756,800	53,473
	<u>2,648,800</u>	<u>565,732</u>

c. Revolving Loans

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

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

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

Year Ending June 30	Business-type Activities	
	Principal	Interest
2017	103,401	15,057
2018	103,401	13,551
2019	103,401	12,045
2020	103,401	10,540
2021	103,401	9,034
2022-2026	517,005	22,584
2026-2031	175,584	-
	<u>1,209,594</u>	<u>82,811</u>

At June 30, 2016, the City of Southport had a legal debt margin of \$60,015,505.

d. Changes in Long - Term Liabilities

	<u>Balance</u> <u>6/30/15</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>6/30/16</u>	<u>Current</u> <u>Portion of</u> <u>Balance</u>
Governmental activities:					
Installment notes payable	2,838,000		189,200	2,648,800	189,200
Capitalized leases	320,860		134,766	186,094	137,187
Compensated absences	130,678	114,817	115,938	129,557	59,557
Other postemployment benefits	936,716	256,584	125,697	1,067,603	
Net Pension liability (LGERS)	-	80,880	-	80,880	
Net pension obligation	<u>31,618</u>	<u>17,176</u>	<u>-</u>	<u>48,794</u>	<u>-</u>
	<u>4,257,872</u>	<u>469,457</u>	<u>565,601</u>	<u>4,161,728</u>	<u>385,944</u>
Business-type activities:					
Revolving loans	1,312,995		103,401	1,209,594	103,401
Compensated absences	17,034	17,760	16,486	18,308	11,000
Net Pension liability (LGERS)	-	54,882	-	54,882	
Other postemployment benefits	<u>385,551</u>	<u>105,239</u>	<u>59,175</u>	<u>431,615</u>	<u>-</u>
	<u>1,715,580</u>	<u>177,881</u>	<u>179,062</u>	<u>1,714,399</u>	<u>114,401</u>

C. Contracts

1. Electric Maintenance Contract

The City of Southport has awarded a contract to Brunswick Electric Membership Corporation for the operation and maintenance of the Electric Distribution System of the City of Southport. The contract is for a five year term beginning on July 1, 2011. This contract expires on June 30, 2016. The initial cost to the City under the contract was \$327,026 for the twelve months ending on June 30, 2012. Effective each July 1, under the contract the annual fee will be adjusted based on the increase in the Consumer Price Index and City customer growth. For the year ending June 30, 2016, the City made monthly payments of \$33,161. 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.

For the year ended June 30, 2016, the City payments under this contract totaled \$397,938.

2. Electric Account Services Contract

On November 18, 2015, the City awarded a contract to Brunswick Electric Membership Corporation for reading the City's electric meters, preparing and mailing the monthly electric bills and processing the remittances of the City's electric customers. The initial contract ran through June 30, 2016. After the initial period, the parties were to review any unresolved or unanticipated scenarios and concerns and negotiate a subsequent five year contract with an effective date of July 1, 2016. Payments on the initial contract were a fixed monthly amount of \$11,105.52. Payments on this contract for the year ended June 30, 2016, totaled \$33,317. Per the initial contract, if no renegotiation was necessary prior to July 1, 2016, the contract automatically renewed for a five year period. Annual adjustments will be based on the Consumer Price Index and the number of customers served.

3. Solid Waste Collection Contract

The City has a contract with Waste Industries, Inc. to provide solid waste collection to the City and its residents. This contract, expiring June 30, 2018, bases fees on the number of residents and frequency of collection. Also, there is an annual price increase based on the change in the Consumer Price Index. The expense to the City for the year ended June 30, 2016 was \$223,938.

F. Net Investment in Capital Assets

The City's Net Investment in Capital Assets at June 30, 2016, consisted of the following:

	Governmental Funds	Business-type Funds
Capital assets	14,096,071	23,348,683
Less: Long-term Debt	<u>(2,834,894)</u>	<u>(1,209,594)</u>
Net investment in capital assets	<u><u>11,261,177</u></u>	<u><u>22,139,089</u></u>

G. Fund Balance

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

Total fund balance - General Fund	<u>1,939,331</u>
Less:	
Prepaid expenses	95,256
Stabilization by State Statute	535,261
Capital outlay (Capital Reserve Fund)	164,267
Committed for fire protection	<u>44,318</u>
Remaining fund balance	<u><u>1,100,229</u></u>

Outstanding encumbrances are amounts needed to pay any commitments related to purchase orders and contracts that remain unperformed at year-end. At June 30, 2016, the City had outstanding encumbrances of \$6,210 in the General Fund.

III. **JOINTLY GOVERNED ORGANIZATIONS**

A. North Carolina Eastern Municipal Power Agency

The City, in conjunction with thirty one other local governments, is a member of the North Carolina Eastern Municipal Power Agency (NCEMPA). The Agency was formed to enable municipalities that own electric distribution systems to finance, construct, own, operate, and maintain generation and transmission facilities. Each participating government appoints one commissioner to the Agency's governing board. The twenty-one members, who receive power from the Agency, have signed power sales agreements to purchase a specified share of the power generated by the Agency. On July 31, 2015, the NCEMPA completed the sale of most of its electricity generating assets to Duke Energy. These proceeds were used to defease the NCEMPA's outstanding revenue bonds. The NCEMPA entered into contracts with its member cities and Duke Energy. Under these arrangements, the NCEMPA will supply wholesale power to its members and will purchase this power from Duke Energy. In addition to payments made for electric power, NCEMPA members will make payments for their share of the debt service on the NCEMPA's new revenue bonds. During the year ended June 30, 2016, the City paid \$4,105,732 for power purchased and \$375,115 for their share of the debt service.

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, 2016.

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, 2016, 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, 2016. 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.

IV. **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.

V. **SUBSEQUENT EVENTS**

Events occurring after June 30, 2016 were evaluated by management on February 8, 2017 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.

VI. **PRIOR PERIOD ADJUSTMENT**

The North Carolina Supreme Court recently invalidated water and sewer impact fees assessed on new development by the Town of Carthage due to the timing and manner in which the fees were calculated and used (Quality Built Homes Inc. v. Town of Carthage). An impact fee is a charge assessed on a new development to fund current and future public infrastructure expenditures. The City of Southport has collected impact fees for water and sewer system additions since 2006. In addition to its recent ruling, the Supreme Court has remanded certain issues of the case back to the Court of Appeals, which has in turn remanded an issue back to the trial court. Also, the Town of Carthage has petitioned the Supreme Court for review of the decision of the Court of Appeals related to the issues remanded back to it. Final guidance has not been issued. Under interim guidance issued by the State and Local Government Finance Division of the Department of the State Treasurer, the assumption is made that at least three years of the fees are to be accrued for possible future refund. In order to accrue this liability, the current year receipts have been removed from income and beginning net position of the Water and Sewer Fund has been adjusted for the collections in the previous two years. The total liability has been recorded as accounts payable from restricted assets.

This recorded liability consists of the following:

<u>Year Ending</u>	<u>Sewer Impact Fees</u>	<u>Water Impact Fees</u>	<u>Total</u>
Removed from current revenue: June 30, 2016	<u>140,320</u>	<u>33,650</u>	<u>173,970</u>
Restatement of net position:			
June 30, 2014	299,000	45,900	344,900
June 30, 2015	<u>411,928</u>	<u>55,550</u>	<u>467,478</u>
Total restatement	<u>710,928</u>	<u>101,450</u>	<u>812,378</u>
Total accrual	<u>851,248</u>	<u>135,100</u>	<u>986,348</u>

If the final court determination is that ten years must be refunded, the City's maximum liability could equal \$2,266,000 plus interest and attorney fees.

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.
- Notes to the Required Schedules for the Law Enforcement Officers' Special Separation Allowance.
- Schedule of Funding Progress for Other Postemployment Benefits
- Notes to the Required Schedules for the Other Postemployment Benefits
- Proportionate Share of Net Pension Liability (Asset)
- City of Southport's Contributions – Local Government Employee's Retirement System

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

**EXHIBIT A-1**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
12/31/2001	0	68,510	68,510	0.00%	281,686	24.32%
12/31/2002	0	78,299	78,299	0.00%	238,891	32.76%
12/31/2003	0	96,898	96,898	0.00%	320,308	30.25%
12/31/2004	0	39,719	39,719	0.00%	223,535	17.77%
12/31/2005	0	115,142	115,142	0.00%	311,662	36.94%
12/31/2006	0	103,801	103,801	0.00%	341,857	30.36%
12/31/2007	0	102,803	102,803	0.00%	386,336	26.61%
12/31/2008	0	84,913	84,913	0.00%	481,273	17.64%
12/31/2009	0	84,792	84,792	0.00%	458,371	18.50%
12/31/2010	0	104,168	104,168	0.00%	396,761	26.25%
12/31/2011	0	88,994	88,994	0.00%	449,334	19.81%
12/31/2012	0	89,663	89,663	0.00%	450,696	19.89%
12/31/2013	0	87,917	87,917	0.00%	455,582	19.30%
12/31/2014	0	95,729	95,729	0.00%	596,916	16.04%
12/31/2015	0	119,542	119,542	0.00%	552,419	21.64%

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, 2015
Actuarial cost method	Entry Age Normal
Amortization method	Level dollar closed
Remaining amortization period	15 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return*	3.57%
Projected salary increases*	3.50%-7.35%
*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-2**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) Projected Unit Credit (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a % of Covered Payroll ((b-a)/c)</b>
12/31/2008	0	4,658,103	4,658,103	0.00%	1,873,089	248.60%
12/31/2012	0	4,026,456	4,026,456	0.00%	1,781,591	226.00%
12/31/2014	0	4,344,557	4,344,557	0.00%	1,263,982	343.72%

**SCHEDULE OF EMPLOYER CONTRIBUTION**

<b>Year Ended June 30</b>	<b>Annual Required Contribution</b>	<b>Percentage Contributed</b>
2010	383,344	28.30%
2011	383,344	38.08%
2012	383,344	42.59%
2013	316,477	40.01%
2014	316,477	41.00%
2015	382,458	41.36%
2016	382,458	51.92%

Notes to the Required Schedules:

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

Valuation date	December 31, 2014
Actuarial cost method	Projected unit credit
Amortization method	Level dollar amount, open
Remaining amortization period	30 years
Amortization factor	17.9837
Asset valuation method	Market value of assets
Actuarial assumptions:	
Investment rate of return*	4.00%
Medical cost trend rate	
Pre-Medicare Trend Rate	7.50%-5.00%
Post-Medicare Trend Rate	5.50%-5.00%
Year of ultimate trend rate	2020
*Includes inflation at	3.00%

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

**Exhibit A-3**

**LOCAL GOVERNMENT EMPLOYEES RETIREMENT SYSTEM**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
City of Southport's proportion of the net pension liability (asset) (%)	0.03025%	0.02832%	0.02880%
City of Southport's proportion of the net pension liability (asset) (\$)	135,760	(167,016)	347,151
City of Southport's covered payroll	1,863,345	1,773,533	1,752,169
City of Southport's proportionate share of the net pension liability (asset) as a percentage of it's covered -employee payroll	7.29%	(9.42%)	19.81%
Plan fiduciary net position as a percentage of the total pension liability	98.09%	102.64%	94.35%

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

**Exhibit A-4**

**LOCAL GOVERNMENT EMPLOYEES RETIREMENT SYSTEM**

	<u><b>2016</b></u>	<u><b>2015</b></u>	<u><b>2014</b></u>
Contractually required contribution	135,756	133,568	126,372
Contributions in relation to the contractually required contribution	<u>135,756</u>	<u>133,568</u>	<u>126,372</u>
Contribution deficiency (excess)	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>
City of Southport's covered-employee payroll	2,000,892	1,863,345	1,773,533
Contributions as percentage of covered-employee payroll	6.78%	7.17%	7.13%

## GOVERNMENTAL FUNDS

---

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

---

Included in the Governmental Funds in these statements are:

- Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual
- Capital Reserve Fund
- Building Capital Improvement 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, 2016**

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

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>Revenues</b>			
Ad valorem taxes			
Current year	1,646,765	1,689,519	42,754
Prior years	39,400	71,961	32,561
Motor vehicle taxes	93,188	103,447	10,259
Penalties and interest	<u>9,000</u>	<u>17,843</u>	<u>8,843</u>
Total	<u>1,788,353</u>	<u>1,882,770</u>	<u>94,417</u>
Other taxes			
Dog tags	1,000	1,160	160
Privilege licenses	-	665	665
Itinerant Peddler Permit	-	150	150
Accommodation tax	<u>82,000</u>	<u>87,583</u>	<u>5,583</u>
Total	<u>83,000</u>	<u>89,558</u>	<u>6,558</u>
Unrestricted intergovernmental revenues			
Local option sales tax	704,000	785,426	81,426
Beer and wine tax	13,600	13,835	235
ABC Profit distribution	275,000	243,000	(32,000)
Utility franchise tax	<u>313,000</u>	<u>370,651</u>	<u>57,651</u>
Total	<u>1,305,600</u>	<u>1,412,912</u>	<u>107,312</u>
Restricted intergovernmental revenues			
State street-aid allocation	109,952	109,954	2
Solid waste disposal tax	1,200	2,020	820
ABC Revenue for law enforcement	13,000	25,860	12,860
Fire - Misc. grants	10,000	10,000	-
Volunteer rescue EMS grant	10,400	5,000	(5,400)
Brunswick County rescue contributions	36,000	36,000	-
Police grants	15,000	-	(15,000)
Fire district fees	<u>675,000</u>	<u>693,013</u>	<u>18,013</u>
Total	<u>870,552</u>	<u>881,847</u>	<u>11,295</u>
Licenses and permits			
Building permits	195,000	150,781	(44,219)
Fire Inspection fees	-	2,528	2,528
Planning and zoning fees	<u>5,000</u>	<u>11,973</u>	<u>6,973</u>
Total	<u>200,000</u>	<u>165,282</u>	<u>(34,718)</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, 2016**

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

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>Sales and services</b>			
Cemetery lot sales	-	-	-
Refuse collection fees	227,000	219,741	(7,259)
Boat slip rentals	12,600	16,988	4,388
Rescue squad fees	170,000	150,621	(19,379)
Community building rent	98,000	94,420	(3,580)
Lease revenue	75,073	76,837	1,764
CAM Revenues	16,356	22,050	5,694
Tourism - Visitor Center sales	56,000	37,765	(18,235)
Lot cleaning reimbursements	300	-	(300)
Recreation fees	25,000	21,296	(3,704)
Duke Energy Progress	30,000	30,000	-
Total	<u>710,329</u>	<u>669,718</u>	<u>(40,611)</u>
<b>Investment earnings</b>			
Interest income	-	1,151	1,151
<b>Miscellaneous</b>			
Insurance reimbursement	5,000	-	(5,000)
Donations - Firemen's fund	-	11,360	11,360
NC Debt setoff	4,000	-	(4,000)
Donations - Recreation department	57,000	36,400	(20,600)
Donations - Beautification	19,401	4,495	(14,906)
Fire Department Response fees	17,600	16,547	(1,053)
Homeowners recovery fund	600	68	(532)
Miscellaneous - Police department	5,000	4,627	(373)
Miscellaneous - Fire department	400	328	(72)
Miscellaneous - Tourism	4,000	14,260	10,260
Miscellaneous - Community Garden	-	6,683	6,683
Special events - Community Building	5,000	-	(5,000)
Sales - fixed assets	2,500	13,836	11,336
Miscellaneous	42,400	41,631	(769)
Total	<u>162,901</u>	<u>150,235</u>	<u>(12,666)</u>
Total revenues	<u>5,120,735</u>	<u>5,253,473</u>	<u>132,738</u>
<b>Expenditures</b>			
<b>General government</b>			
<b>Board expense</b>			
Full-Time employees	81,373	86,899	
Social security	6,572	6,647	
Group insurance	261	261	
Workers compensation	220	138	
Professional fees	49,422	45,831	
Departmental supplies	5,277	2,473	

**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, 2016**

**EXHIBIT B-1  
Page 3 of 10**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Training and travel	6,764	6,964	
Utilities	4,712	4,716	
Miscellaneous	1,000	1,000	
Other services	4,914	4,914	
Contract Services	11,258	10,800	
Insurance and bonds	2,885	2,885	-
Elections	2,164	2,164	-
Total	<u>176,822</u>	<u>175,692</u>	<u>1,130</u>
Administration			
Full-time employees	65,488	65,418	
401(k) Retirement supplement	3,274	3,271	
Social security	4,904	4,891	
Group insurance	25,830	25,830	
Retirement	4,447	4,453	
Workers compensation	966	966	
Vehicle supplies	1,500	1,484	
Departmental supplies	22,486	20,489	
Training and travel	4,500	4,398	
Communications	6,950	7,336	
Utilities	9,495	9,558	
Advertising	5,645	5,957	
Other services	14,416	13,870	
Contract services	11,053	12,634	
Insurance and bonding	6,505	6,504	
Capital outlay - equipment	2,361	-	-
Total	<u>189,820</u>	<u>187,059</u>	<u>2,761</u>
Finance			
Full-time employees	74,111	74,103	
401(k) Retirement supplement	3,706	3,706	
Social security	5,617	5,593	
Group insurance	23,733	23,812	
Retirement	5,306	5,045	
Workers compensation	681	680	
Departmental supplies	18,864	21,525	
Training and travel	4,031	4,680	
Communications	7,020	7,138	
Utilities	3,203	3,218	
Community garden expenses	6,400	380	

**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, 2016**

**EXHIBIT B-1  
Page 4 of 10**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Contract services	17,233	19,697	
Property tax collection fees	15,988	15,999	
Insurance and bonding	2,429	2,429	-
Capital outlay - equipment	14,204	-	-
Total	202,526	188,005	14,521
Buildings and Grounds			
Full-time employees	212,811	213,052	
Part-time employees	6,247	6,248	
401(k) Retirement supplement	10,271	10,269	
Social security	16,892	16,914	
Group insurance	88,796	87,831	
Retirement	13,929	13,984	
Workers compensation	7,845	7,845	
Uniforms and protective gear	6,715	6,875	
Vehicle supplies	6,500	6,455	
Departmental supplies	18,110	16,111	
Training and travel	400	-	
Communications	1,360	1,473	
Utilities	283	267	
Cam expenses	20,289	20,569	
Repairs and maintenance - equipment	1,226	1,245	
Repairs and maintenance - vehicles	1,686	1,222	
Repairs and maintenance - facilities	87,634	114,945	
Other services	7,140	7,333	
Contract services	5,327	5,043	
Insurance and bonding	1,129	1,128	
Capital outlay - buildings	43,509	41,319	
Capital outlay - facilities	38,762	8,212	-
Total	596,861	588,340	8,521
Tourism			
Full-time employees	63,866	64,286	
401(k) Retirement supplement	3,101	3,123	
Social security	4,764	4,853	
Group insurance	15,240	15,240	
Retirement	4,210	4,256	
Workers compensation	960	959	
Departmental supplies	19,378	18,979	
Purchased for resale	19,186	19,546	
Tourism community events	10,315	10,315	
Special marketing opps	2,000	2,000	
Training and travel	1,885	1,560	
Communications	2,513	2,380	
Utilities	8,500	8,177	

**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, 2016**

**EXHIBIT B-1  
Page 5 of 10**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Repairs and maintenance - facilities	12,198	9,304	
Contract services	6,913	6,652	
Insurance and bonding	3,900	3,753	
Capital outlay - other	4,788	-	-
Total	183,717	175,383	8,334
Community Building			
Full-time employees	34,765	34,042	
Part-time employees	21,769	21,187	
401(k) Retirement supplement	1,700	1,702	
Social security	4,784	4,193	
Group insurance	631	631	
Retirement	2,293	2,318	
Workers compensation	1,824	1,823	
Departmental supplies	6,611	6,656	
Communications	3,920	3,829	
Utilities	16,435	16,550	
Repairs and maintenance - facilities	9,362	9,177	
Contract services	3,833	2,965	
Insurance and bonding	5,185	5,185	-
Total	113,112	110,258	2,854
City Garage			
Full-time employees	90,821	90,760	
401 (k) retirement supplement	4,541	4,538	
Social security	6,784	6,778	
Group insurance	27,373	27,372	
Retirement	6,167	6,178	
Workers compensation	3,460	3,459	
Uniforms and protective gear	4,308	3,900	
Vehicle supplies	1,400	905	
Departmental supplies	3,590	3,947	
Training and travel	200	90	
Communications	1,700	1,629	
Utilities	20,868	20,392	
Repairs and maintenance - equipment	51	51	
Repairs and maintenance - vehicles	500	410	
Contracted services	2,459	2,670	
Insurance and bonding	3,357	3,356	-
Total	177,579	176,435	1,144
Total general government	1,640,437	1,601,172	39,265

**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, 2016**

**EXHIBIT B-1  
Page 6 of 10**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Public Safety			
Police			
Full-time employees	488,267	493,451	
Part-time employees	40,172	40,267	
401 (k) retirement supplement	14,309	24,672	
Social security	40,145	40,103	
Group insurance	148,677	148,677	
Retirement	45,578	35,387	
Workers compensation	20,414	20,413	
Professional services	173	173	
Vehicle supplies	26,296	28,762	
Departmental supplies	11,291	11,586	
Uniforms and protective gear	11,453	8,469	
Training and travel	6,525	3,589	
Community resource program	2,283	2,283	
Communications	24,201	24,903	
Utilities	6,300	6,367	
Repairs and maintenance - equipment	1,656	1,655	
Repairs and maintenance - vehicles	9,685	9,368	
Other services	20,469	20,671	
Contract services	10,257	11,866	
Insurance and bonding	16,444	16,444	
Capital outlay - equipment	43,324	42,412	
Capital outlay - vehicles	29,227	29,227	
Capital outlay - facilities	1,000,000	24,538	-
Total	2,017,146	1,045,283	971,863
Fire Department			
Full-time employees	44,250	44,858	
Part-time employees	10,000	1,501	
Volunteer fees	105,000	79,986	
Volunteer incentives	21,345	21,345	
401 (k) retirement supplement	2,210	2,243	
Social security	13,445	13,051	
Firefighter pension plan contribution	2,927	3,056	
Firefighter retirement	3,000	3,000	
Payments to retirees	23,000	23,117	
Group insurance	8,537	8,537	
Workers compensation	10,660	10,660	
Professional fees	1,000	977	
Vehicle supplies	10,531	10,925	
Departmental supplies	30,775	40,585	
Uniforms and protective gear	19,923	16,055	
Inspections	2,476	-	

**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, 2016**

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

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Fire prevention	11,000	5,658	
Training and travel	15,928	15,333	
Communications	11,031	10,778	
Utilities	32,000	29,706	
Repairs and maintenance - equipment	10,000	10,963	
Repairs and maintenance - vehicles	12,799	11,221	
Repairs and maintenance - facilities	6,806	6,806	
Contract services	37,659	42,921	
Southport firemen's expenses	-	11,592	
Insurance and bonding	22,102	22,074	
Capital outlay - equipment	50,991	37,530	
Capital outlay - vehicles	41,277	41,276	
Capital outlay - other equipment	11,055	1,999	-
Total	571,727	527,753	43,974
 Rescue Squad			
Full-time employees	29,000	29,900	
Part-time employees	2,796	751	
Fees paid to volunteers	85,364	87,499	
401 (k) retirement supplement	1,453	1,502	
Social security	9,619	9,039	
Retirement	1,973	2,051	
Group insurance	8,635	6,640	
Workers compensation	7,199	7,199	
Uniforms and protective gear	3,034	3,033	
Vehicle supplies	6,000	5,400	
Departmental supplies	12,048	15,231	
Training and travel	800	659	
Communications	2,483	2,483	
Utilities	6,805	6,262	
Repairs and maintenance - equipment	1,762	6,622	
Repairs and maintenance - vehicles	2,000	968	
Repairs and maintenance - facilities	3,671	3,671	
Contract services	17,716	19,078	
Insurance and bonding	7,714	7,714	-
Assets purchased under \$5,000	5,000	-	
Capital outlay - Vehicles	40,417	40,417	
Capital outlay - Facilities	500,000	45,258	-
Total	755,489	301,377	454,112
 Code Enforcement			
Full-time employees	179,442	178,433	
401 (k) retirement supplement	8,972	8,922	
Social security	13,627	13,524	
Group insurance	28,458	28,458	
Retirement	12,189	12,142	

**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, 2016**

**EXHIBIT B-1  
Page 8 of 10**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Workers compensation	2,935	2,934	
Vehicle supplies	1,500	1,513	
Departmental supplies	5,600	5,267	
Training and travel	3,200	2,915	
Communications	3,700	3,682	
Utilities	2,000	1,528	
Repairs and maintenance - equipment	155	155	
Repairs and maintenance - vehicles	500	111	
Other services	1,975	1,975	
Contract services	3,878	3,979	
Insurance and bonding	1,000	978	
Capital outlay - equipment	8,707	-	
Capital outlay - other equipment	13,830	13,830	-
Total	291,668	280,346	11,322
Total public safety	3,636,030	2,154,759	1,481,271
Transportation			
Street			
Full-time employees	86,883	86,160	
401 (k) retirement supplement	5,344	5,309	
Social security	7,830	7,804	
Group insurance	40,299	40,299	
Retirement	7,100	7,229	
Workers compensation	8,178	8,178	
Uniforms and protective gear	4,798	4,914	
Vehicle supplies	10,193	8,584	
Departmental supplies	7,296	5,920	
Communications	680	743	
Utilities	30,000	29,990	
Repairs and maintenance - equipment	5,738	5,553	
Repairs and maintenance - vehicles	5,560	3,990	
Repairs and maintenance - facilities	21,839	21,412	
Contract services	5,955	10,955	
Insurance and bonding	2,605	2,755	
Capital outlay - equipment	6,499	-	
Total	256,797	249,795	7,002
Powell Bill			
Departmental supplies	21,334	115,262	
Contract services	8,810	-	
Capital outlay - other	256,573	154,155	-
Total	286,717	269,417	17,300
Total transportation	543,514	519,212	24,302

**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, 2016**

**EXHIBIT B-1  
Page 9 of 10**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Environmental Protection			
Solid Waste			
Contract services	227,000	223,938	-
Total	<u>227,000</u>	<u>223,938</u>	<u>3,062</u>
Total environmental protection	<u>227,000</u>	<u>223,938</u>	<u>3,062</u>
Cultural and Recreational			
Parks and recreation			
Full-time employees	93,793	93,570	
Part-time employees	68,551	69,287	
401 (k) retirement supplement	4,683	4,676	
Social security	11,777	11,869	
Group insurance	25,190	25,190	
Retirement	6,359	6,367	
Workers compensation	5,105	5,105	
Professional fees	83,270	54,549	
Uniforms and protective gear	500	134	
Vehicle supplies	4,000	2,685	
Departmental supplies	43,680	42,380	
Training and tavel	3,100	1,341	
Communications	8,300	6,726	
Utilities	34,800	34,921	
Repairs and maintenance - equipment	14	14	
Repairs and maintenance - vehicles	226	226	
Repairs and maintenance - Fort Johnston	12,398	12,402	
Contract services	13,316	13,914	
Insurance and bonding	<u>10,500</u>	<u>10,655</u>	<u>-</u>
Total cultural and recreational	<u>429,562</u>	<u>396,011</u>	<u>33,551</u>
Debt service			
Principal	323,969	323,966	
Interest and fees	<u>86,723</u>	<u>86,723</u>	<u>-</u>
Total debt service	<u>410,692</u>	<u>410,689</u>	<u>3</u>
Total expenditures	<u>6,887,235</u>	<u>5,305,781</u>	<u>1,581,454</u>
Revenues over (under) expenditures	<u>(1,766,500)</u>	<u>(52,308)</u>	<u>1,714,192</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, 2016**

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

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Other financing sources (uses)			
Proceeds of financing	<u>1,500,000</u>	<u>-</u>	<u>(1,500,000)</u>
Total other financing sources (uses)	1,500,000	-	(1,500,000)
Appropriated fund balance	<u>266,500</u>	<u>-</u>	<u>(266,500)</u>
Net change in fund balance	<u>-</u>	(52,308)	<u>(52,308)</u>
Fund Balance			
Beginning of year		<u>1,827,372</u>	
End of year		<u>1,775,064</u>	

**CITY OF SOUTHPORT, NORTH CAROLINA**  
**CAPITAL RESERVE FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
**For the Year Ended June 30, 2016**

EXHIBIT B-2

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues			
Investment earnings			
Interest income	-	102	102
	<hr/>	<hr/>	<hr/>
Total revenues	-	102	102
	<hr/>	<hr/>	<hr/>
Revenues over (under) expenditures	-	102	102
	<hr/>	<hr/>	<hr/>
Net change in fund balance	-	102	102
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Fund Balance			
Beginning of year		164,165	
		<hr/>	
End of year		164,267	
		<hr/>	

**CITY OF SOUTHPORT, NORTH CAROLINA  
BUILDING CAPITAL IMPROVEMENT FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
For the Year Ended June 30, 2016**

EXHIBIT B-3

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Actual Current Year</u>	<u>Total To Date</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Revenues</b>					
Investment earnings					
Interest earned	-	246	-	246	246
<b>Miscellaneous</b>					
Lease termination proceeds	36,800	36,819	-	36,819	19
Miscellaneous	-	-	480	480	480
<b>Total revenues</b>	<b>36,800</b>	<b>37,065</b>	<b>480</b>	<b>37,545</b>	<b>745</b>
<b>Expenditures</b>					
Professional fees	-	15,252	-	15,252	(15,252)
Building costs	1,970,000	1,947,522	-	1,947,522	22,478
Capital Outlay	-	6,697	-	6,697	(6,697)
<b>Total expenditures</b>	<b>1,970,000</b>	<b>1,969,471</b>	<b>-</b>	<b>1,969,471</b>	<b>529</b>
Excess of (under) revenues over expenditures	(1,933,200)	(1,932,406)	480	(1,931,926)	1,274
<b>Other financing sources (uses)</b>					
Transfers from other funds	1,933,200	1,933,200	-	1,933,200	-
Excess of revenues and other sources over expenditures	-	794	480	1,274	1,274
<b>Fund balance</b>					
Beginning of year			794		
End of year			1,274		

## 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.

**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, 2016**

**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	7,704,000	7,342,818	(361,182)
Underground service	180,000	161,934	(18,066)
Load management switches	4,000	1,478	(2,522)
Service charges	<u>90,000.00</u>	<u>97,395.00</u>	<u>7,395.00</u>
Total charges for services	<u>7,978,000</u>	<u>7,603,625</u>	<u>(374,375)</u>
Other operating revenues			
Miscellaneous	<u>-</u>	<u>16,430</u>	<u>16,430</u>
Total operating revenues	<u>7,978,000</u>	<u>7,620,055</u>	<u>(357,945)</u>
Nonoperating revenues			
Interest on investments	<u>-</u>	<u>2,910</u>	<u>2,910</u>
Total nonoperating revenues	<u>-</u>	<u>2,910</u>	<u>2,910</u>
Total revenues	<u>7,978,000</u>	<u>7,622,965</u>	<u>(355,035)</u>
Expenditures			
Expenditures other than depreciation			
Salaries	237,198	237,213	
Professional services	13,014	13,014	
Social security	17,751	17,730	
Group insurance	96,518	96,518	
Retirement	16,106	16,148	
401 (k) retirement supplement	11,860	11,861	
Workers compensation insurance	10	9	
Uniforms and protective gear	1,041	1,045	
Telephone and postage	18,200	16,304	
Utilities	235	235	
Travel and training	4,200	1,669	

**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, 2016**

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

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Expenditures			
Expenditures other than depreciation			
Equipment maintenance	2,450	754	
Vehicle maintenance	1,000	30	
Gas, oil and tires	1,600	331	
Departmental supplies	22,000	25,291	
Utility sales tax	504,000	461,080	
Power purchased	4,727,020	4,480,847	
Contract meter reading	683,318	-	
Contract services	534,798	513,014	
Insurance and bonding	7,468	7,467	
Load management repairs	1,300	-	-
Total expenditures other than depreciation	<u>6,901,087</u>	<u>5,900,560</u>	<u>1,000,527</u>
Supplemental budget expenditures			
Capital outlay	1,076,913	1,163,659	-
Total supplemental expenditures	<u>1,076,913</u>	<u>1,163,659</u>	<u>(86,746)</u>
Total expenditures	<u>7,978,000</u>	<u>7,064,219</u>	<u>913,781</u>
Excess of revenues over (under) expenditures	<u>-</u>	<u>558,746</u>	<u>558,746</u>
Other financing sources (uses)			
Other financing sources over (under) uses	<u>-</u>	<u>-</u>	<u>-</u>
Revenues and other sources over expenditures and other uses	<u>-</u>	<u>558,746</u>	<u>558,746</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, 2016**

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

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Reconciliation of modified accrual basis to full accrual basis:			
Excess of revenues and other sources over (under) expenditures and other uses		558,746	
Depreciation		(268,638)	
Total supplemental budget expenditures		1,163,659	
Decrease in net pension asset		(19,809)	
Increase in deferred outflows of resources - pensions		2,717	
Increase in net pension liability		(16,583)	
Decrease in deferred inflows of resources - pensions		40,071	
(Increase) decrease in unfunded OPEB liability		(19,526)	
(Increase) decrease in accrued vacation		<u>(363)</u>	
Change in net position		<u><u>1,440,274</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, 2016**

**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	2,804,170	2,976,621	172,451
Water and sewer tap fees	<u>21,624</u>	<u>18,850</u>	<u>(2,774)</u>
Total charges for services	2,825,794	2,995,471	169,677
Other operating revenues			
Miscellaneous	<u>34,248</u>	<u>-</u>	<u>(34,248)</u>
Total operating revenues	<u>2,860,042</u>	<u>2,995,471</u>	<u>135,429</u>
Nonoperating revenues			
Interest on investments	-	1,534	1,534
Wastewater Treatment Environmental Study	-	4,000	4,000
Impact fees	<u>423,170</u>	<u>-</u>	<u>(423,170)</u>
Total nonoperating revenues	<u>423,170</u>	<u>5,534</u>	<u>(417,636)</u>
Total revenues	<u>3,283,212</u>	<u>3,001,005</u>	<u>(282,207)</u>
Expenditures			
Expenditures other than depreciation			
Salaries	354,336	352,643	
Professional fees	55,199	45,488	
Social security	24,628	24,702	
Group insurance	143,841	143,841	
Retirement	22,412	22,572	
401 (k) retirement supplement	16,504	16,572	
Workers compensation insurance	7,596	7,595	
Uniforms and protective gear	75,002	40,103	
Telephone and postage	25,400	26,554	
Utilities	45,000	44,307	
Travel and training	5,816	5,907	

**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, 2016**

**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	4,000	2,043	
Vehicle repair	2,500	1,199	
Sewer system repairs	130,939	109,458	
Gas, oil and tires	13,000	8,852	
Water and sewer supplies	91,465	90,723	
Annual permits and fees	4,135	4,135	
Water purchases	439,764	438,678	
Sewer capital charge	750,000	750,000	
Contract services	508,754	541,986	
Insurance and bonding	6,748	6,749	-
Total expenditures other than depreciation	2,727,039	2,684,107	42,932
Supplemental budget expenditures			
Capital outlay	1,255,360	1,024,849	230,511
Long-term debt payments	119,963	103,401	16,562
Interest expense	-	16,562	(16,562)
Total supplemental expenditures	1,375,323	1,144,812	230,511
Total expenditures	4,102,362	3,828,919	273,443
Revenues over (under) expenditures	(819,150)	(827,914)	(8,764)
Other financing sources (uses)			
Fund balance appropriated	819,150	-	(819,150)
Revenues and other sources over (under) expenditures and other uses	-	(827,914)	(827,914)

**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, 2016**

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

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u> <u>Positive</u> <u>(Negative)</u>
Reconciliation of modified accrual basis to full accrual basis:			
Revenues and other sources over expenditures and other uses		(827,914)	
Principal retirement		103,401	
Capital outlay		1,024,849	
Depreciation		(439,196)	
(Increase) decrease in accrued vacation pay		(911)	
(Increase) decrease in interest payable		285	
Decrease in net pension asset		(39,583)	
Increase in deferred outflows of resources - pensions		3,126	
Increase in net pension liability		(38,299)	
Decrease in deferred inflows of resources - pensions		83,699	
(Increase) decrease in OPEB liability		<u>(26,538)</u>	
Change in net position of Water and Sewer Fund		<u><u>(157,081)</u></u>	

## OTHER SCHEDULES

---

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

---

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

**CITY OF SOUTHPORT**  
**SCHEDULE OF AD VALOREM TAXES RECEIVABLE**  
**June 30, 2016**

**EXHIBIT D-1**

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2015</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2016</u>
2015 - 2015		1,844,199	1,794,932	49,267
2014 - 2015	64,539		34,889	29,651
2013 - 2014	40,365		14,874	25,491
2012 - 2013	31,322		10,361	20,961
2011 - 2012	24,059		6,615	17,444
2010 - 2011	30,022		3,560	26,462
2009 - 2010	14,585		3,306	11,279
2008 - 2009	6,275		747	5,528
2007 - 2008	3,837		219	3,618
2006 - 2007	2,383		178	2,205
2005 - 2005	<u>2,130</u>	<u>-</u>	<u>2,130</u>	<u>-</u>
Total	<u>219,517</u>	<u>1,844,199</u>	<u>1,871,811</u>	191,906
Less allowance for uncollectible taxes receivable				<u>32,928</u>
Ad Valorem taxes receivable - net				<u>158,978</u>
Reconcilement with revenues				
Taxes - ad valorem - General Fund				1,882,770
Amounts written off for tax year				
2005 - 2006 per statute of limitations				2,010
Releases and adjustments				<u>4,874</u>
Subtotal				1,889,654
Less: Interest collected				<u>17,843</u>
Total collections and credits				<u>1,871,811</u>

**CITY OF SOUTHPORT  
ANALYSIS OF CURRENT TAX LEVY  
CITY-WIDE LEVY  
June 30, 2016**

**EXHIBIT D-2**

	<b>City-Wide</b>			<b>Total Levy</b>	
	<b><u>Property Valuation</u></b>	<b><u>Rate</u></b>	<b><u>Total Levy</u></b>	<b><u>Property Excluding Registered Motor Vehicles</u></b>	<b><u>Registered Motor Vehicles</u></b>
Original Levy:					
Property taxed at current rate	746,471,498	0.002456	1,833,334	1,729,633	103,701
Total	746,471,498		1,833,334	1,729,633	103,701
Discoveries					
Current year taxes	5,367,264	0.002456	13,182	13,182	-
Penalties			1,723	1,723	
Abatements	(1,644,951)	0.002456	(4,040)	(4,040)	-
Total valuation	750,193,811				
Net levy			1,844,199	1,740,498	103,701
Uncollected taxes at June 30, 2016			49,267	49,012	255
Current year's taxes collected			1,794,932	1,691,486	103,446
Current levy collection percentage			97.33%	97.18%	99.75%

SUPPLEMENTARY INFORMATION:

COMPLIANCE SECTION

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASES ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENTAL AUDITING STANDARDS*

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and  
the Board of Aldermen  
City of Southport  
Southport, North Carolina 28461

We have audited, 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 governmental activities, the business-type activities, the aggregate discretely presented component units, 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, 2016, and the related notes to the financial statements, which collectively comprises the City of Southport's basic financial statements, and have issued our report thereon dated February 8, 2017

Internal Control Over Financial Reporting

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

Our consideration of internal control was for limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned cost, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses: 16-1 and 16-2

A significant deficiency is a deficiency or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. Given these limitations, during our audit, we did not identify any deficiencies in internal that we consider significant weaknesses. However, significant deficiencies may exist that have not been identified.

Compliance and Other Matters

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

City of Southport's Response to Findings

The City of Southport's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on it.

Purpose of this Report

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

Berry Padgett & Chandler, PLLC  
Certified Public Accountants

Southport, North Carolina 28461  
February 8, 2017

**City of Southport, North Carolina  
Schedule of Findings and Questioned Costs  
For the Fiscal Year Ended June 30, 2016**

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

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

II. Financial Statement Findings

**MATERIAL WEAKNESS**

**Finding 16-1 Utility Receivables Not Reconciled to the General Ledger**

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

Condition: Utility accounts receivable were not reconciled every month.

Effect: Financial reports do not correctly reflect the current receivables, allowance accounts and inactive (bad debt) accounts

Cause: Failure to follow and enforce City policy.

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

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

**Finding 16-2 Adjustments To Customer Utility Without Signature Of Authorized Individual**

Criteria: Internal Control Policies of the City require adjustments to utility customer accounts be approved by an individual.

Condition: Some adjustments are being made without signature of approval individual.

Effect: Potential for unauthorized adjustments to customer accounts.

Cause: Failure to follow and enforce City policy.

**City of Southport, North Carolina  
Schedule of Findings and Questioned Costs  
For the Fiscal Year Ended June 30, 2016**

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

Recommendation: Review and enforce city's internal control policy on adjustments of customer accounts.

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, 2016**

**Exhibit E-2**

I. Financial Statement Findings

**Finding 16-1**

Name of contact person: Melanie Trexler, Finance Officer

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

Proposed completion date: June 30, 2017

**Finding 16-2**

Name of contact person: Melanie Trexler

Corrective Action: Internal control procedures for utility customer adjustments will be reviewed with staff having access to utility accounts.

Proposed completion date: March 31, 2017

**City Of Southport, North Carolina  
Summary Schedule of Prior Year Findings  
For the Year Ended June 30, 2016**

**Exhibit E-3**

**Finding: 2014-2**

Status: The condition has been corrected.

**Finding: 2015-1**

Status: The condition has been corrected.

**Finding: 2015-2**

Status: The condition continues.

**Finding: 2015-3**

Status: The condition has been corrected.

**Finding: 2015-4**

Status: The condition has been corrected.

**Finding: 2015-5**

Status: The condition has been corrected.