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# CITY OF SOUTHPORT

## SOUTHPORT, NORTH CAROLINA

## AUDITED FINANCIAL STATEMENTS

## JUNE 30, 2010

BERRY, PADGETT & CHANDLER, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

**CITY OF SOUTHPORT, NORTH CAROLINA**
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FINANCIAL SECTION

BERRY, PADGETT & CHANDLER, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN
Southport, NC
Shallotte, NC

IRA WAYNE BERRY, CPA
H. MENTON PADGETT, CPA
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# INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Southport, North Carolina as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Southport's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Southport, North Carolina as of June 30, 2010, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2010 on our consideration of the City of Southport's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements of the City of Southport, North Carolina. The introductory information and the combining and individual non-major fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory information has not been subjected to the auditing procedures applied by us in the audit of basic financial statements and, accordingly, we express no opinion on them.

Certified Public Accountants

December 2, 2010

# 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, 2010. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the City's financial statements, which follow this narrative.

**Financial Highlights**

- The assets of the City of Southport exceeded its liabilities at the close of the fiscal year by $30,049,598 (net assets).
- The government's total net assets increased by $1,803,218 this year primary due to the grants for the Wastewater Project.
- As of the close of the current fiscal year, the City of Southport's governmental funds reported combined ending fund balances of $3,793,380. $3,142,905 was in the General Fund and $650,475 was in the Fire Station Capital Project. That was an increase of $334,288 or 11.9% in the General Fund. $1,926,083 is available for spending at the government's discretion (unreserved fund balance).
- At the end of the current fiscal year, unreserved fund balance for the General Fund was $1,926,083 or 49.79 percent of total general fund expenditures for the fiscal year.

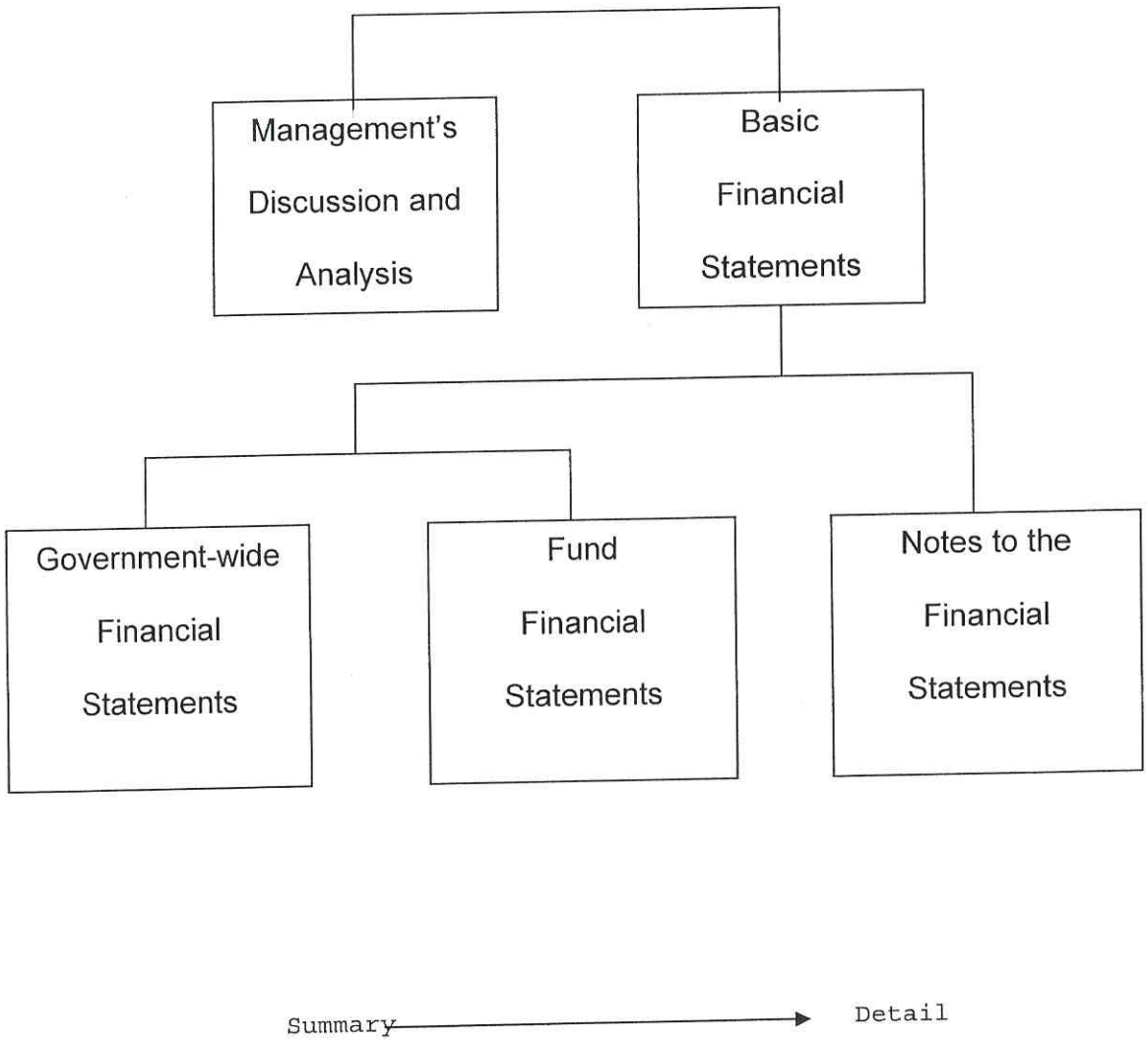
The City of Southport's total debt increased by $1,023,955 during the current fiscal year. The essential factor in this increase is from Other Postemployment Benefits (OPEB) and Revolving Loan Debt in the Water/Sewer Fund.

**Overview of the Financial Statements**

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

**Required Components of Annual Financial Report**

**Figure 1**



**Basic Financial Statements**

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

The next statements (Exhibits 3 through 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; and 3) the proprietary fund statements.

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

**Government-wide Financial Statements**

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

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

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

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

**Fund Financial Statements**

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

to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the City 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 that provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the city's programs. The relationship between government activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

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 language and classifications of 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. To account for the difference between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reported activities is shown at the end of the budgetary statement.

**Proprietary Funds** - City of Southport has one kind of proprietary fund, Enterprise Funds. These 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 its electric operations. These funds are the same as those functions shown in the business-type activities in the Statement of Net Assets and the Statement of Activities.

**Notes to the Financial Statements** - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on 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 and other postemployment insurance benefits to retired and current employees and the Law Enforcement Officers' Special Separation Allowance. Required supplementary information can be found on Exhibits A-1 through A-4 of this report.

## Government-Wide Financial Analysis

**The City of Southport's Net Assets**
**Figure 2**

| | Government Activities | | Business-Type Activities | | Totals | |
|---|---|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Current and other assets | 4,575,663 | 6,755,244 | 5,994,394 | 4,405,089 | 10,570,057 | 11,160,333 |
| Capital assets | 9,861,010 | 6,435,100 | 20,514,831 | 18,813,228 | 30,375,841 | 25,248,328 |
| Total assets | 14,436,673 | 13,190,344 | 26,509,225 | 23,218,317 | 40,945,898 | 36,408,661 |
| Long-term liabilities outstanding | 4,412,357 | 4,097,805 | 4,052,021 | 3,342,618 | 8,464,378 | 7,440,423 |
| Other liabilities | 661,086 | 40,553 | 1,770,836 | 681,305 | 2,431,922 | 721,858 |
| Total libilities | 5,073,443 | 4,138,358 | 5,822,857 | 4,023,923 | 10,896,300 | 8,162,281 |
| Net assets: | | | | | | |
| Invested in capital assets, net of related debt | 5,968,347 | 2,510,365 | 16,577,615 | 17,186,176 | 22,545,962 | 19,696,541 |
| Restricted | 1,553,831 | 503,900 | 1,490,030 | 1,587,889 | 3,043,861 | 2,091,789 |
| Unrestricted | 1,841,052 | 6,037,721 | 2,618,723 | 420,329 | 4,459,775 | 6,458,050 |
| Total net assets | 9,363,230 | 9,051,986 | 20,686,368 | 19,194,394 | 30,049,598 | 28,246,380 |

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of the City of Southport exceeded liabilities by $30,049,598 as of June 30, 2010. The City's net assets increased by $1,803,218 for the fiscal year ended June 30, 2010. The largest portion $22,545,962 (75.03%) reflects the City's investment in capital assets (e.g. land, buildings, machinery, and equipment); less any related debt still outstanding that was issued to acquire those items. The City of Southport uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Southport's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the City of Southport's net assets $3,043,861 (10.13%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of $4,459,775(14.84%) is unrestricted.

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

- An increase in construction grants in the Business-type Activities for Wastewater Expansion Capital Project.

**City of Southport Changes in Net Assets**
**Figure 3**

| | Governmental Activities | | Business-type Activities | | Total | Total |
|---|---|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | 1,033,885 | 1,060,951 | 9,015,772 | 8,363,520 | 10,049,657 | 9,424,471 |
| Operating grants and contributions | 193,025 | 258,718 | 2,589 | 8,455 | 195,614 | 267,173 |
| Capital grants and contributions | 28,410 | 11,631 | 1,239,317 | 637,796 | 1,267,727 | 649,427 |
| General revenues: | | | | | | |
| Property taxes | 1,702,945 | 1,666,159 | | | 1,702,945 | 1,666,159 |
| Other taxes | 645,393 | 677,792 | | | 645,393 | 677,792 |
| Grants and contributions not restricted to specific programs | 524,853 | 470,899 | | | 524,853 | 470,899 |
| Other | 12,998 | 23,893 | 14,383 | (1,649,988) | 27,381 | (1,626,095) |
| Total revenues | 4,141,509 | 4,170,043 | 10,272,061 | 7,359,783 | 14,413,570 | 11,529,826 |
| Expenses: | | | | | | |
| General government | 1,274,153 | 1,287,627 | | | 1,274,153 | 1,287,627 |
| Public safety | 1,709,865 | 1,545,181 | | | 1,709,865 | 1,545,181 |
| Highways/streets | 243,208 | 264,974 | | | 243,208 | 264,974 |
| Sanitation | | | | | | |
| Economic development | | | | | | |
| Environmental Protection | 93,708 | 95,489 | | | 93,708 | 95,489 |
| Culture and recreation | 334,035 | 288,940 | | | 334,035 | 288,940 |
| Interest on long-term debt | 175,296 | 13,645 | | | 175,296 | 13,645 |
| Water and sewer | | | 2,089,945 | 2,094,348 | 2,089,945 | 2,094,348 |
| Electric | | | 6,690,142 | 6,423,037 | 6,690,142 | 6,423,037 |
| Total expenses | 3,830,265 | 3,495,856 | 8,780,087 | 8,517,385 | 12,610,352 | 12,013,241 |
| Increase in net assets before transfers | 311,244 | 674,187 | 1,491,974 | (1,157,602) | 1,803,218 | (483,415) |
| Net assets, July 1 | 9,051,986 | 8,377,799 | 19,194,394 | 20,351,996 | 28,246,380 | 28,729,795 |
| Net assets, June 30 | 9,363,230 | 9,051,986 | 20,686,368 | 19,194,394 | 30,049,598 | 28,246,380 |

**Governmental activities.** Governmental activities increased the City's net assets by $311,244. Key elements of this increase are as follows:

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

**Business-type activities**: Business-type activities increased in the City of Southport's net assets by $1,491,974. Key element(s) of this increase are as follows:

- Increase in Charges for Service
- Increase in Capital Grants and Contributions due to the Wastewater Project
- Decrease of expenses in the Water/Sewer Department

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

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

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

The general fund is the chief operating fund of the City of Southport. At the end of the current fiscal year, unreserved fund balance of the General Fund was $1,926,083 while total fund balance reached $3,142,905. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 49.79 percent of total General Fund expenditures, while total fund balance represents 81.24 percent of that same amount.

At June 30, 2010, the governmental funds of City of Southport reported a combined fund balance of $3,793,380. This combination includes $3,142,905 for the General Fund and $650,475 for Fire Department Capital Project Fund.

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

Expenditures were more than anticipated due to unforeseen requirements for buildings, grounds and public safety. Anticipated grant revenue was not yet available and was funded by the City. By holding other expenditures in check and having revenues more than budgeted, the City was able to comply with its budgetary requirements.

**Proprietary Funds.** The City's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net assets of the Water and Sewer Fund at the end of the fiscal year amounted to $415,348 and those for the Electric Fund amounted to $2,203,375. The total growth in net assets for both funds was $340,447 and $1,857,947 respectively. Other factors concerning the finances of these two funds have already been addressed in the discussion of the City's business-type activities.

**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, 2010 totals $30,375,841 (net of accumulated depreciation). These assets include buildings, land, machinery and equipment, park facilities, vehicles and utility systems.

Major capital asset transactions during the year include the following additions (there were no significant demolitions or disposals):

- Construction in progress of Wastewater Project
- Construction in progress with Southport Fire Station
- Completion of Construction of Lowe White Park
- Purchase of three (3) Police Vehicles

## City of Southport's Capital Assets
### Figure 4
### (net of depreciation)

| | Governmental Activities | | Business-type Activities | | Total | Total |
|---|---|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Land | 1,873,373 | 1,873,373 | 2,762,465 | 2,687,465 | 4,635,838 | 4,560,838 |
| Buildings and systems | 3,584,267 | 3,451,161 | 54,388 | 54,388 | 3,638,655 | 3,505,549 |
| Water Tank Useage | | | 375,000 | 375,000 | 375,000 | 375,000 |
| Improvements other than buildings | 870,528 | 454,462 | | | 870,528 | 454,462 |
| Utility Systems | | | 19,762,277 | 19,590,539 | 19,762,277 | 19,590,539 |
| Furniture and equipment | 488,124 | 501,092 | 414,610 | 402,127 | 902,734 | 903,219 |
| Infrastructure | 773,927 | 773,927 | | | 773,927 | 773,927 |
| Other capital assets | | | | | | |
| Vehicles and motorized equipment | 2,215,244 | 2,134,831 | 396,793 | 396,793 | 2,612,037 | 2,531,624 |
| Other non-depreciable | | | 1,087,000 | 1,162,000 | 1,087,000 | 1,162,000 |
| Construction in progress | 3,384,579 | 314,378 | 2,933,665 | 847,467 | 6,318,244 | 1,161,845 |
| Less: Accumulated depreciation | (3,329,032) | (3,068,124) | (7,271,367) | (6,702,551) | (10,600,399) | (9,770,675) |
| Total | 9,861,010 | 6,435,100 | 20,514,831 | 18,813,228 | 30,375,841 | 25,248,328 |

Additional information on the City capital assets can be found in Exhibit 9 of the Basic Financial Statements.

**Long-term Debt.** As of June 30, 2010, the City of Southport had total Bonded Debt outstanding of $79,500 Revolving loan debt of $1,927,460, Obligation for Water Tank Agreement for $225,000, Grant Repayment of $1,686,000 and Installment notes payable for $3,784,000. All of this debt is backed by the full faith and credit of the City.

**City of Southport's Outstanding Debt**
**General Obligation and Revenue Bonds**

**Figure 5**

| | Governmental Activities | | Business-type Activities | | Totals | |
|---|---|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| General obligation bonds | 10,596 | 13,263 | 68,904 | 88,237 | 79,500 | 101,500 |
| Revolving Loan Debt | | | 1,927,460 | 1,160,819 | 1,927,460 | 1,160,819 |
| Grant Re-payment | | | 1,686,000 | 1,686,000 | 1,686,000 | 1,686,000 |
| Water Tank Usage | | | 225,000 | 300,000 | 225,000 | 300,000 |
| Installment Notes Payable | 3,784,000 | 3,784,000 | | | 3,784,000 | 3,784,000 |
| Capitalized Leases | 98,067 | 127,472 | 29,852 | 77,996 | 127,919 | 205,468 |
| Accrued Interest and | 177,563 | 7,568 | 5,354 | 6,887 | 182,917 | 14,455 |
| Compensated absences | 128,655 | 135,301 | 22,171 | 22,679 | 150,826 | 157,980 |
| Other Postemployment Benefits | 187,576 | | 87,280 | | 274,856 | |
| Net Pension obligation | 25,900 | 30,201 | | | 25,900 | 30,201 |
| Totals | 4,412,357 | 4,097,805 | 4,052,021 | 3,342,618 | 8,464,378 | 7,440,423 |

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for City of Southport is $ 75,078,133.

Additional information regarding the City of Southport's long-term debt can be found in Exhibit 9 of this report.

**Economic Factors and Next Year's Budgets and Rates**
Significant factors considered in preparing the City of Southport's budget for fiscal year 2010-2011 were:

- As noted last year, the state of the National, State, and Local economy were major considerations in the development of the City of Southport's FY 2010-2011 Budget. Revenues and expenditures were very closely scrutinized and a conservative approach was taken in the formulation of revenue projections. Expenditures were limited to what was deemed necessary to continue to maintain a high standard of public service delivery.
- Current and anticipated debt was carefully considered in the preparation of the FY 2010-2011 Budget. Staff and the Board of Aldermen have placed a priority upon maintaining public debt levels at manageable levels.
- The five-year Capital Improvement Plan continues to be a useful tool in planning capital projects and their funding. This will continue to be updated on an annual basis and as the needs of the City changes.

All of these factors were considered in preparing the City of Southport's budget for the 2010-2011 fiscal year.

During the current fiscal year, unreserved fund balance in the general fund decreased to $1,926,083. This is a decrease of $118,774 from the prior year. The City of Southport appropriated $190,000 of this amount for spending in the 2009-2010 fiscal year budget for City's portion of Grant Project in the Parks & Recreation Department for Lowe-White Park, but was able to balance the general fund budget FY 2010-2011 with no appropriation of fund balance. In addition to not appropriating any fund balance the City was able to maintain the property tax rate of .18 cents.

**Requests for Information**

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

BASIC FINANCIAL STATEMENTS

EXHIBIT 1

CITY OF SOUTHPORT, NORTH CAROLINA
STATEMENT OF NET ASSETS
June 30, 2010

| | Primary Government | | | Component Unit |
|---|---|---|---|---|
| | Governmental Activities | Business-type Activities | Total | Southport ABC Board |
| **ASSETS** | | | | |
| Current assets | | | | |
| Cash and cash equivalents | 2,869,966 | 2,928,465 | 5,798,431 | 244,889 |
| Taxes receivable (net) | 101,250 | - | 101,250 | |
| Accounts receivable | 31,945 | 756,834 | 788,779 | - |
| Accrued interest receivable on taxes | 19,947 | | 19,947 | |
| Accrued interest receivable on savings | - | 1,691 | 1,691 | |
| Due from other governments | 242,245 | - | 242,245 | |
| Due from component unit | 75,200 | | 75,200 | |
| Inventories | - | - | - | 191,454 |
| Prepaid expenses | | | | 6,686 |
| Restricted assets | | | | |
| Cash and cash equivalents | 1,235,110 | 1,360,307 | 2,595,417 | |
| Accounts receivable | - | 947,097 | 947,097 | |
| Capital assets | | | | |
| Land, non-depreciable improvements, and construction in progress | 5,257,952 | 6,783,130 | 12,041,082 | 4,600 |
| Other capital assets, net of depreciation | 4,603,058 | 13,731,701 | 18,334,759 | 18,242 |
| Total capital assets | 9,861,010 | 20,514,831 | 30,375,841 | 22,842 |
| Total Assets | 14,436,673 | 26,509,225 | 40,945,898 | 465,871 |
| **LIABILITIES** | | | | |
| Accounts payable and accrued expenses | 75,642 | 665,880 | 741,522 | 233,877 |
| Unearned income | 809 | - | 809 | - |
| Customer deposits | - | 47,661 | 47,661 | |
| Due to primary government | | | | 75,200 |
| Payable from restricted assets | 584,635 | 1,057,295 | 1,641,930 | |
| Long-term liabilities | | | | |
| Due within one year | | | | |
| Bonds, capital leases and contracts | 268,534 | 824,703 | 1,093,237 | - |
| Accrued interest | 177,563 | 5,354 | 182,917 | - |
| Compensated absences | 70,000 | 15,000 | 85,000 | - |
| Due in more than one year | | | | |
| Bonds, capital leases and contracts | 3,624,129 | 1,988,513 | 5,612,642 | - |
| Grant repayment | | 1,124,000 | 1,124,000 | |
| Compensated absences | 58,655 | 7,171 | 65,826 | - |
| Other postemployment benefits | 187,576 | 87,280 | 274,856 | 26,794 |
| Unfunded pension obligation | 25,900 | - | 25,900 | - |
| Total liabilities | 5,073,443 | 5,822,857 | 10,896,300 | 335,871 |
| **NET ASSETS** | | | | |
| Invested in capital assets, net of related debt | 5,968,347 | 16,577,615 | 22,545,962 | 22,842 |
| Restricted for: | | | | |
| Streets-Powell Bill | 307,396 | - | 307,396 | - |
| Fire protection | 572,795 | - | 572,795 | - |
| Economic development | 23,165 | | 23,165 | |
| Capital outlay | 650,475 | 1,490,030 | 2,140,505 | - |
| Unrestricted | 1,841,052 | 2,618,723 | 4,459,775 | 107,158 |
| Total net assets | 9,363,230 | 20,686,368 | 30,049,598 | 130,000 |

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

EXHIBIT 2

CITY OF SOUTHPORT, NORTH CAROLINA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2010

| Functions/Programs | Expenses | Program Revenue: Charges for Services | Program Revenue: Operating Grants and Contributions | Program Revenue: Capital Grants and Contributions | Net (Expense) Revenue and Changes in Net Assets: Primary Government: Governmental Activities | Primary Government: Business-type Activities | Primary Government: Total | Component Unit: Southport ABC Board |
|---|---|---|---|---|---|---|---|---|
| **Primary government** | | | | | | | | |
| Governmental Activities | | | | | | | | |
| General Government | 1,274,153 | 113,285 | 3,326 | - | (1,157,542) | | (1,157,542) | |
| Public Safety | 1,709,865 | 770,677 | 94,245 | - | (844,943) | | (844,943) | |
| Transportation | 243,208 | 3,150 | 95,454 | - | (144,604) | | (144,604) | |
| Culture and Recreation | 334,035 | 43,757 | - | 28,410 | (261,868) | | (261,868) | |
| Environmental Protection | 93,708 | 103,016 | - | - | 9,308 | | 9,308 | |
| Interest on Long-term debt | 175,296 | - | - | - | (175,296) | | (175,296) | |
| Total governmental activities | 3,830,265 | 1,033,885 | 193,025 | 28,410 | (2,574,945) | | (2,574,945) | |
| Business-type activities | | | | | | | | |
| Electric Operations | 6,690,142 | 6,981,558 | 2,085 | 14,124 | | 307,625 | 307,625 | |
| Water and Sewer Operations | 2,089,945 | 2,034,214 | 504 | 1,225,193 | | 1,169,966 | 1,169,966 | |
| Total business-type activities | 8,780,087 | 9,015,772 | 2,589 | 1,239,317 | | 1,477,591 | 1,477,591 | |
| Total primary government | 12,610,352 | 10,049,657 | 195,614 | 1,267,727 | (2,574,945) | 1,477,591 | (1,097,354) | |
| **Component Unit** | | | | | | | | |
| Southport ABC Board | 1,903,740 | 1,903,495 | - | - | | | | (245) |
| Total component units | 1,903,740 | 1,903,495 | - | - | | | | (245) |
| General revenues: | | | | | | | | |
| Taxes: | | | | | | | | |
| Property taxes, levied for general purposes | | | | | 1,702,945 | - | 1,702,945 | - |
| Property taxes, levied for debt service | | | | | - | - | - | - |
| Other taxes | | | | | 645,393 | - | 645,393 | - |
| Public service taxes | | | | | - | - | - | - |
| Grants and contributions not restricted to specific programs | | | | | 524,853 | - | 524,853 | - |
| Unrestricted investment earnings | | | | | 9,627 | 14,383 | 24,010 | 245 |
| Miscellaneous | | | | | 3,371 | - | 3,371 | - |
| Total general revenues and special item | | | | | 2,886,189 | 14,383 | 2,900,572 | 245 |
| Change in net assets | | | | | 311,244 | 1,491,974 | 1,803,218 | - |
| Net assets - beginning | | | | | 9,051,986 | 19,194,394 | 28,246,380 | 130,000 |
| Net assets - ending | | | | | 9,363,230 | 20,686,368 | 30,049,598 | 130,000 |

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

CITY OF SOUTHPORT, NORTH CAROLINA
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2010

| | Major Funds | | |
|---|---|---|---|
| | General Fund | Fire Station Capital Project | Total Governmental Funds |
| **ASSETS** | | | |
| Cash and cash equivalents | 2,869,966 | - | 2,869,966 |
| Taxes receivable, net | 101,250 | - | 101,250 |
| Receivable from other governments | 242,245 | - | 242,245 |
| Receivable from other component unit | 75,200 | - | 75,200 |
| Other receivables | 31,945 | - | 31,945 |
| Restricted cash and cash equivalents | - | 1,235,110 | 1,235,110 |
| Total assets | 3,320,606 | 1,235,110 | 4,555,716 |
| **LIABILITIES AND FUND BALANCES** | | | |
| Liabilities: | | | |
| Accounts payable | 75,642 | - | 75,642 |
| Deferred revenue | 101,250 | - | 101,250 |
| Unearned Income | 809 | - | 809 |
| Accounts payable from restricted assets | - | 584,635 | 584,635 |
| Total liabilities | 177,701 | 584,635 | 762,336 |
| Fund balances: | | | |
| Reserved for: | | | |
| State statutes | 349,390 | - | 349,390 |
| Streets - Powell Bill | 307,396 | - | 307,396 |
| Fire protection - Fire fees | 536,871 | - | 536,871 |
| Economic development | 23,165 | - | 23,165 |
| Unreserved, General Fund: | | | |
| Designated for Fire Department | 35,924 | | 35,924 |
| Undesignated | 1,890,159 | - | 1,890,159 |
| Unreserved, reported in: | | | |
| Capital Projects Fund | | 650,475 | 650,475 |
| Total fund balances | 3,142,905 | 650,475 | 3,793,380 |
| Total liabilities and fund balances | 3,320,606 | 1,235,110 | 4,555,716 |

## CITY OF SOUTHPORT, NORTH CAROLINA
## RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
## TO THE STATEMENT OF NET ASSETS
## June 30, 2010

| | | |
|---|---|---|
| Total fund balance, governmental funds | | 3,793,380 |
| Amounts reported for governmental activities in the Statement of Net Assets are different because: | | |
| Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets. | | 9,861,010 |
| 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. | | 19,947 |
| Liabilities for earned but deferred revenues in fund statements | | 101,250 |
| Some liabilities are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets. | | |
| Accrued interest payable | (177,563) | |
| Capital leases payable | (98,068) | |
| Installment notes payable | (3,784,000) | |
| General obligation bonds payable | (10,595) | |
| Compensated absences | (128,655) | |
| Other postemployment benefits | (187,576) | |
| Net pension obligation | (25,900) | |
| | | (4,412,357) |
| Net Assets of Governmental Activities in the Statement of Net Assets | | 9,363,230 |

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, 2010

| | Major Funds | | |
|---|---|---|---|
| | General Fund | Fire Station Capital Project | Total Governmental Funds |
| **REVENUES** | | | |
| Property taxes | 1,703,615 | - | 1,703,615 |
| Other taxes | 65,212 | - | 65,212 |
| Unrestricted intergovernmental revenues | 1,105,034 | - | 1,105,034 |
| Restricted intergovernmental revenues | 765,895 | - | 765,895 |
| Licenses and permits | 76,903 | - | 76,903 |
| Sales and services | 376,176 | - | 376,176 |
| Investment earnings | 6,279 | 3,348 | 9,627 |
| Miscellaneous | 39,717 | - | 39,717 |
| Total revenues | 4,138,831 | 3,348 | 4,142,179 |
| **EXPENDITURES** | | | |
| Current: | | | |
| General government | 1,155,500 | - | 1,155,500 |
| Public safety | 1,566,413 | 3,137,080 | 4,703,493 |
| Transportation | 197,053 | - | 197,053 |
| Environmental protection | 93,708 | - | 93,708 |
| Culture and recreation | 754,496 | - | 754,496 |
| Debt Service: | | | |
| Principal | 96,296 | - | 96,296 |
| Interest and other charges | 5,301 | - | 5,301 |
| Total expenditures | 3,868,767 | 3,137,080 | 7,005,847 |
| Excess (deficiency) of revenues over expenditures | 270,064 | (3,133,732) | (2,863,668) |
| **OTHER FINANCING SOURCES (USES)** | | | |
| Proceeds from capital leases | 64,224 | - | 64,224 |
| Total other financing sources and uses | 64,224 | - | 64,224 |
| Net change in fund balances | 334,288 | (3,133,732) | (2,799,444) |
| Fund balances - beginning | 2,808,617 | 3,784,207 | 6,592,824 |
| Fund balances - ending | 3,142,905 | 650,475 | 3,793,380 |

# 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, 2010

| | | |
|---|---|---|
| Net change in fund balances - total governmental funds: | | (2,799,444) |
| 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 $3,699,786 are exceeded by depreciation $273,876 in the current period. | | 3,425,910 |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | | |
| Change in deferred revenue for tax revenue | | (670) |
| Governmental funds report debt proceeds as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of bond principal as an expenditure, In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. | | |
| Principal paid on debt | 96,296 | |
| Proceeds of long-term debt | (64,224) | 32,072 |
| 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 | | (169,995) |
| Compensated absences | | 6,646 |
| Net pension obligation | | 4,301 |
| Other postemployment benefits | | (187,576) |
| Change in net assets of governmental activities | | 311,244 |

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

EXHIBIT 5

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, 2010

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget - Positive (Negative) |
|---|---|---|---|---|
| | Original | Final | | |
| **REVENUES** | | | | |
| Ad valorem taxes | 1,623,000 | 1,623,000 | 1,703,615 | 80,615 |
| Other taxes | 42,000 | 42,000 | 65,212 | 23,212 |
| Unrestricted intergovernmental revenues | 1,188,000 | 1,179,300 | 1,105,034 | (74,266) |
| Restricted intergovernmental revenues | 913,000 | 913,000 | 765,895 | (147,105) |
| Licenses and permits | 104,000 | 104,000 | 76,903 | (27,097) |
| Sales and services | 316,500 | 348,500 | 376,176 | 27,676 |
| Investment earnings | 21,250 | 21,250 | 6,279 | (14,971) |
| Miscellaneous | 31,250 | 45,659 | 39,717 | (5,942) |
| Total revenues | 4,239,000 | 4,276,709 | 4,138,831 | (137,878) |
| **EXPENDITURES** | | | | |
| Current: | | | | |
| General government | 1,221,650 | 1,252,450 | 1,155,500 | 96,950 |
| Public safety | 1,855,060 | 1,924,093 | 1,566,413 | 357,680 |
| Transportation | 294,750 | 294,750 | 197,053 | 97,697 |
| Environmental protection | 96,000 | 96,000 | 93,708 | 2,292 |
| Culture and recreation | 757,080 | 772,080 | 754,496 | 17,584 |
| Debt Service: | | | | |
| Principal | 150,940 | 132,739 | 96,296 | 36,443 |
| Interest and other charges | - | 5,301 | 5,301 | - |
| Contingency | 53,520 | 53,520 | - | 53,520 |
| Total expenditures | 4,429,000 | 4,530,933 | 3,868,767 | 662,166 |
| Excess (deficiency) of revenues over expenditures | (190,000) | (254,224) | 270,064 | 524,288 |
| **OTHER FINANCING SOURCES (USES)** | | | | |
| Proceeds from capital leases | - | 64,224 | 64,224 | - |
| Total other financing sources and uses | - | 64,224 | 64,224 | - |
| Fund balance appropriated | 190,000 | 190,000 | - | (190,000) |
| Net change in fund balance | - | - | 334,288 | 334,288 |
| Fund balance - beginning | | | 2,808,617 | |
| Fund balance - ending | | | 3,142,905 | |

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

EXHIBIT 6

CITY OF SOUTHPORT, NORTH CAROLINA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2010

| | Major Enterprise Funds | | |
|---|---|---|---|
| | Electric Fund | Water and Sewer Fund | Total |
| **ASSETS** | | | |
| Current assets: | | | |
| Cash and cash equivalents | 2,657,873 | 270,592 | 2,928,465 |
| Accounts receivable, net | 491,297 | 265,537 | 756,834 |
| Other receivables | 1,691 | - | 1,691 |
| Total current assets | 3,150,861 | 536,129 | 3,686,990 |
| Non-current assets: | | | |
| Restricted assets | | | |
| Cash and cash equivalents | - | 1,360,307 | 1,360,307 |
| Accounts receivable | - | 947,097 | 947,097 |
| Capital assets: | | | |
| Land and improvements | - | 3,849,465 | 3,849,465 |
| Water tank useage | | 375,000 | 375,000 |
| Construction in progress | - | 2,933,665 | 2,933,665 |
| Utility system | 8,211,119 | 11,551,158 | 19,762,277 |
| Buildings | 54,388 | - | 54,388 |
| Equipment and furniture | 76,496 | 338,114 | 414,610 |
| Vehicles | 57,548 | 339,245 | 396,793 |
| Less: Accumulated depreciation | (2,262,914) | (5,008,453) | (7,271,367) |
| Total non-current assets | 6,136,637 | 16,685,598 | 22,822,235 |
| Total assets | 9,287,498 | 17,221,727 | 26,509,225 |
| **LIABILITIES** | | | |
| Current liabilities: | | | |
| Accounts payable | 632,876 | 33,004 | 665,880 |
| Customer deposits | 47,661 | - | 47,661 |
| Accounts payable from restricted assets | - | 1,057,295 | 1,057,295 |
| Compensated absences | 8,000 | 7,000 | 15,000 |
| Accrued interest payable | - | 5,354 | 5,354 |
| Capital lease obligation | - | 29,852 | 29,852 |
| Grant repayment | | 562,000 | 562,000 |
| Bonds, notes and loans payable | - | 232,851 | 232,851 |
| Total current liabilities | 688,537 | 1,927,356 | 2,615,893 |
| Non-current liabilities: | | | |
| Compensated absences | 5,871 | 1,300 | 7,171 |
| Other postemployment benefits | 13,157 | 74,123 | 87,280 |
| Grant repayment | - | 1,124,000 | 1,124,000 |
| Bonds, notes and loans payable | - | 1,988,513 | 1,988,513 |
| Total non-current liabilities | 19,028 | 3,187,936 | 3,206,964 |
| Total liabilities | 707,565 | 5,115,292 | 5,822,857 |
| **NET ASSETS** | | | |
| Invested in capital assets, net of related debt | 6,136,637 | 10,440,978 | 16,577,615 |
| Restricted for capital projects | 239,921 | 1,250,109 | 1,490,030 |
| Unrestricted | 2,203,375 | 415,348 | 2,618,723 |
| Total net assets | 8,579,933 | 12,106,435 | 20,686,368 |

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

EXHIBIT 7

CITY OF SOUTHPORT, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended June 30, 2010

| | Major Enterprise Funds | | |
|---|---|---|---|
| | Electric Fund | Water and Sewer Fund | Total |
| **REVENUES** | | | |
| Charges for services | 6,981,558 | 2,034,214 | 9,015,772 |
| Miscellaneous | 2,085 | 504 | 2,589 |
| Total operating revenues | 6,983,643 | 2,034,718 | 9,018,361 |
| **OPERATING EXPENSES** | | | |
| Electric operations | 6,475,900 | - | 6,475,900 |
| Water and sewer operations | - | 1,702,962 | 1,702,962 |
| Depreciation | 214,242 | 354,574 | 568,816 |
| Total operating expenses | 6,690,142 | 2,057,536 | 8,747,678 |
| Operating income (loss) | 293,501 | (22,818) | 270,683 |
| **NON-OPERATING REVENUES (EXPENSES)** | | | |
| Interest and investment revenue | 10,913 | 3,470 | 14,383 |
| Interest expense | - | (32,409) | (32,409) |
| Total non-operating revenue (expenses) | 10,913 | (28,939) | (18,026) |
| Income (loss) before contributions | 304,414 | (51,757) | 252,657 |
| Capital contributions | 14,124 | 1,225,193 | 1,239,317 |
| Change in net assets | 318,538 | 1,173,436 | 1,491,974 |
| Total net assets - beginning | 8,261,395 | 10,932,999 | 19,194,394 |
| Total net assets - ending | 8,579,933 | 12,106,435 | 20,686,368 |

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, 2010

| | Major Enterprise Funds | | |
|---|---|---|---|
| | Electric Fund | Water & Sewer Fund | Total |
| **Cash flows from operating activities:** | | | |
| Cash received from customers | 6,934,661 | 2,025,385 | 8,960,046 |
| Cash paid for goods and services | (6,192,210) | (1,294,438) | (7,486,648) |
| Cash paid to employees | (178,508) | (402,314) | (580,822) |
| Customer deposits received | 27,598 | | 27,598 |
| Customer deposits returned | (27,313) | | (27,313) |
| Other operating revenues | 2,085 | 504 | 2,589 |
| Net cash provided (used) by operating activities | 566,313 | 329,137 | 895,450 |
| **Cash flows from capital and related financing activities:** | | | |
| Proceeds from debt | - | 609,649 | 609,649 |
| Acquisition of capital assets | (184,221) | (1,028,903) | (1,213,124) |
| Principal paid on long-term debt | - | (210,761) | (210,761) |
| Interest paid on long-term debt | - | (33,942) | (33,942) |
| Capital contribution-State grants | | 430,022 | 430,022 |
| Contributions from customers | 14,124 | 73,350 | 87,474 |
| Net cash provided (used) for capital and related financing activities | (170,097) | (160,585) | (330,682) |
| **Cash flows from investing activities:** | | | |
| Interest on investments | 14,574 | 3,470 | 18,044 |
| Net increase (decrease) in cash and cash equivalents | 410,790 | 172,022 | 582,812 |
| Cash and cash equivalents, beginning | 2,247,083 | 1,458,877 | 3,705,960 |
| Cash and cash equivalents, ending | 2,657,873 | 1,630,899 | 4,288,772 |

CITY OF SOUTHPORT, NORTH CAROLINA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2010

| | Major Enterprise Funds | | |
|---|---|---|---|
| | Electric Fund | Water & Sewer Fund | Total |
| Reconciliation of operating income to net cash provided by operating activities: | | | |
| Operating income (loss) | 293,501 | (22,818) | 270,683 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | |
| Depreciation | 214,242 | 354,574 | 568,816 |
| Changes in assets and liabilities | | | |
| (Increase) decrease in accounts receivable | (1,085,301) | (8,829) | (1,094,130) |
| Increase (decrease) in accounts payable | 90,741 | (63,600) | 27,141 |
| Increase (decrease) in accrued wages | (761) | (1,760) | (2,521) |
| Increase (decrease) in collected in advance | 7,331 | - | 7,331 |
| Increase (decrease) in customer deposits | 285 | - | 285 |
| Increase (decrease) in deferred revenue | 1,031,073 | - | 1,031,073 |
| Increase (decrease) in accrued vacation | 2,045 | (2,553) | (508) |
| Increase (decrease) in OPEB accrual | 13,157 | 74,123 | 87,280 |
| Total adjustments | 272,812 | 351,955 | 624,767 |
| Net cash provided (used) by operating activities | 566,313 | 329,137 | 895,450 |

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

## I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### A. Reporting Entity

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

#### City of Southport ABC Board

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

### B. Basis of Presentation

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

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

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

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

The City reports the following major governmental funds:

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

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

The City reports the following major enterprise funds:

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

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

The City considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of January 1, 1993, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North

Carolina. Effective with this change in the law, Brunswick County is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts in the County, including the City of Southport. For motor vehicles registered under the staggered system, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, the City's vehicle taxes for vehicles registered in Brunswick County from March 2009 through February 2010 apply to the fiscal year ended June 30, 2010. Uncollected taxes that were billed during this period are shown as a receivable in these financial statements and are offset by deferred revenues.

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

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

D. Budgetary Data

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

E. Assets, Liabilities, and Fund Equity

1. Deposits and Investments

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

State law (G.S. 159-30(c)) authorizes the City and the ABC Board to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust (NCCMT). The City's and the ABC Board's investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT Cash Portfolio, a SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price.

2. Cash and Cash Equivalents

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

3. Restricted Assets

Unexpended debt proceeds in the Fire Station Capital Project Fund and the Wastewater Enhancement Project Fund and the unexpended impact fee proceeds of the Water and Sewer Fund are classified as restricted assets for the enterprise fund because their use is completely restricted to the purpose of water and sewer line expansion. Customer deposits held by the City before any services are supplied are restricted to the service for which the deposit was collected.

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, 2009.

5. Allowances for Doubtful Accounts

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

6. Inventory

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

7. Capital Assets

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

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

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

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

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

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

8. Long-Term Obligations

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

9. Compensated Absences

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

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

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

10. Net Assets/Fund Balances

Net Assets

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

Fund Balances

In the governmental fund financial statements, reservations of fund balance represent amounts that cannot be appropriated or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

State law [G.S. 159-13(b)(16)] restricts appropriation of fund balance for the subsequent year's budget to an amount not to exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts as those amounts stand at the close of the fiscal year preceding the budget year.

The governmental fund types classify fund balances as follows:

Reserved:

Reserved by State statute - portion of fund balance, which is not available for appropriation under State law (G.S. 159-8(a)). This amount is usually comprised of accounts receivable and inter-fund receivables, which have not been offset by deferred revenues.

Reserved for streets - Powell Bill - portion of fund balance that is available for appropriation but legally segregated for street construction and maintenance expenditures. This amount represents the balance of the total unexpended Powell Bill funds.

Reserved for fire - portion of fund balance that is available for appropriation but segregated for fire purposes. This amount represents the balance of the total unexpended fire district fees.

Reserved for Economic Development - This represents the balance from prior community development projects that is restricted for rehabilitation of substandard housing.

Unreserved:

Designated for subsequent year's expenditures - portion of the total fund balance available for appropriation that has been designated for the adopted 2010-2011 budget ordinance.

Designated for Fire Department - This represents funds that are raised by the members of the department that have been designated for expenditure by the Board for Fire Department purposes only.

Undesignated - portion of total fund balance available for appropriation that is uncommitted at year-end.

## II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

There were no noted violations of state statues, or contractual obligations during the year ended June 30, 2010.

## III. DETAIL NOTES ON ALL FUNDS

### A. Assets

#### 1. Deposits

All the deposits of the City and the ABC Board are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the City's or the ABC Board's agents in these units' names Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the City and the ABC Board, these deposits are considered to be held by the City's and the ABC Board's agents in their names. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the City, The ABC Board or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the City or the ABC Board under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The City has no formal policy regarding custodial credit risk for deposits, and relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The City complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured. The ABC Board has no formal policy regarding custodial credit risk for deposits.

At June 30, 2010, the City's deposits had a carrying amount of $10,036,390 and a bank balance of $10,072,821. The carrying amount of deposits of the ABC Board was $198,663 and the bank balance was $254,193. $250,000 of the ABC Board and $519,520 of the City was covered by federal depository insurance. The balances of the deposits $9,553,351 for the City and $4,193 by the ABC Board were collateralized by institutions using the Pooling Method. At June 30, 2010, the City's cash on hand totaled $556.

#### 2. Investments

At June 30, 2010, the City of Southport had $4,810 invested with the North Carolina Capital Management Trust's Cash Portfolio which accrued a credit rating of AAAm by Standard and Poor's. The City has no policy regarding credit risk.

#### 3. Receivables - Allowances for Doubtful Accounts

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

| Fund | 6/30/10 |
|---|---|
| General Fund: | |
| Taxes receivable | 18,185 |
| Solid waste accounts | 3,130 |
| Total | 21,315 |
| Enterprise Funds: | |
| Electric Fund | 35,483 |
| Water and Sewer Fund | 11,253 |
| Total | 46,736 |
| Total | 68,051 |

## 4, Capital Assets

Primary Government

Capital asset activity for the Primary Government for the year ended June 30, 2010, was as follows:

| | Beginning Balances | Reclassification | Increases | Decreases | Ending Balances |
|---|---|---|---|---|---|
| Governmental activities: | | | | | |
| Capital assets not being depreciated: | | | | | |
| Land | 1,873,373 | - | - | - | 1,873,373 |
| Construction in progress | 314,378 | (71,068) | 3,141,269 | | 3,384,579 |
| Total capital assets not being depreciated | 2,187,751 | (71,068) | 3,141,269 | - | 5,257,952 |
| Capital assets being depreciated | | | | | |
| Buildings | 3,451,161 | - | 133,106 | - | 3,584,267 |
| Other improvements | 454,462 | 71,068 | 344,998 | - | 870,528 |
| Infrastructure | 773,927 | - | - | - | 773,927 |
| Vehicles and motorized equipment | 2,134,831 | - | 80,413 | | 2,215,244 |
| Furniture and equipment | 501,092 | - | | 12,968 | 488,124 |
| Total capital assets being depreciated | 7,315,473 | 71,068 | 558,517 | 12,968 | 7,932,090 |
| Less accumulated depreciation for: | | | | | |
| Buildings | 711,036 | - | 70,130 | - | 781,166 |
| Other improvements | 184,888 | - | 15,822 | - | 200,710 |
| Infrastructure | 183,290 | - | 27,885 | | 211,175 |
| Vehicles and motorized equipment | 1,699,484 | - | 121,661 | | 1,821,145 |
| Furniture and equipment | 289,426 | - | 38,378 | 12,968 | 314,836 |
| Total accumulated depreciation | 3,068,124 | - | 273,876 | 12,968 | 3,329,032 |
| Total capital assets being depreciated, net | 4,247,349 | | | | 4,603,058 |
| Governmental activity capital assets, net | 6,435,100 | | | | 9,861,010 |

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

| | |
|---|---|
| General government | 83,815 |
| Public safety | 118,082 |
| Transportation | 35,562 |
| Cultural and recreational | 36,417 |
| Total depreciation expense | 273,876 |

| | Beginning Balances | Reclassification | Increases | Decreases | Ending Balances |
|---|---|---|---|---|---|
| Business-type activities: | | | | | |
| *Electric Fund* | | | | | |
| Capital assets not being depreciated: | - | - | - | - | - |
| Capital assets being depreciated | | | | | |
| Buildings | 54,388 | - | - | - | 54,388 |
| Utility systems | 8,039,381 | - | 171,738 | - | 8,211,119 |
| Vehicles and motorized equipment | 57,548 | - | - | - | 57,548 |
| Furniture and equipment | 64,013 | - | 12,483 | - | 76,496 |
| Total capital assets being depreciated | 8,215,330 | | 184,221 | - | 8,399,551 |
| Less accumulated depreciation for: | | | | | |
| Buildings | 5,231 | - | 1,088 | - | 6,319 |
| Utility systems | 1,955,681 | - | 204,962 | - | 2,160,643 |
| Vehicles and motorized equipment | 45,207 | - | 3,022 | - | 48,229 |
| Furniture and equipment | 42,553 | - | 5,170 | - | 47,723 |
| Total accumulated depreciation | 2,048,672 | | 214,242 | - | 2,262,914 |
| Total capital assets being depreciated, net | 6,166,658 | | | | 6,136,637 |
| Electric fund capital assets, net | 6,166,658 | | | | 6,136,637 |
| *Water and Sewer Fund* | | | | | |
| Capital assets not being depreciated: | | | | | |
| Land | 2,762,465 | - | | - | 2,762,465 |
| Construction in progress | 847,467 | - | 2,086,198 | - | 2,933,665 |
| Other nondepreciable | 1,087,000 | - | | - | 1,087,000 |
| Total capital assets not being depreciated | 4,696,932 | - | 2,086,198 | - | 6,783,130 |
| Capital assets being depreciated | | | | | |
| Utility systems | 11,551,158 | - | - | - | 11,551,158 |
| Water tank useage | 375,000 | | | | 375,000 |
| Vehicles and motorized equipment | 339,245 | - | - | - | 339,245 |
| Furniture and equipment | 338,114 | - | - | - | 338,114 |
| Total capital assets being depreciated | 12,603,517 | | - | - | 12,603,517 |
| Less accumulated depreciation for: | | | | | |
| Utility systems | 4,184,758 | - | 284,712 | - | 4,469,470 |
| Water tank useage | 9,375 | | 9,375 | | 18,750 |
| Vehicles and motorized equipment | 204,093 | - | 36,467 | - | 240,560 |
| Furniture and equipment | 255,653 | - | 24,020 | - | 279,673 |
| Total accumulated depreciation | 4,653,879 | | 354,574 | - | 5,008,453 |
| Total capital assets being depreciated, net | 7,949,638 | | | | 7,595,064 |
| Water and Sewer fund capital assets, net | 12,646,570 | | | | 14,378,194 |
| Business-type activities capital assets, net | 18,813,228 | | | | 20,514,831 |

Construction commitments

The government has active construction projects as of June 30, 2010. At the year-end, the government's commitments with contractors are as follows:

| Project | Spent-to-date | Remaining Commitment |
|---|---|---|
| Southport Fire Station | 3,064,383 | 294,003 |
| Wastewater Enhancement Project | 1,852,128 | 1,351,867 |
| Total | 4,916,511 | 1,645,870 |

Discretely presented component unit

Activity for the ABC Board for the year ended June 30, 2010, was as follows:

| | Beginning Balances | Increases | Decreases | Ending Balances |
|---|---|---|---|---|
| Capital assets not being depreciated: | | | | |
| Land | 4,600 | - | - | 4,600 |
| Capital assets being depreciated | | | | |
| Buildings | 58,755 | - | - | 58,755 |
| Other improvements | 33,497 | | - | 33,497 |
| Furniture and equipment | 36,291 | | | 36,291 |
| Total capital assets being depreciated | 128,543 | | | 128,543 |
| Less accumulated depreciation for: | | | | |
| Buildings | 58,755 | - | - | 58,755 |
| Other improvements | 27,522 | 718 | | 28,240 |
| Furniture and equipment | 20,478 | 2,828 | | 23,306 |
| Total accumulated depreciation | 106,755 | 3,546 | | 110,301 |
| Total capital assets being depreciated, net | 21,788 | | | 18,242 |
| ABC capital assets, net | 26,388 | | | 22,842 |

B. Liabilities

1. Pension Plan Obligations

a. Local Government Employees' Retirement System

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

Funding Policy – Plan members are required to contribute six percent of their annual covered salary. The City and the ABC Board are required to contribute at an actuarially determined rate. For the City, the current rate for employees not engaged in law enforcement and for law enforcement officers is 4.92% and 4.86%, respectively, of annual covered payroll. For the ABC Board, the current rate for employees not engaged in law enforcement is 4.98% of annual covered payroll. The contribution requirements of members and of the City of Southport and the ABC Board are established and may be amended by the North Carolina General Assembly. The City's contributions to the LGERS for the years ended June 30, 2010, 2009 and 2008 were $84,574, $84,910, and $85,004, respectively. The ABC Board's contributions to LGERS for the years ended June 30, 2010, 2009 and 2008 were $3,699, $4,386, and $3,912, respectively. The contributions made by the City and the ABC Board equaled the required contribution for each year.

b. Law Enforcement Officers Special Separation Allowance

(1) Plan Description

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

All full-time law enforcement officers of the City are covered by the separation allowance. At December 31, 2009, the Separation Allowance's membership consisted of:

| | |
|---|---|
| Retirees receiving benefits | 1 |
| Terminated plan members entitled to but not yet receiving benefits | 0 |
| Active plan members | 11 |
| Total | 12 |

A separate report was not issued for the plan.

(2) Summary of Significant Accounting Policies

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

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

(3) Contributions

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

The annual required contribution for the current year was determined as part of the December 31, 2009 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 5.00% investment rate of return (net of administrative expenses) and (b) projected salary increases of 4.5% - 12.3% per year. Both (a) and (b) included an inflation component of 3.75%. The assumptions did not include postretirement benefit increases.

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

| | |
|---|---|
| Employer annual required contribution | 9,869 |
| Interest on net pension obligation | 2,190 |
| Adjustment to annual required contribution | ( 1,902) |
| Annual pension cost | 10,157 |
| Contributions made | 14,458 |
| Increase (decrease) in net pension obligation | ( 4,301) |
| Net pension obligation beginning of year | 30,201 |
| Net pension obligation end of year | 25,900 |

3 Year Trend Information

| For Year Ended June 30 | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation |
|---|---|---|---|
| 2008 | 10,682 | 135.35% | 34,020 |
| 2009 | 10,639 | 135.90% | 30,201 |
| 2010 | 10,157 | 142.35% | 25,900 |

(4) Funded Status and Funding Progress.

As of December 31, 2009, 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 $84,792. The covered payroll (annual payroll of active employees covered by the plan) was $458,371, and the ratio of the UAAL to the covered payroll was 18.50%.

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

c. Supplemental Retirement Income Plan

Plan Description – The City contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The plan provides retirement benefits to all employees of the City. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

The Supplemental Retirement Income Plan for Law Enforcement Officers is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes the pension trust fund financial statements for the Internal Revenue Code Section 401(k) plan that includes the Supplemental Retirement Income Plan for Law Enforcement Officers. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy – Article 12E of G.S. Chapter 143 requires the City to contribute each month an amount equal to five percent of each employee's salary engaged in law enforcement and the City has elected to contribute five percent on non law enforcement employees. All amounts contributed are vested immediately. Also, the employees may make voluntary contributions to the plan. Contributions for the year ended June 30, 2010 were $146,315, which consisted of $91,435 from the City and $54,880 from the employees.

d. Firemen's and Rescue Squad Workers' Pension Fund

Plan Description – The State of North Carolina contributes, on behalf of the City of Southport, to the Firemen's and Rescue Squad Workers' Pension Fund, a cost-sharing multiple-employer defined benefit pension plan with a special funding situation administered by the State of North Carolina. The fund provides pension benefits for eligible fire and rescue squad workers that have elected to become members of the fund. Article 86 of G.S. Chapter 58 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Firemen's and Rescue Squad Workers' Pension Fund 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 the Fireman's and Rescue Squad Worker's Pension Fund. 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.

Fund Policy – The City contributes $10 per month to the Fund for members. The State, a nonemployer contributor, funds the Plan through appropriations. Contribution requirements of plan members and the State of North Carolina are established and may be amended by the North Carolina General Assembly.

e. Other Post-Employment Benefits – Death Benefit Plan

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

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

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

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

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

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

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

| | |
|---|---|
| Law enforcement officers | 11 |
| General Employees | 33 |
| Retirees | 12 |
| Total | 56 |

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 20.46% of covered payroll. For the current year, the City contributed $108,488 or 5.79%. The City's obligation to contribute to the HCB Plan is established and may be amended by the Board of Aldermen.

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

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

| | |
|---|---|
| Annual require contribution | 383,344 |
| Interest on net OPEB obligation | - |
| Adjustment to annual required contribution | - |
| Annual OPEB cost | 383,344 |
| Contributions made | 108,488 |
| Increase (decrease) in net OPEB obligation | 274,856 |
| Net OPEB obligation, beginning of year | - |
| Net OPEB obligation, end of year | 274,856 |

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

| For Year Ended June 30 | Annual OPEB Cost | % of Annual OPEB Cost Contributed | Net OPEB Obligation |
|---|---|---|---|
| 2010 | 383,344 | 28.3% | 274,856 |

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

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

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

2. Deferred Revenues/Unearned Revenues

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

| | Deferred Revenue | Unearned Revenue |
|---|---|---|
| Prepaid taxes (General Fund) | - | 809 |
| Taxes receivable (General Fund) | 101,250 | - |
| Total | 101,250 | 809 |

3. Risk Management

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

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

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

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

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

4. Claims, Judgments and Contingent Liabilities

According to the City Attorney and City Management at June 30, 2010, the City was not a defendant in any lawsuit whose outcome could affect the City's ability to pay obligations as they become due.

However, the City does have a contractual disagreement with the Southeast Brunswick Sanitary District (SBSD) over the treatment of the City's wastewater for a forty year period. In November 2007 SBSD presented the City with a new contract to sign, which increased the cost of the original agreement. The City refused to sign the new contract and requested that the SBSD honor their original agreement. Because of the uncertainty of the situation, the City began to explore alternative solutions for treatment of wastewater because SBSD could not honor the original agreement. SBSD filed suit against the City for violation of the contract and the City filed suit against SBSD for refund of funds paid under the contract. The suit of SBSD was dismissed before trial while the suit of the City was allowed to proceed.. SBSD has appealed the decision and the City's suit will go to trial after the SBSD appeal has been decided.

Through June 30, 2010 the City had paid SBSD $1,087,000 in impact fees for the future treatment of the wastewater. That amount has been capitalized and was to be amortized over the term of the contract.

5. 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:

| Date of Lease | Property Leased | Total of Lease | Payment Amount | Remaining of Payments | Frequency of Payments |
|---|---|---|---|---|---|
| 4-10-07 | 2006 Rosenbauer Pumper Fire Truck | 270,083 | 57,990 | 1 | Annual |
| 1-29-07 | Cleaning Truck | 144,034 | 30,977 | 1 | Annual |
| 9-28-09 | 3-Ford Police Cars | 64,227 | 22,088 | 2 | Annual |

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

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

| Fund | Class of Property | Cost | Accumulated Depreciation | Net Book Value |
|---|---|---|---|---|
| General Fund | Vehicles and motorized equipment | 350,496 | 123,113 | 227,383 |
| Water and Sewer Fund | Vehicles and motorized equipment | 144,034 | 72,844 | 71,190 |

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2010 were as follows:

| Year Ending June 30 | Total | Governmental Activities | Business-type Activities |
|---|---|---|---|
| 2011 | 111,054 | 80,077 | 30,977 |
| 2012 | 22,088 | 22,088 | - |
| Total minimum lease payments | 133,142 | 102,165 | 30,977 |
| Less: Amount representing interest | 5,223 | 4,098 | 1,125 |
| Present value of minimum lease payments | 127,919 | 98,067 | 29,852 |

b. Installment Purchase

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

Annual debt service payments of the installment purchase as of June 30, 2010, including $1,790,281 of interest is as follows:

| | Governmental Activities | |
|---|---|---|
| Year Ending June 30 | Principal | Interest |
| 2011 | 189,200 | 176,806 |
| 2012 | 189,200 | 161,407 |
| 2013 | 189,200 | 152,911 |
| 2014 | 189,200 | 144,416 |
| 2015 | 189,200 | 135,921 |
| 2016-2020 | 946,000 | 552,180 |
| 2021-2025 | 946,000 | 339,803 |
| 2026-2030 | 946,000 | 126,837 |
| | 3,784,000 | 1,790,281 |

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%.

During the current year, the City received a revolving loan from the Clean Water Revolving Fund within 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. Equal payments of $70,235 are to be made annually. There is no interest on this loan. Through June 30, 2010, $834,925 had been drawn on this loan.

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

| | Business-type Activities | |
|---|---|---|
| Year Ending June 30 | Principal | Interest |
| 2011 | 138,518 | 24,090 |
| 2012 | 138,518 | 22,585 |
| 2013 | 138,518 | 21,079 |
| 2014 | 138,518 | 19,573 |
| 2015 | 138,518 | 18,068 |
| 2016-2020 | 692,591 | 67,754 |
| 2021-2025 | 473,995 | 30,113 |
| 2026-2030 | 68,285 | 1,507 |
| | 1,927,461 | 204,769 |

d. General Obligation Indebtedness

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

Bonds payable at June 30, 2010 are comprised of the following individual issues:

| | |
|---|---|
| $60,000 1975 bonds due in annual installments of $3,609 through June 1, 2014; interest at 5.00% | 10,596 |
| Serviced by the Water and Sewer Fund: | |
| $435,000 1975 bonds due in annual installments of $23,916 through June 1, 2014; interest at 5.00% | 68,904 |
| Total | 79,500 |

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

| Years Ending June 30 | Governmental Activities Principal | Governmental Activities Interest | Business-type Activities Principal | Business-type Activities Interest |
|---|---|---|---|---|
| 2011 | 2,667 | 482 | 19,333 | 3,493 |
| 2012 | 2,667 | 348 | 19,333 | 2,527 |
| 2013 | 2,667 | 215 | 19,333 | 1,560 |
| 2014 | 2,595 | 200 | 10,905 | 593 |
| | 10,596 | 1,245 | 68,904 | 8,173 |

At June 30, 2010, the City of Southport had a legal debt margin of $75,078,133.

e. Water Tank Agreement

On November 15, 2004, the City entered into an interlocal agreement with Brunswick County to help finance the construction and operation of an elevated water storage tank. The City has agreed to participate in the project by contributing a total of $375,000 over a five year period with no interest charged. The first payment was to be made on July 1st of the first fiscal year following the completion of construction. The storage tank was completed on December 18, 2007 and the City made the first payment of $75,000 on July 1, 2009. The City has no ownership interest in the storage tank, but will derive future benefits of storage capacity, adequate system pressure and fire suppression.

Annual debt service payments on the water tank agreement as of June 30, 2010 were as follows:

| Years Ending June 30 | Business-type Activities Principal | Business-type Activities Interest |
|---|---|---|
| 2011 | 75,000 | 0 |
| 2012 | 75,000 | 0 |
| 2013 | 75,000 | 0 |
| Total | 225,000 | 0 |

f. Grant Repayment

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

Annual payments on this agreement as of June 30, 2010 were as follows:

| Year Ending June 30 | Principal | Interest |
|---|---|---|
| 2011 | 562,000 | 0 |
| 2012 | 562,000 | 0 |
| 2013 | 562,000 | 0 |
| Total | 1,686,000 | 0 |

g. Changes in Long - Term Liabilities

| | Balance 6/30/09 | Increases | Decreases | Balance 6/30/10 | Current Portion of Balance |
|---|---|---|---|---|---|
| Governmental activities: | | | | | |
| General obligation bonds | 13,263 | | 2,667 | 10,596 | 2,667 |
| Installment notes payable | 3,784,000 | | | 3,784,000 | 189,200 |
| Capitalized leases | 127,472 | 64,224 | 93,629 | 98,067 | 76,667 |
| Accrued interest | 7,568 | 177,563 | 7,568 | 177,563 | 177,563 |
| Compensated absences | 135,301 | 77,281 | 83,927 | 128,655 | 70,000 |
| Other postemployment benefits | - | 261,267 | 73,691 | 187,576 | |
| Net pension obligation | 30,201 | 10,157 | 14,458 | 25,900 | - |
| | 4,097,805 | 590,492 | 275,940 | 4,412,357 | 516,097 |
| Business-type activities: | | | | | |
| General obligation bonds | 88,237 | | 19,333 | 68,904 | 19,333 |
| Revolving loans | 1,160,819 | 834,925 | 68,284 | 1,927,460 | 138,518 |
| Capitalized leases | 77,996 | | 48,144 | 29,852 | 29,852 |
| Water tank agreement | 300,000 | | 75,000 | 225,000 | 75,000 |
| Grant repayment | 1,686,000 | | | 1,686,000 | 562,000 |
| Accrued interest | 6,887 | 5,354 | 6,887 | 5,354 | 5,354 |
| Compensated absences | 22,679 | 17,730 | 18,238 | 22,171 | 15,000 |
| Other postemployment benefits | - | 122,077 | 34,797 | 87,280 | - |
| | 3,342,618 | 980,086 | 270,683 | 4,052,021 | 845,057 |

Compensated absences typically have been liquidated in the general fund.

C. Interfund Balances and Activity

Balances Due to/from Other Funds

Balances due to/from other funds at June 30, 2010 consist of the following:

| | |
|---|---|
| Due from component unit for City's share of quarterly profits | 75,200 |
| Total | 75,200 |

D. On-Behalf Payments for Fringe Benefits and Salaries

For the fiscal year ended June 30, 2010, the City of Southport has recognized on-behalf payments for pension contributions made by the State as a revenue and an expenditure of $4,840 for the seventeen volunteer firemen who perform firefighting duties for the City's fire department. The volunteers elected to be members of the Firemen and Rescue Worker's Pension Fund, a cost-sharing, multiple employer public employee retirement system established and administered by the State of North Carolina. The Plan is funded by a $10 monthly contribution paid by the City, investment income, and a State appropriation.

Also, the City has recognized as a revenue and an expenditure on-behalf payments for fringe benefits and salaries of $10,669 for the salary supplement and stipend benefits paid to eligible firemen by the local board of trustees of the Firemen's Relief Fund during the fiscal year ended June 30, 2010. Under State law the local board of trustees for the Fund receives an amount each year which the board may use at its own discretion for eligible firemen or their departments.

E. Contracts

1. Electric Maintenance Contract

On July 21, 2006, the City of Southport awarded a contract to Brunswick Electric Membership Corporation for the operation and maintenance of the Electric Distribution System of the City of Southport. The contract is for a five year term beginning on July 1, 2006. The initial cost to the City under the contract is $280,026 for the twelve months ending on June 30, 2007. 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. The current portion to the City will be $307,680 for the twelve months ending on June 30, 2010. This shall be made in monthly payments of $25,640. Non-basic operations and maintenance service such as power restoration after catastrophic events, system improvements and upgrades, and system extension are to be provided on a cost plus basis. The cost of non-basic service will be based on cost of materials, equipment and labor. System additions and extensions are to be approved by the City.

The minimum payments on the contract are:

| Year Ending June 30, | |
|---|---|
| 2011 | 307,680 |
| Total | 307,680 |

For the year ended June 30, 2010, the City paid basic operation and maintenance fees in the amount of $307,677.

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 in December 2010, bases fees on the number of residents and frequency of collection. The expense to the City for the year ended June 30, 2010 was $89,803.

## III. JOINT VENTURES

The City and the members of the City's fire department each appoint two members to the five-member local board of trustees for the Firemen's Relief Fund. The State Insurance Commissioner appoints one additional member to the local board of trustees. The Fireman's Relief Fund is funded by a portion of the fire and lightening insurance premiums that insurers remit to the State. The State passes these moneys to the local board of the Firemen's Relief Fund. The funds are used to assist fire fighters in various ways. The City obtains an ongoing financial benefit from the Fund for the on-behalf of payments for salaries and fringe benefits made to members of the City's fire department by the board of trustees. During the fiscal year ended June 30, 2009, the City reported revenues and expenditures for the payments of $10,669 made through the Firemen's Relief Fund. The participating governments do not have any equity interest in the joint venture, so no equity has been reflected in the financial statements at June 30, 2010. The Firemen's Relief Fund does not issue separate audited financial statements. Instead, the local board of trustees files an annual financial report with the State Firemen's Association. This report can be obtained from the Association at 323 West Jones Street, Suite 401, Raleigh, North Carolina 27603.

## IV. JOINTLY GOVERNED ORGANIZATIONS

### A. North Carolina Eastern Municipal Power Agency

The City is a member of the North Carolina Eastern Municipal Power Agency (Agency). The Agency was formed to enable municipalities that own electric distribution systems to finance, construct, own, operate, and maintain generation and transmission facilities. Each participating government appoints one commissioner to the Agency's governing board. The thirty-two members, who receive power from the Agency, have signed power sales agreements to purchase a specified share of the power generated by the Agency. Except for the power purchase requirements, no local government participant has any obligation, entitlement, or residual interest. The City's purchases of power for the fiscal year ended June 30, 2010 were $5,581,403.

### 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, 2010.

### 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, 2010, 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, 2010. Complete financial information for the Airport Commission can be obtained from the Airport's administrative offices at 380 Long Beach Road, Southport, North Carolina 28461.

## V. SUMMARY OF DISCLOSURE OF SIGNIFICANT CONTINGENCIES

Federal and State Assisted Programs

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

## VI. SUBSEQUENT EVENTS

Under-billed Accounts Receivable

In two instances, the City has discovered customers of the electric utility system have been undercharged for use of electricity. This undercharge was due to multipliers on electric meters being entered incorrectly in billing records. The actual amounts of future collections on these accounts cannot be determined as of the date of these financial statements. Income will be recorded when actual amounts due can be determined.

REQUIRED SUPPLEMENTARY
FINANCIAL DATA

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

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

EXHIBIT A-1

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

| 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% |

EXHIBIT A-2

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

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

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, 2009 |
| Actuarial cost method | Projected unit credit |
| Amortization method | Level percent of pay closed |
| Remaining amortization period | 21 years |
| Asset valuation method | Market value |
| Actuarial assumptions: | |
| Investment rate of return* | 5.00% |
| Projected salary increases* | 4.5%-12.3% |
| *Includes inflation at | 3.75% |
| Cost of living adjustments | N/A |

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

EXHIBIT A-3

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

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

EXHIBIT A-4

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

| Year Ended June 30 | Annual Required Contribution | Percentage Contributed |
|---|---|---|
| 2010 | 383,344 | 0.00% |

Notes to the Required Schedules:

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

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

GOVERNMENTAL FUNDS

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

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Included in the Governmental Funds in these statements are:

- The General Fund
- The Powell Bill Fund
- Southport Firemen Fund
- Fire Station Capital Project Fund

CITY OF SOUTHPORT, NORTH CAROLINA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended June 30, 2010

| | Budget | Actual | Variance Positive (Negative) |
|---|---|---|---|
| Revenues | | | |
| Ad valorem taxes | | | |
| Current year | 1,560,000 | 1,592,229 | 32,229 |
| Prior years | 10,000 | 57,401 | 47,401 |
| Motor vehicle taxes | 45,000 | 38,052 | (6,948) |
| Penalties and interest | 8,000 | 15,933 | 7,933 |
| Total | 1,623,000 | 1,703,615 | 80,615 |
| Other taxes | | | |
| Dog tags | 2,000 | 1,565 | (435) |
| Privilege licenses | 15,000 | 17,412 | 2,412 |
| Accommodation tax | 25,000 | 46,235 | 21,235 |
| Total | 42,000 | 65,212 | 23,212 |
| Unrestricted intergovernmental revenues | | | |
| Local option sales tax | 650,000 | 580,181 | (69,819) |
| Beer and wine tax | 4,300 | 4,227 | (73) |
| ABC Profit distribution | 250,000 | 227,626 | (22,374) |
| Utility franchise tax | 275,000 | 293,000 | 18,000 |
| Total | 1,179,300 | 1,105,034 | (74,266) |
| Restricted intergovernmental revenues | | | |
| State street-aid allocation | 90,000 | 95,454 | 5,454 |
| On-behalf of payments - fire and rescue | - | 15,509 | 15,509 |
| Solid waste disposal tax | - | 1,337 | 1,337 |
| PARTF Grant-Lowe White Park | 190,000 | 28,410 | (161,590) |
| ABC Revenue for law enforcement | 12,000 | 8,889 | (3,111) |
| Brunswick County rescue contributions | 36,000 | 36,000 | - |
| Fire district fees | 585,000 | 580,296 | (4,704) |
| Total | 913,000 | 765,895 | (147,105) |
| Licenses and permits | | | |
| Building permits | 100,000 | 68,958 | (31,042) |
| Re-inspection fees | 1,500 | 1,035 | (465) |
| Planning and zoning fees | 2,500 | 6,910 | 4,410 |
| Total | 104,000 | 76,903 | (27,097) |

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, 2010

| | Budget | Actual | Variance Positive (Negative) |
|---|---|---|---|
| Sales and services | | | |
| Cemetery lot sales | 7,000 | 9,745 | 2,745 |
| Refuse collection fees | 90,000 | 93,271 | 3,271 |
| Boat slip rentals | 20,000 | 17,905 | (2,095) |
| Rescue squad fees | 89,000 | 94,103 | 5,103 |
| Community building rent | 100,000 | 110,460 | 10,460 |
| Garrison house rentals | - | 2,825 | 2,825 |
| Lot cleaning reimbursements | - | 1,865 | 1,865 |
| Annex/Stormwater permit fees | 1,500 | 3,150 | 1,650 |
| Recreation fees | 24,000 | 25,852 | 1,852 |
| Carolina Power & Light | 17,000 | 17,000 | - |
| Total | 348,500 | 376,176 | 27,676 |
| Investment earnings | | | |
| Interest income | 21,250 | 6,279 | (14,971) |
| Miscellaneous | | | |
| Donations - Firemen's fund | 9,950 | 2,744 | (7,206) |
| Donations - Recreation department | 500 | - | (500) |
| Homeowners recovery fund | 1,500 | 510 | (990) |
| Miscellaneous - Police department | 21,409 | 26,248 | 4,839 |
| Miscellaneous - Fire department | 1,000 | 1,423 | 423 |
| Miscellaneous - Rescue squad | - | 3,432 | 3,432 |
| Forestry Committee - Tree program | 1,800 | 1,989 | 189 |
| Sales - fixed assets | 5,000 | - | (5,000) |
| Sales - promotional items | 500 | 387 | (113) |
| Miscellaneous | 4,000 | 2,984 | (1,016) |
| Total | 45,659 | 39,717 | (5,942) |
| Total revenues | 4,276,709 | 4,138,831 | (137,878) |
| Expenditures | | | |
| General government | | | |
| Board expense | 32,500 | 29,730 | |
| Salaries | 7,000 | 4,812 | |
| Travel | 2,500 | 2,250 | |
| Social security | 57,000 | 56,206 | |
| Group insurance | 60,000 | 43,822 | |
| Professional fees | 1,000 | - | |
| Contract Services | 5,000 | 2,500 | |
| Donations | 1,500 | 1,412 | - |
| Elections | 166,500 | 140,732 | 25,768 |
| Total | | | |

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, 2010

| | Budget | Actual | Variance Positive (Negative) |
|---|---|---|---|
| Administration | | | |
| Salaries | 236,750 | 236,611 | |
| Social security | 18,000 | 17,701 | |
| Group insurance | 57,500 | 61,531 | |
| Retirement | 11,000 | 11,486 | |
| 401 (k) retirement supplement | 11,000 | 11,619 | |
| Computer software upgrade | 7,000 | 6,091 | |
| Telephone and postage | 19,500 | 19,498 | |
| Maintenance of equipment | 10,000 | 10,358 | |
| Advertising | 7,000 | 8,312 | |
| Auto expense - manager | 3,600 | 3,600 | |
| Administration expense | 50,000 | 49,608 | |
| Departmental supplies | 8,000 | 6,062 | |
| Miscellaneous equipment | 1,500 | 685 | |
| Miscellaneous expense | 500 | - | |
| Dues and subscriptions | 7,000 | 6,131 | |
| Codification update | 2,500 | 2,152 | |
| Insurance and bonding | 11,800 | 9,835 | - |
| Total | 462,650 | 461,280 | 1,370 |
| Buildings and Grounds | | | |
| Salaries | 59,000 | 56,026 | |
| Salaries - part-time | 21,000 | 14,011 | |
| Social security | 6,500 | 5,253 | |
| Group insurance | 30,500 | 32,281 | |
| Retirement | 3,750 | 2,690 | |
| 401 (k) retirement supplement | 3,750 | 2,734 | |
| Utilities | 86,000 | 86,798 | |
| Telephone | 1,500 | 780 | |
| Supplies | 7,500 | 5,395 | |
| Building and grounds maintenance | 35,000 | 20,401 | |
| Equipment maintenance | 4,000 | 3,897 | |
| Vehicle maintenance | 1,500 | 425 | |
| Tires and fuel | 3,000 | 1,669 | |
| Fire fees paid on City property | 5,500 | 5,170 | |
| Tree trimming and removal | 7,500 | 2,625 | |
| Christmas lights | 2,800 | 2,788 | |
| Forestry projects | 1,750 | 1,512 | |
| Insurance and bonding | 8,200 | 7,274 | |
| OSHA expense | 1,000 | 322 | |
| Contract services | 6,000 | 5,828 | |
| Capital outlay | 13,000 | - | - |
| Total | 308,750 | 257,879 | 50,871 |

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, 2010

| | Budget | Actual | Variance Positive (Negative) |
|---|---|---|---|
| Tourism | | | |
| Salaries | 51,750 | 48,844 | |
| Part-time salaries - cleaning | 57,500 | 57,030 | |
| Social security | 8,450 | 8,042 | |
| Group insurance | 8,500 | 9,087 | |
| Retirement | 2,700 | 2,378 | |
| 401 (k) retirement supplement | 2,800 | 2,416 | |
| Telephone | 2,250 | 2,150 | |
| Telephone - Visitor Center | 1,000 | 343 | |
| Utilities | 11,500 | 13,674 | |
| Utilities - Visitor Center | 5,000 | 3,650 | |
| Travel and training | 2,000 | 1,194 | |
| Maintenance and repairs - Community Building | 8,000 | 5,929 | |
| Maintenance and repairs - Visitor Center | 2,500 | 2,063 | |
| Departmental supplies | 5,000 | 4,027 | |
| Supplies - Visitor Center | 2,500 | 2,503 | |
| Insurance and bonding | 3,250 | 2,920 | |
| Insurance and bonding - Visitor Center | 3,250 | 2,920 | |
| Special event expenses | 7,500 | 7,282 | |
| Miscellaneous expenses | 1,000 | 841 | |
| Contract services | 7,000 | 3,597 | - |
| Total | 193,450 | 180,890 | 12,560 |
| City Garage | | | |
| Salaries | 52,062 | 51,953 | |
| Social security | 3,716 | 3,412 | |
| Group insurance | 33,200 | 32,902 | |
| Retirement | 1,272 | 1,207 | |
| 401 (k) retirement supplement | 3,850 | 3,846 | |
| Travel and training | 500 | 284 | |
| Telephone | 1,500 | 866 | |
| Equipment maintenance | 2,000 | 1,310 | |
| Vehicle maintenance | 1,000 | 582 | |
| Gas, oil and tires | 3,000 | 1,604 | |
| Supplies | 2,000 | 830 | |
| Uniform rental | 9,000 | 8,785 | |
| OSHA expense | 500 | 308 | |
| Contracted services | 1,500 | 1,635 | |
| Insurance and bonding | 6,000 | 5,195 | - |
| Total | 121,100 | 114,719 | 6,381 |
| Total general government | 1,252,450 | 1,155,500 | 96,950 |

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, 2010

| | Budget | Actual | Variance Positive (Negative) |
|---|---|---|---|
| Public Safety | | | |
| Police | | | |
| Salaries | 524,104 | 517,899 | |
| Separation allowance | 15,000 | 14,458 | |
| Salaries - reserve officers | 40,000 | 38,580 | |
| Social security | 40,700 | 41,525 | |
| Group insurance | 113,750 | 115,726 | |
| Retirement | 25,400 | 24,982 | |
| 401 (k) retirement supplement | 26,000 | 25,583 | |
| Telephone and postage | 5,000 | 4,767 | |
| Travel and training | 12,500 | 12,214 | |
| Community resource materials | 10,305 | 8,400 | |
| Equipment maintenance | 10,000 | 7,815 | |
| Vehicle maintenance | 8,000 | 5,877 | |
| Gas, oil and tires | 20,000 | 19,852 | |
| Departmental supplies | 5,000 | 4,526 | |
| Miscellaneous small equipment | 2,500 | 1,021 | |
| Uniforms | 12,500 | 7,920 | |
| Information fund | 750 | 250 | |
| P.I.N. rental | 1,500 | 600 | |
| Contract services - Bell South | 2,500 | 3,222 | |
| Insurance and bonding | 29,000 | 27,661 | |
| Capital outlay | 86,424 | 80,413 | - |
| Total | 990,933 | 963,291 | 27,642 |
| Fire Department | | | |
| Fees paid to volunteers | 61,055 | 46,626 | |
| Incentives paid to volunteers | 15,000 | 14,000 | |
| Salaries | 1,980 | 1,980 | |
| Social security | 6,000 | 4,580 | |
| Pension plan | 7,500 | 4,684 | |
| On behalf payments - fringe | 7,500 | 15,509 | |
| Retirement - City share | 17,545 | 17,545 | |
| Professional fees | - | 900 | |
| Telephone and postage | 3,000 | 1,695 | |
| Convention travel | 10,000 | 6,412 | |
| Equipment maintenance | 31,000 | 32,474 | |
| Vehicle maintenance | 26,000 | 23,900 | |
| Gas, oil and tires | 9,500 | 7,461 | |
| Departmental supplies | 22,000 | 18,000 | |
| Uniforms | 9,000 | 6,754 | |
| Turnout gear | 4,000 | 1,589 | |
| FEMA grant supplies | 900 | 900 | |
| Fire prevention | 4,000 | 3,325 | |
| Health physicals | 7,500 | 4,303 | |
| Insurance and bonding | 7,500 | 6,927 | |
| Equipment purchased under capitalization limit | - | 1,500 | |
| Capital outlay | 235,000 | 4,190 | - |
| Total | 485,980 | 225,254 | 260,726 |

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, 2010

| | Budget | Actual | Variance Positive (Negative) |
|---|---|---|---|
| Firemen's Fund | | | |
| Southport firemen's expenses | 10,000 | 1,314 | 8,686 |
| Rescue Squad | | | |
| Fees paid to volunteers | 77,000 | 75,614 | |
| Salaries | 1,980 | 1,980 | |
| Social security | 6,000 | 5,937 | |
| Bill collection expense | 9,900 | 9,666 | |
| Telephone and postage | 1,500 | 1,114 | |
| Travel and training | 1,200 | 980 | |
| Equipment maintenance | 11,500 | 8,946 | |
| Vehicle maintenance | 8,000 | 4,291 | |
| Gas, oil and tires | 4,900 | 3,318 | |
| Departmental supplies | 11,500 | 11,810 | |
| Other equipment | 26,500 | 26,419 | |
| Medical supplies | 10,000 | 8,698 | |
| Uniforms | 4,000 | 3,780 | |
| Insurance and bonding | 7,000 | 6,023 | - |
| Total | 180,980 | 168,576 | 12,404 |
| Code Enforcement | | | |
| Salaries | 135,000 | 132,742 | |
| Salaries - part-time | 1,500 | 80 | |
| Social security | 12,000 | 9,571 | |
| Group insurance | 27,700 | 27,598 | |
| Retirement | 7,750 | 6,436 | |
| 401 (k) retirement supplement | 7,750 | 6,541 | |
| Telephone | 1,500 | 1,285 | |
| Travel and training | 5,000 | 3,558 | |
| Vehicle maintenance | 2,000 | 1,592 | |
| Equipment maintenance | 3,000 | 2,926 | |
| Tires and fuel | 3,000 | 1,380 | |
| Supplies | 5,500 | 5,306 | |
| Miscellaneous small equipment | 1,500 | 1,167 | |
| Cleanup overgrown lots | 2,500 | 1,420 | |
| Removal of condemned buildings | 7,500 | - | |
| Contracted services - inspections | 1,500 | 300 | |
| Insurance | 6,500 | 6,076 | |
| Capital outlay | 25,000 | - | - |
| Total | 256,200 | 207,978 | 48,222 |
| Total public safety | 1,924,093 | 1,566,413 | 357,680 |

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, 2010

| | Budget | Actual | Variance Positive (Negative) |
|---|---|---|---|
| Transportation | | | |
| Street | | | |
| Salaries | 93,000 | 92,739 | |
| Social security | 7,050 | 7,049 | |
| Group insurance | 26,700 | 25,932 | |
| Retirement | 4,650 | 4,485 | |
| 401 (k) retirement supplement | 4,650 | 4,559 | |
| Telephone | 2,500 | 947 | |
| Utilities | 25,000 | 26,984 | |
| Equipment maintenance | 3,000 | 2,537 | |
| Vehicle maintenance | 3,000 | 1,400 | |
| Gas, oil and tires | 10,000 | 6,315 | |
| Departmental supplies | 3,000 | 1,460 | |
| OSHA expenses | 1,000 | 353 | |
| Insurance and bonding | 20,000 | 15,262 | - |
| Total | 203,550 | 190,022 | 13,528 |
| Powell Bill | | | |
| Sidewalk repairs | 5,000 | 1,916 | |
| Street repairs | 6,000 | 5,093 | |
| Storm drainage supplies | 5,200 | 22 | |
| Street resurfacing | 75,000 | - | - |
| Total | 91,200 | 7,031 | 84,169 |
| Total transportation | 294,750 | 197,053 | 97,697 |
| Solid Waste | | | |
| Annual cleanup | 6,000 | 3,905 | |
| Collection contract | 90,000 | 89,803 | - |
| Total | 96,000 | 93,708 | 2,292 |
| Total environmental protection | 96,000 | 93,708 | 2,292 |

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, 2010

| | Budget | Actual | Variance Positive (Negative) |
|---|---|---|---|
| Cultural and Recreational | | | |
| Parks and recreation | | | |
| Salaries | 107,500 | 107,580 | |
| Salaries - part-time | 40,000 | 39,584 | |
| Social security | 11,200 | 10,848 | |
| Group insurance | 28,000 | 27,637 | |
| Retirement | 5,250 | 5,185 | |
| 401 (k) retirement supplement | 5,250 | 5,270 | |
| Telephone | 4,000 | 3,749 | |
| Travel and training | 1,500 | 1,025 | |
| Fort Johnson expenses | 12,250 | 10,994 | |
| Equipment maintenance | 2,500 | 2,402 | |
| Vehicle maintenance | 1,700 | 1,042 | |
| Gas, oil and tires | 3,500 | 2,075 | |
| Departmental supplies | 6,000 | 5,946 | |
| Miscellaneous small equipment | 200 | - | |
| Youth athletic programs | 4,000 | 2,952 | |
| Special events and programs | 13,000 | 12,371 | |
| Recreation programs | 17,500 | 17,091 | |
| Senior citizens programs | 13,500 | 13,513 | |
| Insurance and bonding | 8,000 | 7,129 | |
| Capital outlay - Lowe White Park | 447,230 | 439,331 | |
| Capital outlay | 40,000 | 38,772 | - |
| Total cultural and recreational | 772,080 | 754,496 | 17,584 |
| Debt service | | | |
| Principal | 132,739 | 96,296 | |
| Interest | 5,301 | 5,301 | - |
| Total debt service | 138,040 | 101,597 | 36,443 |
| Contingency | 53,520 | - | 53,520 |
| Total expenditures | 4,530,933 | 3,868,767 | 662,166 |
| Revenues over (under) expenditures | (254,224) | 270,064 | 524,288 |
| Other financing sources (uses) | | | |
| Proceeds of capital leases | 64,224 | 64,224 | - |
| Total other financing sources (uses) | 64,224 | 64,224 | - |
| Appropriated fund balance | 190,000 | - | (190,000) |
| Net change in fund balance | - | 334,288 | 334,288 |
| Fund Balance | | | |
| Beginning of year | | 2,808,617 | |
| End of year | | 3,142,905 | |

EXHIBIT B-2

CITY OF SOUTHPORT, NORTH CAROLINA
FIRE STATION CAPITAL PROJECT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended June 30, 2010

| | Project Authorization | Actual Prior Years | Actual Current Year | Actual Total To Date | Variance Favorable (Unfavorable) |
|---|---|---|---|---|---|
| Revenues | | | | | |
| Investment earnings | | | | | |
| Interest earned | - | 207 | 3,348 | 3,555 | 3,555 |
| Total revenues | - | 207 | 3,348 | 3,555 | 3,555 |
| Expenditures | | | | | |
| Professional Services - Design | 224,000 | - | 72,697 | 72,697 | 151,303 |
| Construction | 3,358,386 | - | 3,064,383 | 3,064,383 | 294,003 |
| Furnishings and telephone system | 52,000 | - | - | - | 52,000 |
| Contingency | 149,614 | - | - | - | 149,614 |
| Total expenditures | 3,784,000 | - | 3,137,080 | 3,137,080 | 646,920 |
| Excess of (under) revenues over expenditures | (3,784,000) | 207 | (3,133,732) | (3,133,525) | 650,475 |
| Other financing sources (uses) | | | | | |
| Financing proceeds | 3,784,000 | 3,784,000 | - | 3,784,000 | - |
| Excess of revenues and other sources over expenditures | - | 3,784,207 | (3,133,732) | 650,475 | 650,475 |
| Fund balance | | | | | |
| Beginning of year | | | 3,784,207 | | |
| End of year | | | 650,475 | | |

## ENTERPRISE FUNDS

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

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

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

| | Budget | Actual | Variance Positive (Negative) |
|---|---|---|---|
| Revenues | | | |
| Operating revenues | | | |
| Charges for services | | | |
| Electricity sales | 6,175,000 | 6,844,185 | 669,185 |
| Underground service | 350,000 | 28,750 | (321,250) |
| Load management switches | 2,500 | 5,997 | 3,497 |
| Service charges | 95,000 | 102,626 | 7,626 |
| Total charges for services | 6,622,500 | 6,981,558 | 359,058 |
| Other operating revenues | | | |
| Miscellaneous | - | 2,085 | 2,085 |
| Total operating revenues | 6,622,500 | 6,983,643 | 361,143 |
| Nonoperating revenues | | | |
| Interest on investments | 25,000 | 10,913 | (14,087) |
| Contributions from customers | - | 14,124 | 14,124 |
| Total nonoperating revenues | 25,000 | 25,037 | 37 |
| Total revenues | 6,647,500 | 7,008,680 | 361,180 |
| Expenditures | | | |
| Expenditures other than depreciation | | | |
| Salaries | 179,000 | 177,747 | |
| Professional services | 25,000 | 24,280 | |
| Collection agency | 2,500 | 1,117 | |
| Social security | 13,500 | 13,002 | |
| Group insurance | 57,800 | 56,373 | |
| Retirement | 8,750 | 8,635 | |
| 401 (k) retirement supplement | 8,850 | 8,776 | |
| Computer software update | 6,700 | 3,981 | |
| OSHA expenses | 500 | 138 | |
| Telephone and postage | 22,000 | 21,867 | |
| Travel and training | 1,000 | 548 | |

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

| | Budget | Actual | Variance Positive (Negative) |
|---|---|---|---|
| Expenditures | | | |
| Expenditures other than depreciation | | | |
| Equipment maintenance | 7,500 | 32,024 | |
| Vehicle maintenance | 1,000 | 207 | |
| Gas, oil and tires | 3,000 | 1,317 | |
| Garage expense | 6,500 | 6,500 | |
| Departmental supplies | 7,500 | 5,564 | |
| Utility sales tax | 180,000 | 161,681 | |
| Power purchased | 5,658,000 | 5,581,403 | |
| Electricities dues | 5,000 | 4,775 | |
| Contract maintenance | 310,000 | 307,677 | |
| Contract services | 25,000 | 25,180 | |
| Insurance and bonding | 13,900 | 13,830 | |
| Load management repairs | 4,500 | 4,076 | - |
| Total expenditures other than depreciation | 6,547,500 | 6,460,698 | 86,802 |
| Supplemental budget expenditures | | | |
| Capital outlay | 250,000 | 184,221 | - |
| Total supplemental expenditures | 250,000 | 184,221 | 65,779 |
| Total expenditures | 6,797,500 | 6,644,919 | 152,581 |
| Excess of revenues over (under) expenditures | (150,000) | 363,761 | 513,761 |
| Other financing sources (uses) | | | |
| Appropriated fund balance | 150,000 | - | (150,000) |
| Other financing sources over (under) uses | 150,000 | - | (150,000) |
| Revenues and other sources over expenditures and other uses | - | 363,761 | 363,761 |

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

| | Budget | Actual | Variance Positive (Negative) |
|---|---|---|---|
| Reconciliation of modified accrual basis to full accrual basis: | | | |
| Excess of revenues and other sources over (under) expenditures and other uses | | 363,761 | |
| Depreciation | | (214,242) | |
| Total supplemental budget expenditures | | 184,221 | |
| (Increase) decrease in unfunded OPEB liability | | (13,157) | |
| (Increase) decrease in accrued vacation | | (2,045) | |
| Change in net assets | | 318,538 | |

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

| | Budget | Actual | Variance Positive (Negative) |
|---|---|---|---|
| Revenues | | | |
| Operating revenues | | | |
| Charges for services | | | |
| Water and sewer services | 1,890,000 | 2,029,714 | 139,714 |
| Water and sewer tap fees | 7,500 | 4,500 | (3,000) |
| Total charges for services | 1,897,500 | 2,034,214 | 136,714 |
| Other operating revenues | | | |
| Miscellaneous | 1,000 | 504 | (496) |
| Total operating revenues | 1,898,500 | 2,034,718 | 136,218 |
| Nonoperating revenues | | | |
| Interest on investments | 10,000 | 3,122 | (6,878) |
| Impact fees | 124,250 | 73,350 | (50,900) |
| Total nonoperating revenues | 134,250 | 76,472 | (57,778) |
| Total revenues | 2,032,750 | 2,111,190 | 78,440 |
| Expenditures | | | |
| Expenditures other than depreciation | | | |
| Salaries | 400,000 | 398,001 | |
| Professional fees | 72,000 | 57,440 | |
| Social security | 29,800 | 29,481 | |
| Group insurance | 89,700 | 90,549 | |
| Retirement | 19,150 | 18,931 | |
| 401 (k) retirement supplement | 19,450 | 19,240 | |
| Computer software update | 13,000 | 3,981 | |
| Telephone and postage | 25,000 | 24,705 | |
| Utilities | 103,000 | 110,729 | |
| Travel and training | 1,000 | 988 | |
| System maintenance | 31,000 | 29,603 | |

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

| | Budget | Actual | Variance Positive (Negative) |
|---|---|---|---|
| Expenditures | | | |
| Expenditures other than depreciation | | | |
| Equipment repair | 10,000 | 6,515 | |
| Building repair | 1,000 | - | |
| Vehicle repair | 2,500 | 2,458 | |
| Garage expense | 24,000 | 24,000 | |
| Gas, oil and tires | 10,000 | 6,364 | |
| Water and sewer supplies | 98,500 | 75,596 | |
| Annual permits and fees | 7,500 | 4,425 | |
| OSHA expenses | 4,000 | 1,383 | |
| Contract services | 250,000 | 268,298 | |
| Meter reading contract | 25,000 | 25,180 | |
| Water analysis | 7,500 | 8,527 | |
| Sewer analysis | 20,000 | 14,395 | |
| Water purchases | 440,000 | 390,901 | |
| Insurance and bonding | 30,000 | 19,633 | |
| Miscellaneous | 500 | 69 | - |
| Total expenditures other than depreciation | 1,733,600 | 1,631,392 | 102,208 |
| Supplemental budget expenditures | | | |
| Capital outlay | 42,400 | - | |
| Long-term debt payments | 143,550 | 135,761 | |
| Water tank payment to Brunswick County | 79,250 | 75,000 | |
| Interest expense | 33,950 | 33,942 | - |
| Total supplemental expenditures | 299,150 | 244,703 | 54,447 |
| Total expenditures | 2,032,750 | 1,876,095 | 156,655 |
| Revenues over (under) expenditures | - | 235,095 | 235,095 |
| Revenues and other sources over (under) expenditures and other uses | - | 235,095 | 235,095 |

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

| | Budget | Actual | Variance Positive (Negative) |
|---|---|---|---|
| Reconciliation of modified accrual basis to full accrual basis: | | | |
| Revenues and other sources over expenditures and other uses | | 235,095 | |
| Total supplemental budget expenditures | | 244,703 | |
| Depreciation | | (354,574) | |
| (Increase) decrease in accrued vacation pay | | 2,553 | |
| (Increase) decrease in interest payable | | 1,533 | |
| (Increase) decrease in OPEB liability | | (74,123) | |
| Interest expense included in debt payments | | (33,942) | |
| Interest income recorded in capital projects | | 348 | |
| Grants received by capital projects | | 1,151,843 | |
| Change in net assets in Water and Sewer Fund | | 1,173,436 | |

EXHIBIT C-3

CITY OF SOUTHPORT, NORTH CAROLINA
WASTEWATER SYSTEM ENHANCEMENT CAPITAL PROJECT PHASE II
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP)
For the Year Ended June 30, 2010

| | Project Authorization | Actual Prior Years | Actual Current Year | Actual Total To Date | Variance Favorable (Unfavorable) |
|---|---|---|---|---|---|
| Revenues | | | | | |
| Restricted intergovernmental revenues | | | | | |
| Clean Water grant | 3,000,000 | 558,645 | 1,151,843 | 1,710,488 | (1,289,512) |
| Investment earnings | | | | | |
| Interest earned | - | 6,922 | 348 | 7,270 | 7,270 |
| Total revenues | 3,000,000 | 565,567 | 1,152,191 | 1,717,758 | (1,282,242) |
| Expenditures | | | | | |
| Professional services | 959,945 | 437,221 | 229,070 | 666,291 | 293,654 |
| Legal and administrative fees | 56,985 | - | - | - | 56,985 |
| Easement and land acquisition | 43,070 | - | 5,000 | 5,000 | 38,070 |
| Construction | 3,203,995 | - | 1,852,128 | 1,852,128 | 1,351,867 |
| Contingency | 140,700 | - | - | - | 140,700 |
| Total expenditures | 4,404,695 | 437,221 | 2,086,198 | 2,523,419 | 1,881,276 |
| Excess of (under) revenues over expenditures | (1,404,695) | 128,346 | (934,007) | (805,661) | 599,034 |
| Other financing sources (uses) | | | | | |
| Financing proceeds | | | | | |
| CG & L revolving loan funds | 1,404,695 | - | 834,925 | 834,925 | (569,770) |
| Other financing sources over (under) uses | 1,404,695 | - | 834,925 | 834,925 | (569,770) |
| Excess of revenues and other sources over expenditures | - | 128,346 | (99,082) | 29,264 | 29,264 |
| Fund balance | | | | | |
| Beginning of year | | | 128,346 | | |
| End of year | | | 29,264 | | |

# 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

EXHIBIT D-1

# CITY OF SOUTHPORT, NORTH CAROLINA
## SCHEDULE OF AD VALOREM TAXES RECEIVABLE
## June 30, 2010

| Fiscal Year | Uncollected Balance June 30, 2009 | Additions | Collections and Credits | Uncollected Balance June 30, 2010 |
|---|---|---|---|---|
| 2009 - 2010 | | 1,693,561 | 1,630,372 | 63,189 |
| 2008 - 2009 | 74,076 | | 53,202 | 20,874 |
| 2007 - 2008 | 16,561 | | 7,170 | 9,391 |
| 2006 - 2007 | 4,980 | | 664 | 4,316 |
| 2005 - 2006 | 4,651 | | 483 | 4,168 |
| 2004 - 2005 | 4,096 | | 338 | 3,758 |
| 2003 - 2004 | 3,163 | | 223 | 2,940 |
| 2002 - 2003 | 3,745 | | 184 | 3,561 |
| 2001 - 2002 | 4,213 | | 324 | 3,889 |
| 2000 - 2001 | 3,048 | | 16 | 3,032 |
| 1999 - 2000 | 2,702 | - | 2,702 | - |
| Total | 121,235 | 1,693,561 | 1,695,678 | 119,118 |
| Less allowance for uncollectible taxes receivable | | | | 17,868 |
| Ad Valorem taxes receivable - net | | | | 101,250 |
| Reconcilement with revenues Taxes - ad valorem - General Fund | | | | 1,703,615 |
| Amounts written off for tax year 1999 - 2000 per statute of limitations | | | | 2,702 |
| Releases and adjustments | | | | 5,294 |
| Subtotal | | | | 1,711,611 |
| Less: Interest collected | | | | 15,933 |
| Total collections and credits | | | | 1,695,678 |

EXHIBIT D-2

CITY OF SOUTHPORT, NORTH CAROLINA
ANALYSIS OF CURRENT TAX LEVY
CITY-WIDE LEVY
June 30, 2010

| | City-Wide | | | Total Levy | |
|---|---|---|---|---|---|
| | Property Valuation | Rate | Total Levy | Property Excluding Registered Motor Vehicles | Registered Motor Vehicles |
| Original Levy: | | | | | |
| Property taxed at current rate | 934,700,000 | 0.0018 | 1,682,460 | 1,643,183 | 39,277 |
| Total | 934,700,000 | | 1,682,460 | 1,643,183 | 39,277 |
| Discoveries | | | | | |
| Current year | 6,167,222 | 0.0018 | 11,101 | 11,101 | |
| Abatements | (2,390,556) | | (4,303) | (3,799) | (504) |
| Total valuation | 938,476,666 | | | | |
| Net levy | | | 1,689,258 | 1,650,485 | 38,773 |
| Uncollected taxes at June 30, 2010 | | | 63,189 | 58,256 | 4,933 |
| Current year's taxes collected | | | 1,626,069 | 1,592,229 | 33,840 |
| Current levy collection percentage | | | 96.26% | 96.47% | 87.28% |

SUPPLEMENTARY INFORMATION:

COMPLIANCE SECTION

BERRY, PADGETT & CHANDLER, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN
Southport, NC
Shallotte, NC

IRA WAYNE BERRY, CPA
H. MENTON PADGETT, CPA
J. MICHAEL CHANDLER, CPA

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

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

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Southport, North Carolina, as of and for the year ended June 30, 2010, which collectively comprises the City of Southport's basic financial statements, and have issued our report thereon, dated December 2, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the City of Southport Board of Alcoholic Control were not audited in accordance with *Government Auditing Standards.*

## Internal Control Over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies 2010-1 and 2010-2 described in the accompanying schedule of findings and responses, to be significant deficiencies in internal control over financial reporting. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider 2010-1 and 2010-2 material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Southport's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. We noted certain matters that we reported to management of the City of Southport in a separate letter dated December 2, 2010.

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

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

Barry Pulley & Chandler PLLC
Certified Public Accountants

December 2, 2010

**CITY OF SOUTHPORT**
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**
**For the Fiscal Year Ended June 30, 2010**

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

| | | |
|---|---|---|
| • Material weakness identified? | X yes | __no |
| • Significant Deficiency identified that are not considered to be Material weaknesses | __yes | X none reported |
| Noncompliance material to financial statements noted | __yes | X no |

II. Financial Statement Findings

MATERIAL WEAKNESS

**2010-1 Significant Audit Adjustments**

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

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

Effect: Financial reporting could be misleading.

Cause: Finance Officer lacks in depth training in GAAP financial reporting.

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

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

**2010-2 Segregation of Duties**

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

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

Effect: Transactions could be mishandled.

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

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

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

**CITY OF SOUTHPORT, NORTH CAROLINA** **EXHIBIT E-2**
**CORRECTIVE ACTION PLAN**
**For the Year Ended June 30, 2010**

I. Financial Statement Findings

Finding 2010-1

Name of contact person: Alan Thornton

Corrective Action: Additional training of personnel in accounting procedures.

Proposed completion date: January 31, 2011

Finding 2010-2

Name of contact person: Alan Thornton

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

Proposed completion date: January 31, 2011