

CITY OF SOUTHPORT

Southport, North Carolina

AUDITED FINANCIAL STATEMENTS

June 30, 2017

BOARD OF ALDERMEN

JV Dove, Mayor  
Todd Coring, Mayor Pro Tem  
Karen Mosteller  
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Rick Pukenas  
Mark Spencer  
Lora Sharkey

ADMINISTRATIVE AND FINANCIAL STAFF

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Melanie Trexler, Finance Director  
Michele Windham, City Clerk

**CITY OF SOUTHPORT, NORTH CAROLINA**  
**TABLE OF CONTENTS**  
**June 30, 2017**

**EXHIBIT**

Financial Section:

Independent Auditors' Report

Management's Discussion and Analysis

Basic Financial Statements:

Government-wide Financial Statements:

Statement of Net Position 1

Statement of Activities 2

Fund Financial Statements:

Balance Sheet - Governmental Funds 3

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

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

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

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

Statement of Fund Net Position - Proprietary Funds 6

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

Statement of Cash Flows - Proprietary Funds 8

Notes to the Financial Statements 9

Required Supplemental Financial Data:

Other Postemployment Benefits – Schedule of Funding Progress A-1

Proportionate Share of Net Pension Liability (Asset) A-2

|   |     |
|---|-----|
| City of Southport's Contributions<br>Local Government Employee's Retirement System  | A-3 |
| Law Enforcement Officers' Special Separation<br>Allowance - Schedule of Changes in Total Pension Liability  | A-4 |
| Law Enforcement Officers' Special Separation<br>Allowance - Schedule of Pension as a Percentage of Covered Payroll  | A-5 |
| Firefighters' Supplemental Retirement Plan<br>- Schedule of Changes in Total Pension Liability  | A-6 |
| Individual Fund Statements and Schedules:   |     |
| Governmental Funds  |     |
| Schedule of Revenues, Expenditures, and Changes in<br>Fund Balances - Budget and Actual   |     |
| General Fund  | B-1 |
| Capital Reserve Fund  | B-2 |
| Building Capital Improvement Fund   | B-3 |
| Enterprise Funds  |     |
| Schedule of Revenues, Expenditures, and Changes in<br>Fund Balances - Budget and Actual:  |     |
| Electric Fund   | C-1 |
| Water and Sewer Fund  | C-2 |
| Other Schedules:  |     |
| Schedule of Ad Valorem Taxes Receivable   | D-1 |
| Analysis of Current Tax Levy - City-Wide Levy   | D-2 |
| Compliance Section:   |     |
| Report on Internal Control over Financial Reporting and on Compliance<br>and Other Matters Based on an Audit of the Financial Statements<br>Performed in Accordance with <u>Government Auditing Standards</u> |     |
| Schedule of Findings and Questioned Costs   | E-1 |
| Corrective Action Plan  | E-2 |
| Summary Schedule of Prior Audit Findings  | E-3 |

FINANCIAL SECTION

Independent Auditors' Report

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

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Southport, North Carolina, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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

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

***Auditor's Responsibility***

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

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

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

## ***Opinions***

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Southport, North Carolina as of June 30, 2017, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Other Postemployment Benefits' Schedules of Funding Progress and Schedules of Employer Contributions, on Exhibit A-1, and the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability and Contributions on Exhibits A-2 and A-3, the Law Enforcement Officers' Special Separation Allowance Schedule of Changes in Total Pension Liability and Total Pension Liability as a Percentage of Covered Payroll on Exhibits A-4 and A-5, and the Firefighters' Supplemental Retirement Plan Schedule of Changes in Total Pension Liability on Exhibit 6 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Supplementary and Other Information*

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

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 11, 2018 on our consideration of City of Southport's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Southport's internal control over financial reporting and compliance.

*Berry Padgett & Candler, PLLC*  
Certified Public Accountants

Southport, North Carolina  
June 11, 2018

## MANAGEMENT'S DISCUSSION AND ANALYSIS



## **Management's Discussion and Analysis**

As management of the City of Southport, we offer readers of the City of Southport's financial statements this narrative overview and analysis of the financial activities of the City of Southport for the fiscal year ended June 30, 2017. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the City's financial statements, which follow this narrative.

### **Financial Highlights**

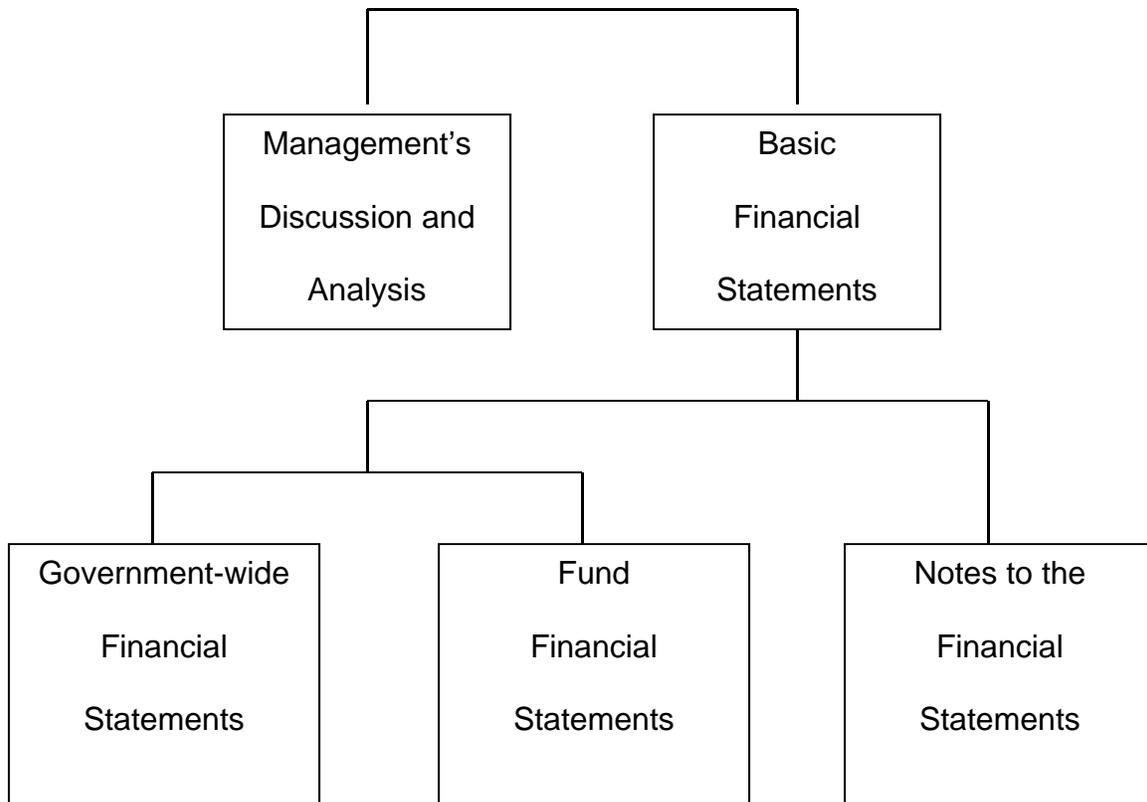
- The assets and deferred outflows of resources of the City of Southport exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$39,457,806.
- The government's total net position increased by \$555,653 primarily due to income of the Enterprise Funds.
- As of the close of the current fiscal year, the City of Southport's governmental funds reported combined ending fund balances of \$2,209,196 with a net increase of \$268,591 in fund balance. Approximately, 45% of this total amount or \$1,000,513 is non-spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,148,831.
- The City of Southport's total debt increased by \$994,060 (17%) during the current fiscal year. The key factor in this increase was the increase in the pension and other benefit accruals.

### **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; 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 North Carolina General Statutes also can be found in this part of the statements.

## **Government-Wide Financial Statements**

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

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

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

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

## **Fund Financial Statements**

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

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

Management Discussion and Analysis  
City of Southport

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

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

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

**Other Information** – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the City of Southport's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found in Exhibit A-1- A-6 of this report.

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

**Government-Wide Financial Analysis**

**City of Southport's Net Position**

**Figure 2**

|  | Governmental<br>Activities |               | Business-Type<br>Activities |               | Total         |               |
|--|----------------------------|---------------|-----------------------------|---------------|---------------|---------------|
|  | 2017                       | 2016          | 2017                        | 2016          | 2017          | 2016          |
| Current and other assets                               | \$ 2,619,869               | \$ 2,507,996  | \$ 7,324,115                | \$ 7,235,792  | \$ 9,943,984  | \$ 9,743,788  |
| Capital assets   | 13,917,230                 | 14,096,071    | 23,628,315                  | 23,348,683    | 37,545,545    | 37,444,754    |
| Deferred outflows of resources                         | 470,427                    | 116,329       | 171,064                     | 45,926        | 641,491       | 162,255       |
| Total assets and deferred<br>outflows of resources     | 17,007,526                 | 16,720,396    | 31,123,494                  | 30,630,401    | 48,131,020    | 47,350,797    |
| Long-term liabilities outstanding                      | 4,739,476                  | 4,080,848     | 1,722,893                   | 1,659,517     | 6,462,369     | 5,740,365     |
| Other liabilities                                      | 582,431                    | 517,265       | 1,576,736                   | 2,120,042     | 2,159,167     | 2,637,307     |
| Deferred inflows of resources                          | 43,663                     | 49,992        | 8,015                       | 20,980        | 51,678        | 70,972        |
| Total liabilities and deferred<br>inflows of resources | 5,365,570                  | 4,648,105     | 3,307,644                   | 3,800,539     | 8,673,214     | 8,448,644     |
| Net position:  |                            |               |                             |               |               |               |
| Net investment in capital assets                       | 11,408,724                 | 11,261,177    | 22,522,122                  | 22,139,089    | 33,930,846    | 33,400,266    |
| Restricted   | 1,000,261                  | 699,528       | 1,251,005                   | 2,074,903     | 2,251,266     | 2,774,431     |
| Unrestricted   | (767,029)                  | 111,586       | 4,042,723                   | 2,615,870     | 3,275,694     | 2,727,456     |
| Total net position                                     | \$ 11,641,956              | \$ 12,072,291 | \$ 27,815,850               | \$ 26,829,862 | \$ 39,457,806 | \$ 38,902,153 |

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of the City of Southport exceeded liabilities and deferred inflows by \$39,457,806 as of June 30, 2017. The City's net position increased by \$555,653 for the fiscal year ended June 30, 2017. However, the largest portion (86%) reflects the City's net investment in capital assets (e.g. land, buildings, machinery, and equipment). The City of Southport uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Southport's net investment in capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the City of Southport's net position, \$2,251,266, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$3,275,694 is unrestricted.

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

- The percentage of property tax collected was 98.16%. The statewide average in fiscal year 2017 was 98.78%.
- Increased other tax revenues of \$80,044 and property tax revenues of \$104,872 were due to economic growth in the City.

Management Discussion and Analysis  
City of Southport

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

|  | Governmental Activities |              | Business-Type Activities |              | Total        |              |
|--|-------------------------|--------------|--------------------------|--------------|--------------|--------------|
|  | 2017                    | 2016         | 2017                     | 2016         | 2017         | 2016         |
| Revenues:  |                         |              |                          |              |              |              |
| Program revenues:  |                         |              |                          |              |              |              |
| Charges for services   | \$ 1,619,465            | \$ 1,563,863 | \$10,440,226             | \$10,599,741 | \$12,059,691 | \$12,163,604 |
| Operating grants and contributions                           | 464,253                 | 218,482      | 8,562                    | 19,785       | 472,815      | 238,267      |
| Capital grants and contributions                             | 24,840                  | 168,417      | 469,112                  | -            | 493,952      | 168,417      |
| General revenues:  |                         |              |                          |              |              |              |
| Property taxes   | 1,964,593               | 1,859,721    | -                        | -            | 1,964,593    | 1,859,721    |
| Other taxes  | 955,028                 | 874,984      | -                        | -            | 955,028      | 874,984      |
| Grants and contributions not restricted to specific programs | 658,703                 | 627,486      | -                        | -            | 658,703      | 627,486      |
| Unrestricted Investment earnings                             | 3,874                   | 1,253        | 13,441                   | 4,444        | 17,315       | 5,697        |
| Other  | 58,238                  | 52,780       | -                        | -            | 58,238       | 52,780       |
| Total revenues   | 5,748,994               | 5,366,986    | 10,931,341               | 10,623,970   | 16,680,335   | 15,990,956   |
| Expenses:  |                         |              |                          |              |              |              |
| General government   | 1,714,247               | 1,663,663    | -                        | -            | 1,714,247    | 1,663,663    |
| Public safety  | 2,594,629               | 2,319,419    | -                        | -            | 2,594,629    | 2,319,419    |
| Transportation   | 603,412                 | 494,316      | -                        | -            | 603,412      | 494,316      |
| Environmental protection                                     | 249,181                 | 223,938      | -                        | -            | 249,181      | 223,938      |
| Cultural and recreation                                      | 478,553                 | 467,674      | -                        | -            | 478,553      | 467,674      |
| Interest on long-term debt                                   | 72,208                  | 79,827       | -                        | -            | 72,208       | 79,827       |
| Water and sewer  | -                       | -            | 3,169,300                | 3,158,086    | 3,169,300    | 3,158,086    |
| Electric   | -                       | -            | 6,625,039                | 6,182,691    | 6,625,039    | 6,182,691    |
| Total expenses   | 5,712,230               | 5,248,837    | 9,794,339                | 9,340,777    | 15,506,569   | 14,589,614   |
| Change in net position before transfers                      | 36,764                  | 118,149      | 1,137,002                | 1,283,193    | 1,173,766    | 1,401,342    |
| Transfers  | 151,014                 | -            | (151,014)                | -            | -            | -            |
| Change in net position                                       | 187,778                 | 118,149      | 985,988                  | 1,283,193    | 1,173,766    | 1,401,342    |
| Net position, July 1 previously reported                     | 12,072,291              | 11,954,142   | 26,829,862               | 26,359,047   | 38,902,153   | 38,313,189   |
| Restatement  | (618,113)               | -            | -                        | (812,378)    | (618,113)    | (812,378)    |
| Net position, beginning, restated                            | 11,454,178              | 11,954,142   | 26,829,862               | 25,546,669   | 38,284,040   | 37,500,811   |
| Net position, June 30  | \$11,641,956            | \$12,072,291 | \$27,815,850             | \$26,829,862 | \$39,457,806 | \$38,902,153 |

**Governmental activities.** Governmental activities revenues exceeded expenses by \$36,764, thereby accounting for 3.1% of the total. The City's population growth is increasing approximately at an annual rate of 6%. Capital grants from FEMA covered the cost of damages from Hurricane Matthew. Major improvements were made to the waterfront seawall as a result of Hurricane Matthew damages.

**Business-type activities.** Business-type activities revenues exceeded expenses by \$1,137,002, accounting for 96.9% of the total.

Key elements of this increase are as follows:

- The Electric fund recorded decrease in revenue and a decrease in cost of electricity due to less use during the higher peak demand periods. The Water and Sewer Fund recognized \$469,112 in development fees. \$344,900 was actually received in prior periods but was not included in revenue due to a North Carolina Supreme Court decision. Monthly billing rates remained unchanged in the Electric Fund and the Water and Sewer Fund for the year.

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

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

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

The general fund is the chief operating fund of the City of Southport. At the end of the current fiscal year, City of Southport's fund balance available in the General Fund was \$1,148,831, while total fund balance reached \$2,207,922. The City currently has an available fund balance of 20.3% of general fund expenditures, and total fund balance represents 39.1% of the same amount.

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

**Proprietary Funds.** The City of Southport's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Water and Sewer Fund at the end of the fiscal year amounted to (\$304,915), and for the Electric Fund, \$4,347,638. The total change in net position for the Water and Sewer and the Electric Funds was \$207,426 and \$778,562 respectively.

### **Capital Asset and Debt Administration**

**Capital assets.** The City of Southport's investment in capital assets for its governmental and business-type activities as of June 30, 2017, totals \$37,545,545 (net of accumulated depreciation). These assets include buildings, roads and bridges, land, machinery and equipment, park facilities, and vehicles.

Management Discussion and Analysis  
City of Southport

Major capital asset transactions during the year include the following:

- Ft Johnson / Garrison Building brick was refurbished for \$125,923.
- New Roof to 201 E. Moore St Building at a cost of \$151,014.
- Underground utilities for Nash St. and many residents at a cost of \$473,088.
- Water and Sewer Automatic Meter reading system completion at a cost of \$264,281.

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

**Figure 4**

|                                   | Governmental<br>Activities |                      | Business-type<br>Activities |                      | Total                |                      |
|-----------------------------------|----------------------------|----------------------|-----------------------------|----------------------|----------------------|----------------------|
|                                   | 2017                       | 2016                 | 2017                        | 2016                 | 2017                 | 2016                 |
| Land                              | \$ 2,519,952               | \$ 2,519,952         | \$ 2,827,985                | \$ 2,827,985         | \$ 5,347,937         | \$ 5,347,937         |
| Buildings and system              | 7,489,983                  | 7,277,990            | 77,510                      | 79,880               | 7,567,493            | 7,357,870            |
| Improvements other than buildings | 496,463                    | 538,600              | -                           | -                    | 496,463              | 538,600              |
| Equipment and furniture           | 486,764                    | 501,746              | 373,832                     | 330,812              | 860,596              | 832,558              |
| Infrastructure                    | 2,257,962                  | 2,351,983            | 20,137,106                  | 20,021,139           | 22,395,068           | 22,373,122           |
| Vehicles and motorized equipment  | 652,277                    | 793,879              | 198,269                     | 88,867               | 850,546              | 882,746              |
| Construction in progress          | 13,829                     | 111,921              | 13,613                      | -                    | 27,442               | 111,921              |
| <b>Total</b>                      | <b>\$ 13,917,230</b>       | <b>\$ 14,096,071</b> | <b>\$ 23,628,315</b>        | <b>\$ 23,348,683</b> | <b>\$ 37,545,545</b> | <b>\$ 37,444,754</b> |

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

**Long-term Debt.** As of June 30, 2017, the City of Southport had total debt from financing of assets outstanding of \$3,565,793 in installment debt and \$48,906 capital leases. The installment debt is backed by security interest in the property for which it was issued. The remainder of the City’s debt represents future obligations related to Employment Benefits.

**Outstanding Liabilities  
 Figure 5**

City of Southport's Outstanding Debt

|                              | Governmental<br>Activities |                    | Business-type<br>Activities |                    | Total              |                    |
|------------------------------|----------------------------|--------------------|-----------------------------|--------------------|--------------------|--------------------|
|                              | 2017                       | 2016               | 2017                        | 2016               | 2017               | 2016               |
| Installment debt             | \$2,459,600                | \$2,648,800        | \$1,106,193                 | \$1,209,594        | \$3,565,793        | \$3,858,394        |
| Capital leases               | 48,906                     | 186,094            | -                           | -                  | 48,906             | 186,094            |
| Compensated absences         | 141,726                    | 129,557            | 18,803                      | 18,308             | 160,529            | 147,865            |
| Post Employment Benefits     | 1,209,562                  | 1,067,603          | 510,235                     | 431,615            | 1,719,797          | 1,499,218          |
| Pension related debt (LGERS) | 472,627                    | 80,880             | 202,063                     | 54,882             | 674,690            | 135,762            |
| Pension related debt (Fire)  | 573,282                    |                    |                             |                    | 573,282            |                    |
| Pension related debt (LEO)   | 127,190                    | 48,794             | -                           | -                  | 127,190            | 48,794             |
| <b>Total</b>                 | <b>\$5,032,893</b>         | <b>\$4,161,728</b> | <b>\$1,837,294</b>          | <b>\$1,714,399</b> | <b>\$6,870,187</b> | <b>\$5,876,127</b> |

**City of Southport’s Outstanding Debt**

The City of Southport’s total debt increased by \$994,060 (17%) during the past fiscal year, primarily due to the increase in pension and other benefit accruals.

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8% of the total assessed value of taxable property located within that government’s boundaries. The legal debt margin for City of Southport is \$63,353,778.

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

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

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

- New residential homes continue to be built at the rate of 6.0% annually.
- The city continues to capture the attention of the media as a tourist destination. Sales taxes and occupancy taxes are growing annually as a result of the increased tourist traffic.

### **Budget Highlights for the Fiscal Year Ending June 30, 2018**

**Governmental Activities:** Property taxes (benefiting from the economic growth and increase in the tax rate of \$.05 increase per \$100 valuation) and revenues from permits and fees are expected to lead the increase in budgeted revenue by 10.5%. The City will use these increases in revenues to finance programs currently in place.

Budgeted expenditures in the General Fund are expected to rise approximately 9.8% to \$6,267,846. The largest increments are in employee compensation, including compensation and benefits adjustments and a new fire truck purchase of \$450,000.

The City has chosen not to appropriate fund balance in the fiscal year 2018 budget. Management believes that increased revenues and continued restrictions on spending will maintain the City's financial position. As the City considers future revenue sources, it has determined that a \$0.05 increase in the property tax rate will result in additional revenues of approximately \$385,248 at current values and collection rate. Though management believes current growth will generate enough revenue to support City operations, a careful analysis of property tax revenue will be considered in future years' budgets.

**Business-type Activities:** The water and sewer rates in the City will increase by 12%, primarily to cover increased costs of operations. General operating expenses will increase by 2% to cover increased personnel costs, and 2.0% to cover increased costs of material, supplies, and other operating expenses. Rates for electricity will remain unchanged. Participation in the Load Management program will aid in controlling cost of electricity for the City.

### **Requests for Information**

This report is designed to provide an overview of the City's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Director of Finance, City of Southport, 1029 N Howe St, Southport, NC 28451. One can also call (910) 457-7900, visit our website [www.SouthportNC.org](http://www.SouthportNC.org) for more information.

## BASIC FINANCIAL STATEMENTS

**CITY OF SOUTHPORT, NORTH CAROLINA**  
**STATEMENT OF NET POSITION**  
June 30, 2017

EXHIBIT 1

|  | Primary Government         |                             |            | Component Unit         |
|--|----------------------------|-----------------------------|------------|------------------------|
|  | Governmental<br>Activities | Business-type<br>Activities | Total      | Southport ABC<br>Board |
| <b>ASSETS</b>  |                            |                             |            |                        |
| Current assets   |                            |                             |            |                        |
| Cash and cash equivalents  | 1,455,371                  | 4,249,428                   | 5,704,799  | 389,187                |
| Taxes receivable (net)   | 143,007                    | -                           | 143,007    |                        |
| Accounts receivable  | 19,898                     | 1,096,927                   | 1,116,825  | -                      |
| Accrued interest receivable on taxes                             | 50,304                     |                             | 50,304     |                        |
| Due from other governments                                       | 621,226                    | -                           | 621,226    |                        |
| Due from component unit  | 112,172                    |                             | 112,172    |                        |
| Inventories  |                            |                             |            | 306,162                |
| Prepaid expenses   | -                          |                             | -          | 11,330                 |
| Restricted cash and cash equivalents                             | 217,891                    | 1,977,760                   | 2,195,651  |                        |
| Total current assets   | 2,619,869                  | 7,324,115                   | 9,943,984  | 706,679                |
| Non-current assets   |                            |                             |            |                        |
| Land, non-depreciable improvements, and construction in progress | 2,533,781                  | 2,841,598                   | 5,375,379  | 4,600                  |
| Other capital assets, net of depreciation                        | 11,383,449                 | 20,786,717                  | 32,170,166 | 213,680                |
| Total capital assets   | 13,917,230                 | 23,628,315                  | 37,545,545 | 218,280                |
| Total non-current assets   | 13,917,230                 | 23,628,315                  | 37,545,545 | 218,280                |
| Total Assets   | 16,537,099                 | 30,952,430                  | 47,489,529 | 924,959                |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>                            |                            |                             |            |                        |
| Pension costs deferred   | 470,427                    | 171,064                     | 641,491    | 55,597                 |
| Total deferred outflows of resources                             | 470,427                    | 171,064                     | 641,491    | 55,597                 |
| <b>LIABILITIES</b>   |                            |                             |            |                        |
| Current liabilities  |                            |                             |            |                        |
| Accounts payable and accrued expenses                            | 215,502                    | 733,352                     | 948,854    | 351,278                |
| Customer deposits  | -                          | 85,307                      | 85,307     |                        |
| Accrued interest   | 73,512                     | 2,228                       | 75,740     | -                      |
| Due to primary government  |                            |                             |            | 112,172                |
| Payable from restricted assets                                   | -                          | 641,448                     | 641,448    |                        |
| Current portion of long-term liabilities                         | 293,417                    | 114,401                     | 407,818    | 29,274                 |
| Total current liabilities  | 582,431                    | 1,576,736                   | 2,159,167  | 492,724                |
| Long-term liabilities  |                            |                             |            |                        |
| Net pension liability  | 472,627                    | 202,063                     | 674,690    | 48,814                 |
| Total pension liability  | 700,472                    |                             | 700,472    |                        |
| Due in more than one year  | 3,566,377                  | 1,520,830                   | 5,087,207  | 307,306                |
| Total liabilities  | 5,321,907                  | 3,299,629                   | 8,621,536  | 848,844                |
| <b>DEFERRED INFLOWS OF RESOURCES</b>                             |                            |                             |            |                        |
| Pension deferrals  | 41,803                     | 8,015                       | 49,818     | 1,712                  |
| Unearned income  | 1,860                      | -                           | 1,860      | -                      |
| Total deferred inflows of resources                              | 43,663                     | 8,015                       | 51,678     | 1,712                  |
| <b>NET POSITION</b>  |                            |                             |            |                        |
| Net investment in capital assets                                 | 11,408,724                 | 22,522,122                  | 33,930,846 | 106,691                |
| Restricted for:  |                            |                             |            |                        |
| Stabilization by State Statute                                   | 782,622                    |                             | 782,622    |                        |
| Streets-Powell Bill  | 53,270                     | -                           | 53,270     | -                      |
| Capital outlay   | 164,369                    | 1,251,005                   | 1,415,374  | -                      |
| Unrestricted   | (767,029)                  | 4,042,723                   | 3,275,694  | 23,309                 |
| Total net position   | 11,641,956                 | 27,815,850                  | 39,457,806 | 130,000                |

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

**CITY OF SOUTHPORT, NORTH CAROLINA  
STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2017**

EXHIBIT 2

| Functions/Programs   | Net (Expense) Revenue and Changes in Net Position |                      |                                    |                                  |                         |                          |                    | Component Unit<br>Southport ABC Board |
|--|---|----------------------|------------------------------------|----------------------------------|-------------------------|--------------------------|--------------------|---------------------------------------|
|  | Expenses  | Program Revenue      |                                    |                                  | Primary Government      |                          |                    |                                       |
|  |   | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-type Activities | Total              |                                       |
| <b>Primary government</b>                                    |   |                      |                                    |                                  |                         |                          |                    |                                       |
| Governmental Activities                                      |   |                      |                                    |                                  |                         |                          |                    |                                       |
| General Government   | 1,714,247   | 243,519              | 22,218                             | -                                | (1,448,510)             |                          | (1,448,510)        |                                       |
| Public Safety  | 2,594,629   | 1,120,331            | 325,167                            | 9,000                            | (1,140,131)             |                          | (1,140,131)        |                                       |
| Transportation   | 603,412   | -                    | 111,943                            | 15,840                           | (475,629)               |                          | (475,629)          |                                       |
| Culture and Recreation                                       | 478,553   | 23,186               | 4,925                              | -                                | (450,442)               |                          | (450,442)          |                                       |
| Environmental Protection                                     | 249,181   | 232,429              | -                                  | -                                | (16,752)                |                          | (16,752)           |                                       |
| Interest on Long-term debt                                   | 72,208  | -                    | -                                  | -                                | (72,208)                |                          | (72,208)           |                                       |
| Total governmental activities                                | <u>5,712,230</u>                                  | <u>1,619,465</u>     | <u>464,253</u>                     | <u>24,840</u>                    | <u>(3,603,672)</u>      |                          | <u>(3,603,672)</u> |                                       |
| Business-type activities                                     |   |                      |                                    |                                  |                         |                          |                    |                                       |
| Electric Operations  | 6,625,039   | 7,469,979            | -                                  | -                                |                         | 844,940                  | 844,940            |                                       |
| Water and Sewer Operations                                   | 3,169,300   | 2,970,247            | 8,562                              | 469,112                          |                         | 278,621                  | 278,621            |                                       |
| Total business-type activities                               | <u>9,794,339</u>                                  | <u>10,440,226</u>    | <u>8,562</u>                       | <u>469,112</u>                   |                         | <u>1,123,561</u>         | <u>1,123,561</u>   |                                       |
| Total primary government                                     | <u>15,506,569</u>                                 | <u>12,059,691</u>    | <u>472,815</u>                     | <u>493,952</u>                   | <u>(3,603,672)</u>      | <u>1,123,561</u>         | <u>(2,480,111)</u> |                                       |
| <b>Component Unit</b>  |   |                      |                                    |                                  |                         |                          |                    |                                       |
| Southport ABC Board  | 3,017,725   | 3,016,176            | -                                  | -                                |                         |                          |                    | (1,549)                               |
| Total component units  | <u>3,017,725</u>                                  | <u>3,016,176</u>     | <u>-</u>                           | <u>-</u>                         |                         |                          |                    | <u>(1,549)</u>                        |
| General revenues:  |   |                      |                                    |                                  |                         |                          |                    |                                       |
| Taxes:   |   |                      |                                    |                                  |                         |                          |                    |                                       |
| Property taxes, levied for general purposes                  |   |                      |                                    |                                  | 1,964,593               | -                        | 1,964,593          | -                                     |
| Other taxes  |   |                      |                                    |                                  | 955,028                 | -                        | 955,028            | -                                     |
| Grants and contributions not restricted to specific programs |   |                      |                                    |                                  | 658,703                 | -                        | 658,703            | -                                     |
| Unrestricted investment earnings                             |   |                      |                                    |                                  | 3,874                   | 13,441                   | 17,315             | 1,549                                 |
| Miscellaneous  |   |                      |                                    |                                  | 58,238                  | -                        | 58,238             | -                                     |
| Total general revenues not including transfers               |   |                      |                                    |                                  | <u>3,640,436</u>        | <u>13,441</u>            | <u>3,653,877</u>   | <u>1,549</u>                          |
| Transfers  |   |                      |                                    |                                  | 151,014                 | (151,014)                | -                  | -                                     |
| Total general revenues and transfers                         |   |                      |                                    |                                  | <u>3,791,450</u>        | <u>(137,573)</u>         | <u>3,653,877</u>   | <u>1,549</u>                          |
| Change in net position                                       |   |                      |                                    |                                  | <u>187,778</u>          | <u>985,988</u>           | <u>1,173,766</u>   | <u>-</u>                              |
| Net position - beginning as previously reported              |   |                      |                                    |                                  | 12,072,291              | 26,829,862               | 38,902,153         | 130,000                               |
| Restatement  |   |                      |                                    |                                  | (618,113)               | -                        | (618,113)          | -                                     |
| Net position - beginning restated                            |   |                      |                                    |                                  | <u>11,454,178</u>       | <u>26,829,862</u>        | <u>38,284,040</u>  | <u>130,000</u>                        |
| Net position - ending  |   |                      |                                    |                                  | <u>11,641,956</u>       | <u>27,815,850</u>        | <u>39,457,806</u>  | <u>130,000</u>                        |

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

**CITY OF SOUTHPORT, NORTH CAROLINA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2017**

**EXHIBIT 3  
Page 1 of 2**

|  | <u>Major Fund</u>   | <u>Non-Major Funds</u>                  |   |
|--|---------------------|---|---|
|  | <u>General Fund</u> | <u>Other<br/>Governmental<br/>Funds</u> | <u>Total<br/>Governmental<br/>Funds</u> |
| <b>ASSETS</b>  |                     |   |   |
| Cash and cash equivalents  | 1,454,097           | 1,274                                   | 1,455,371                               |
| Restricted cash and cash equivalents                               | 217,891             | -                                       | 217,891                                 |
| Taxes receivable, net  | 143,007             | -                                       | 143,007                                 |
| Receivable from other governments                                  | 621,226             | -                                       | 621,226                                 |
| Receivable from other component unit                               | 112,172             | -                                       | 112,172                                 |
| Other receivables  | 19,898              | -                                       | 19,898                                  |
| Total assets   | 2,568,291           | 1,274                                   | 2,569,565                               |
| <b>LIABILITIES</b>   |                     |   |   |
| Liabilities:   |                     |   |   |
| Accounts payable   | 112,103             | -                                       | 112,103                                 |
| Other accrued expenses   | 103,399             | -                                       | 103,399                                 |
| Total liabilities  | 215,502             | -                                       | 215,502                                 |
| <b>DEFERRED INFLOWS OF RESOURCES</b>                               |                     |   |   |
| Property taxes receivable  | 143,007             | -                                       | 143,007                                 |
| Prepaid property taxes   | 1,860               | -                                       | 1,860                                   |
| Total deferred inflows of resources                                | 144,867             | -                                       | 144,867                                 |
| <b>FUND BALANCES</b>   |                     |   |   |
| Restricted   |                     |   |   |
| Stabilization by State Statute                                     | 782,622             |   | 782,622                                 |
| Streets  | 53,270              | -                                       | 53,270                                  |
| Capital outlay   | 164,621             |   | 164,621                                 |
| Committed  |                     |   |   |
| Fire protection  | 58,578              |   | 58,578                                  |
| Capital outlay   | -                   | 1,274                                   | 1,274                                   |
| Assigned   |                     |   |   |
| Unassigned   | 1,148,831           |   | 1,148,831                               |
| Total fund balances  | 2,207,922           | 1,274                                   | 2,209,196                               |
| Total liabilities, deferred inflows of resources and fund balances | 2,568,291           | 1,274                                   | 2,569,565                               |

**CITY OF SOUTHPORT, NORTH CAROLINA  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
June 30, 2017**

**EXHIBIT 3  
Page 2 of 2**

|   |             |             |
|---|-------------|-------------|
| Total fund balance, governmental funds  |             | 2,209,196   |
| Amounts reported for governmental activities in the Statement of Net Position are different because:  |             |             |
| Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position. |             | 13,917,230  |
| Deferred outflows of resources related to pensions are not reported in the funds  |             | 470,427     |
| 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.   |             | 50,304      |
| Liabilities for earned revenues considered deferred inflows of resources in fund statements   |             | 143,007     |
| Some liabilities are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Position.                                |             |             |
| Accrued interest payable  | (73,512)    |             |
| Capital leases payable  | (48,906)    |             |
| Installment notes payable   | (2,459,600) |             |
| Compensated absences  | (141,726)   |             |
| Other postemployment benefits   | (1,209,562) |             |
| Net pension liability (LGERS)   | (472,627)   |             |
| Total pension liability (Fire)  | (573,282)   |             |
| Total pension liability (LEO)   | (127,190)   |             |
|   |             | (5,106,405) |
| Deferred inflows of resources related to pensions are not reported in the funds   |             | (41,803)    |
| Net position of governmental activities   |             | 11,641,956  |

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, 2017**

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

|   | <u>Major Fund</u>       | <u>Non-Major Funds</u>                  |   |
|---|-------------------------|---|---|
|   | <u>General Fund</u>     | <u>Other<br/>Governmental<br/>Funds</u> | <u>Total<br/>Governmental<br/>Funds</u> |
| <b>REVENUES</b>                                   |                         |   |   |
| Property taxes                                    | 1,982,091               | -                                       | 1,982,091                               |
| Other taxes                                       | 100,615                 | -                                       | 100,615                                 |
| Unrestricted intergovernmental revenues           | 1,513,116               | -                                       | 1,513,116                               |
| Restricted intergovernmental revenues             | 1,109,543               | -                                       | 1,109,543                               |
| Licenses and permits                              | 195,346                 | -                                       | 195,346                                 |
| Sales and services                                | 608,090                 | -                                       | 608,090                                 |
| Investment earnings                               | 3,874                   | -                                       | 3,874                                   |
| Miscellaneous                                     | 248,983                 | -                                       | 248,983                                 |
| Total revenues                                    | <u>5,761,658</u>        | <u>-</u>                                | <u>5,761,658</u>                        |
| <b>EXPENDITURES</b>                               |                         |   |   |
| Current:  |                         |   |   |
| General government                                | 1,858,750               | -                                       | 1,858,750                               |
| Public safety                                     | 2,199,876               | -                                       | 2,199,876                               |
| Transportation                                    | 499,805                 | -                                       | 499,805                                 |
| Environmental protection                          | 249,181                 | -                                       | 249,181                                 |
| Culture and recreation                            | 431,172                 | -                                       | 431,172                                 |
| Debt Service:                                     |                         |   |   |
| Principal   | 326,388                 | -                                       | 326,388                                 |
| Interest and other charges                        | 78,909                  | -                                       | 78,909                                  |
| Total expenditures                                | <u>5,644,081</u>        | <u>-</u>                                | <u>5,644,081</u>                        |
| Excess (deficiency) of revenues over expenditures | <u>117,577</u>          | <u>-</u>                                | <u>117,577</u>                          |
| <b>OTHER FINANCING SOURCES (USES)</b>             |                         |   |   |
| Total other financing sources and uses            | <u>151,014</u>          | <u>-</u>                                | <u>151,014</u>                          |
| Net change in fund balances                       | 268,591                 | -                                       | 268,591                                 |
| Fund balances - beginning                         | <u>1,939,331</u>        | <u>1,274</u>                            | <u>1,940,605</u>                        |
| Fund balances - ending                            | <u><u>2,207,922</u></u> | <u><u>1,274</u></u>                     | <u><u>2,209,196</u></u>                 |

**CITY OF SOUTHPORT, NORTH CAROLINA**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
**For the Year Ended June 30, 2017**

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

|   |           |
|---|-----------|
| Net change in fund balances - total governmental funds:   | 268,591   |
| 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.<br>This is the amount by which capital outlays \$479,169 are exceeded by depreciation \$662,844 in the current period. | (183,675) |
| Governmental funds report the entire net sales price (proceeds) from sale of an asset as revenue because it provides current financial resources. In contrast, the Statement of Activities reports only the gain on the sale of the assets. Thus, the change in net assets differs from the change in fund balance by the cost of the asset sold.   | (11,006)  |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.  |           |
| Amount of donated assets  | 15,840    |
| Change in unavailable revenue for tax revenues  | (17,498)  |
| Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities  | 116,025   |
| Benefit payments paid and Administrative expense for the LEOWSA are not included in the Statement of Activities   | 6,410     |
| Benefit payments paid and Administrative expense for the Volunteer Firefighters' Retirement Plan are not included in the Statement of Activities  | 12,294    |
| The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current resources of governmental funds. Neither transaction has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.  |           |
| Principal paid on debt  | 326,388   |
| Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:   |           |
| Accrued interest  | 6,701     |
| Compensated absences  | (12,169)  |
| Pension expense   | (138,423) |
| Separation allowance  | (15,780)  |
| Firefighters' retirement  | (43,961)  |
| Other postemployment benefits   | (141,959) |
| Change in net position of governmental activities   | 187,778   |

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

**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, 2017**

**EXHIBIT 5**

|   | <b>Budgeted Amounts</b> |              | <b>Actual Amounts</b> | <b>Variance with<br/>Final Budget -<br/>Positive<br/>(Negative)</b> |
|---|-------------------------|--------------|-----------------------|---|
|   | <b>Original</b>         | <b>Final</b> |                       |   |
| <b>REVENUES</b>   |                         |              |                       |   |
| Ad valorem taxes  | 1,866,276               | 1,866,276    | 1,982,091             | 115,815   |
| Other taxes   | 94,532                  | 94,532       | 100,615               | 6,083   |
| Unrestricted intergovernmental revenues   | 1,382,912               | 1,382,912    | 1,513,116             | 130,204   |
| Restricted intergovernmental revenues   | 873,264                 | 886,414      | 1,109,543             | 223,129   |
| Licenses and permits  | 223,000                 | 223,000      | 195,346               | (27,654)  |
| Sales and services  | 741,471                 | 741,471      | 608,090               | (133,381)   |
| Investment earnings   | 3,720                   | 3,720        | 3,520                 | (200)   |
| Miscellaneous   | 394,100                 | 488,440      | 248,983               | (239,457)   |
| Total revenues  | 5,579,275               | 5,686,765    | 5,761,304             | 74,539  |
| <b>EXPENDITURES</b>   |                         |              |                       |   |
| Current:  |                         |              |                       |   |
| General government  | 1,967,012               | 2,053,967    | 1,858,750             | 195,217   |
| Public safety   | 2,163,424               | 2,244,053    | 2,199,876             | 44,177  |
| Transportation  | 479,079                 | 549,406      | 499,805               | 49,601  |
| Environmental protection  | 210,000                 | 250,927      | 249,181               | 1,746   |
| Culture and recreation  | 742,877                 | 854,987      | 431,172               | 423,815   |
| Debt Service:   |                         |              |                       |   |
| Principal   | 331,883                 | 331,689      | 326,388               | 5,301   |
| Interest and other charges  | 79,000                  | 79,000       | 78,909                | 91  |
| Contingency   | 16,000                  | 5,500        | -                     | 5,500   |
| Total expenditures  | 5,989,275               | 6,369,529    | 5,644,081             | 725,448   |
| Excess (deficiency) of revenues over expenditures   | (410,000)               | (682,764)    | 117,223               | 799,987   |
| <b>OTHER FINANCING SOURCES (USES)</b>   |                         |              |                       |   |
| Proceeds from capital leases  | 410,000                 | 410,000      | -                     | (410,000)   |
| Transfers in  | -                       | -            | 151,014               | 151,014   |
| Total other financing sources and uses  | 410,000                 | 410,000      | 151,014               | (258,986)   |
| Fund balance appropriated   | -                       | 272,764      | -                     | (272,764)   |
| Net change in fund balance  | -                       | -            | 268,237               | 268,237   |
| Fund balance - beginning  |                         |              | 1,775,064             |   |
| Fund balance - ending   |                         |              | 2,043,301             |   |
| A legally budgeted Capital Reserve Fund is consolidated into the General Fund for reporting purposes: |                         |              |                       |   |
| Interest income   |                         |              | 354                   |   |
| Fund balance - beginning  |                         |              | 164,267               |   |
| Fund balance - ending   |                         |              | 164,621               |   |
| Fund balance - ending (Exhibit 4)   |                         |              | 2,207,922             |   |

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

**CITY OF SOUTHPORT, NORTH CAROLINA**  
**STATEMENT OF FUND NET POSITION**  
**PROPRIETARY FUNDS**  
**June 30, 2017**

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

**Major Enterprise Funds**

|   | <u>Electric Fund</u> | <u>Water and Sewer Fund</u> | <u>Total</u>      |
|---|----------------------|-----------------------------|-------------------|
| <b>ASSETS</b>                           |                      |                             |                   |
| Current assets:                         |                      |                             |                   |
| Cash and cash equivalents               | 4,177,969            | 71,459                      | 4,249,428         |
| Accounts receivable customers, net      | 402,091              | 265,570                     | 667,661           |
| Accounts receivable BEMC                | 429,266              | -                           | 429,266           |
| Restricted assets                       |                      |                             |                   |
| Cash and cash equivalents               | 47,456               | 1,930,304                   | 1,977,760         |
| Total current assets                    | <u>5,056,782</u>     | <u>2,267,333</u>            | <u>7,324,115</u>  |
| Non-current assets:                     |                      |                             |                   |
| Capital assets:                         |                      |                             |                   |
| Land and improvements                   | -                    | 2,827,985                   | 2,827,985         |
| Construction in progress                | 1,113                | 12,500                      | 13,613            |
| Utility system                          | 11,173,646           | 18,559,710                  | 29,733,356        |
| Buildings                               | 94,816               | -                           | 94,816            |
| Equipment and furniture                 | 271,463              | 624,529                     | 895,992           |
| Vehicles                                | 21,156               | 553,159                     | 574,315           |
| Less: Accumulated depreciation          | (3,915,789)          | (6,595,973)                 | (10,511,762)      |
| Total capital assets                    | <u>7,646,405</u>     | <u>15,981,910</u>           | <u>23,628,315</u> |
| Total non-current assets                | <u>7,646,405</u>     | <u>15,981,910</u>           | <u>23,628,315</u> |
| Total assets                            | <u>12,703,187</u>    | <u>18,249,243</u>           | <u>30,952,430</u> |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>   |                      |                             |                   |
| Pension deferrals                       | 65,994               | 105,070                     | 171,064           |
| Total deferred outflows of resources    | <u>65,994</u>        | <u>105,070</u>              | <u>171,064</u>    |
| <b>LIABILITIES</b>                      |                      |                             |                   |
| Current liabilities:                    |                      |                             |                   |
| Accounts payable                        | 478,556              | 230,783                     | 709,339           |
| Salaries payable                        | 9,099                | 14,914                      | 24,013            |
| Customer deposits                       | 47,456               | 37,851                      | 85,307            |
| Accounts payable from restricted assets | -                    | 641,448                     | 641,448           |
| Compensated absences                    | 6,000                | 5,000                       | 11,000            |
| Accrued interest payable                | -                    | 2,228                       | 2,228             |
| Bonds, notes and loans payable          | -                    | 103,401                     | 103,401           |
| Total current liabilities               | <u>541,111</u>       | <u>1,035,625</u>            | <u>1,576,736</u>  |
| Non-current liabilities:                |                      |                             |                   |
| Compensated absences                    | 5,491                | 2,312                       | 7,803             |
| Other postemployment benefits           | 152,332              | 357,903                     | 510,235           |
| Net pension liability                   | 73,332               | 128,731                     | 202,063           |
| Bonds, notes and loans payable          | -                    | 1,002,792                   | 1,002,792         |
| Total non-current liabilities           | <u>231,155</u>       | <u>1,491,738</u>            | <u>1,722,893</u>  |
| Total liabilities                       | <u>772,266</u>       | <u>2,527,363</u>            | <u>3,299,629</u>  |

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

CITY OF SOUTHPORT, NORTH CAROLINA  
 STATEMENT OF FUND NET POSITION  
 PROPRIETARY FUNDS  
 June 30, 2017

EXHIBIT 6  
 Page 2 of 2

|                                      | <b>Major Enterprise Funds</b> |                             |              |
|--------------------------------------|-------------------------------|-----------------------------|--------------|
|                                      | <u>Electric Fund</u>          | <u>Water and Sewer Fund</u> | <u>Total</u> |
| <b>DEFERRED INFLOWS OF RESOURCES</b> |                               |                             |              |
| Pension deferrals                    | 2,872                         | 5,143                       | 8,015        |
| <br><b>NET POSITION</b>              |                               |                             |              |
| Net investment in capital assets     | 7,646,405                     | 14,875,717                  | 22,522,122   |
| Restricted for capital projects      | -                             | 1,251,005                   | 1,251,005    |
| Unrestricted                         | 4,347,638                     | (304,915)                   | 4,042,723    |
| Total net position                   | 11,994,043                    | 15,821,807                  | 27,815,850   |

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

**CITY OF SOUTHPORT, NORTH CAROLINA**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION**  
**PROPRIETARY FUNDS**  
**For the Year Ended June 30, 2017**

**EXHIBIT 7**

|   | <b>Major Enterprise Funds</b> |                                    |                       |
|---|-------------------------------|------------------------------------|-----------------------|
|   | <b><u>Electric Fund</u></b>   | <b><u>Water and Sewer Fund</u></b> | <b><u>Total</u></b>   |
| <b>REVENUES</b>                                     |                               |                                    |                       |
| Charges for services                                | 7,469,979                     | 2,970,247                          | 10,440,226            |
| Miscellaneous                                       | -                             | 8,562                              | 8,562                 |
| Total operating revenues                            | <u>7,469,979</u>              | <u>2,978,809</u>                   | <u>10,448,788</u>     |
| <b>OPERATING EXPENSES</b>                           |                               |                                    |                       |
| Electric operations                                 | 6,345,944                     | -                                  | 6,345,944             |
| Water and sewer operations                          | -                             | 2,683,022                          | 2,683,022             |
| Depreciation  | 279,095                       | 471,469                            | 750,564               |
| Total operating expenses                            | <u>6,625,039</u>              | <u>3,154,491</u>                   | <u>9,779,530</u>      |
| Operating income (loss)                             | <u>844,940</u>                | <u>(175,682)</u>                   | <u>669,258</u>        |
| <b>NON-OPERATING REVENUES (EXPENSES)</b>            |                               |                                    |                       |
| Interest and investment revenue                     | 9,129                         | 4,312                              | 13,441                |
| Interest expense                                    | -                             | (14,809)                           | (14,809)              |
| Total non-operating revenue (expenses)              | <u>9,129</u>                  | <u>(10,497)</u>                    | <u>(1,368)</u>        |
| Income (loss) before contributions                  | 854,069                       | (186,179)                          | 667,890               |
| Capital contributions - customers                   | -                             | 469,112                            | 469,112               |
| Transfers out                                       | (75,507)                      | (75,507)                           | (151,014)             |
| Change in net position                              | <u>778,562</u>                | <u>207,426</u>                     | <u>985,988</u>        |
| Total net position - beginning, previously reported | <u>11,215,481</u>             | <u>15,614,381</u>                  | <u>26,829,862</u>     |
| <br>Total net position - ending                     | <br><u>11,994,043</u>         | <br><u>15,821,807</u>              | <br><u>27,815,850</u> |

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

**CITY OF SOUTHPORT, NORTH CAROLINA**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**For the Year Ended June 30, 2017**

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

|  | <u>Major Enterprise Funds</u> |                                       | <u>Total</u>       |
|--|-------------------------------|---------------------------------------|--------------------|
|  | <u>Electric<br/>Fund</u>      | <u>Water &amp;<br/>Sewer<br/>Fund</u> |                    |
| <b>Cash flows from operating activities:</b>                             |                               |                                       |                    |
| Cash received from customers   | 7,464,344                     | 2,992,490                             | 10,456,834         |
| Cash paid for goods and services   | (6,057,372)                   | (2,552,987)                           | (8,610,359)        |
| Cash paid to employees   | (238,072)                     | (377,849)                             | (615,921)          |
| Customer deposits received   | 22,125                        | 9,986                                 | 32,111             |
| Customer deposits returned   | -                             | (5,500)                               | (5,500)            |
| Other operating revenues   | -                             | 8,562                                 | 8,562              |
| Net cash provided (used)<br>by operating activities                      | <u>1,191,025</u>              | <u>74,702</u>                         | <u>1,265,727</u>   |
| <b>Cash flows from capital and related<br/>financing activities:</b>     |                               |                                       |                    |
| Acquisition of capital assets  | (548,884)                     | (481,312)                             | (1,030,196)        |
| Principal paid on long-term debt   | -                             | (103,401)                             | (103,401)          |
| Interest paid on long-term debt  | -                             | (15,056)                              | (15,056)           |
| Contributions from customers   | -                             | 124,212                               | 124,212            |
| Net cash provided (used) for capital and<br>related financing activities | <u>(548,884)</u>              | <u>(475,557)</u>                      | <u>(1,024,441)</u> |
| <b>Cash flows from investing activities:</b>                             |                               |                                       |                    |
| Interest on investments  | <u>9,129</u>                  | <u>4,312</u>                          | <u>13,441</u>      |
| Net increase (decrease) in cash and<br>cash equivalents                  | 575,763                       | (472,050)                             | 103,713            |
| Cash and cash equivalents, beginning                                     | <u>3,649,662</u>              | <u>2,473,813</u>                      | <u>6,123,475</u>   |
| Cash and cash equivalents, ending  | <u>4,225,425</u>              | <u>2,001,763</u>                      | <u>6,227,188</u>   |

**CITY OF SOUTHPORT, NORTH CAROLINA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
For the Year Ended June 30, 2017**

**EXHIBIT 8  
Page 2 of 2**

|  | <u>Major Enterprise Funds</u> |                                       | <u>Total</u>            |
|--|-------------------------------|---------------------------------------|-------------------------|
|  | <u>Electric<br/>Fund</u>      | <u>Water &amp;<br/>Sewer<br/>Fund</u> |                         |
| Reconciliation of operating income to net cash<br>provided by operating activities:        |                               |                                       |                         |
| Operating income (loss)  | <u>844,940</u>                | <u>(175,682)</u>                      | <u>669,258</u>          |
| Adjustments to reconcile operating income to net<br>cash provided by operating activities: |                               |                                       |                         |
| Depreciation   | 279,095                       | 471,469                               | 750,564                 |
| Changes in assets and liabilities  |                               |                                       |                         |
| (Increase) decrease in accounts receivable   | (5,944)                       | 21,334                                | 15,390                  |
| Increase in deferred outflows of resources - pensions                                      | (47,050)                      | (78,088)                              | (125,138)               |
| Increase in net pension liability  | 56,749                        | 90,432                                | 147,181                 |
| Decrease in deferred inflows of resources - pensions                                       | (5,335)                       | (7,630)                               | (12,965)                |
| Increase (decrease) in accounts payable  | (378)                         | (285,693)                             | (286,071)               |
| Increase (decrease) in accrued wages   | 671                           | (107)                                 | 564                     |
| Increase (decrease) in collected in advance  | 309                           | 909                                   | 1,218                   |
| Increase (decrease) in customer deposits   | 22,125                        | 4,486                                 | 26,611                  |
| Increase (decrease) in accrued vacation  | 1,250                         | (755)                                 | 495                     |
| Increase (decrease) in OPEB accrual  | <u>44,593</u>                 | <u>34,027</u>                         | <u>78,620</u>           |
| Total adjustments  | <u>346,085</u>                | <u>250,384</u>                        | <u>596,469</u>          |
| Net cash provided (used) by operating activities   | <u><u>1,191,025</u></u>       | <u><u>74,702</u></u>                  | <u><u>1,265,727</u></u> |

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

## I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### A. Reporting Entity

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

#### City of Southport ABC Board

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

### B. Basis of Presentation

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

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

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

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

The City reports the following major governmental fund:

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

The City reports the following non-major governmental funds:

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

The City reports the following major enterprise funds:

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

#### D. Budgetary Data

The City's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund, The Capital Reserve Fund and the Enterprise Funds. All annual appropriations lapse at the fiscal-year end. Project ordinances are adopted for the Building Capital Improvement Fund. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the project level for the multi-year funds. The City Manager is authorized to transfer appropriations within a fund as he sees necessary; however, the governing board must approve any revisions that alter the total expenditures of any fund by \$5,000. During the year, several amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers the time until the annual ordinance can be adopted.

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

1. Deposits and Investments

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

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

2. Cash and Cash Equivalents

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

3. Restricted Assets

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

City of Southport Restricted Cash

|                                |                         |
|--------------------------------|-------------------------|
| Governmental Activities        |                         |
| General Fund                   |                         |
| Streets                        | 53,270                  |
| Capital outlay                 | <u>164,621</u>          |
| Total governmental activities  | <u>217,891</u>          |
| Business-type Activities       |                         |
| Electric Fund                  |                         |
| Customer deposits              | 47,456                  |
| Water and Sewer Fund           |                         |
| Customer deposits              | 37,851                  |
| Impact fees collected          | <u>1,892,453</u>        |
| Total Business-type Activities | <u>1,977,760</u>        |
| Total Restricted Cash          | <u><u>2,195,651</u></u> |

4. Ad Valorem Taxes Receivable

In accordance with State law (G.S. 105-347 and G.S. 159-13(a)), the City levies ad valorem taxes on property other than motor vehicles on July 1st, the beginning of the fiscal year. The taxes are due on September 1st (lien date); however, interest does not accrue until the following January 6th. These taxes are based on the assessed values as of January 1, 2016.

5. Allowances for Doubtful Accounts

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

6. Inventory and Prepaid Items

The inventories of the ABC Board are valued at cost (first-in, first-out), which approximates market. The inventory consists of products for resale to customers. The cost of these inventories is expensed when sold rather than when purchased. The ABC Board also has payments to vendors which reflect costs applicable to future accounting periods and are recorded as prepaid items in the government-wide financial statements and are expensed as the items are used.

7. Capital Assets

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

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

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

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

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

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

8. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and will not be recognized as an expense or expenditure until then. The City has one item meeting this criterion, pension deferrals for the 2017 fiscal year. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The City has several items that meets the criterion for this category – prepaid taxes, property taxes receivable and pension deferrals.

9. Long-Term Obligations

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

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

10. Compensated Absences

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

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

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

11. Net Position/Fund Balances

Net Position

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

Fund Balances

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

The governmental fund types classify fund balances as follows:

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

Inventories – Portion of fund balance that is not an available resource because it represents the year-end balance of ending inventories, which are not spendable resources. At June 30, 2017, the City of Southport had no fund balance with this classification.

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

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

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

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

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

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

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

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

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

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

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

#### 12. Defined Benefit Cost-Sharing Plans

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

II. **STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

A. Bank Accounts not Reconciled Monthly

Internal control procedures require that all bank accounts be reconciled monthly. During the year just ended, all bank accounts were not reconciled every month. Reconciling bank accounts is the best way to determine that all receipts have been deposited and expenditures are clearing the bank for the correct amount. This was caused by failure to follow and enforce City policy. For future periods staff will be trained to see that reconciliations are prepared timely.

B. Timely Audit Report

North Carolina General Statutes give the Local Government Commission authority to establish rules and requirements for annual audits. One of these requirements is that the audit be completed and submitted by October 31. The submission of the City of Southport audit does not meet these requirements. This occurred because information was not available for the audit to be completed timely. In future periods, management will take the necessary action to see that information is available to permit timely filing.

C. Reconciliation of Subsidiary Receivable Ledgers to General Ledger

During the year ended June 30, 2017, the utility and property tax subsidiary billing ledgers were not reconciled monthly to the general ledger. The subsidiary ledgers for utility shows amounts billed and collected on each customer's account. The general ledger contains the current balance of all asset, liability, deferred inflow and outflow, revenue and expenditure accounts. Reconciling these items monthly shows that all amounts billed, collected and adjusted are reflected in the corresponding bank and receivable accounts. Not reconciling could allow errors and irregularities to occur and not be detected. This was caused by staff being unfamiliar with these requirements. In future periods staff will be trained in these areas to prevent this from occurring.

D. Excess of Expenditures over Appropriations

For the year ended June 30, 2017, the expenditures by the fire department in the City's General Fund exceeded the authorized appropriations by \$34,443. These over expenditures occurred because expenditures for the final month of the year exceeded the estimated amount. Management and the Board will monitor expenditures and budgets more closely in future periods.

III. **DETAIL NOTES ON ALL FUNDS**

A. Assets

1. Deposits

All the deposits of the City and the ABC Board are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the City's or the ABC Board's agents in these units' names. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the City and the ABC Board, these

deposits are considered to be held by the City's and the ABC Board's agents in their names. The amount of the pledged collateral is based on an approved averaging method for non-interest-bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the City, the ABC Board or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the City or the ABC Board under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The City has no formal policy regarding custodial credit risk for deposits, but 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, 2017, the City's deposits had a carrying amount of 7,835,230 and a bank balance of \$8,011,561. The carrying amount of deposits of the ABC Board was \$387,687 and the bank balance was \$360,877. \$250,000 of the ABC Board and \$746,434 of the City was covered by federal depository insurance. The balances of the deposits \$7,265,127 for the City and \$110,877 by the ABC Board were collateralized by institutions using the Pooling Method. At June 30, 2017, the City's cash on hand totaled \$450.

2. Investments

At June 30, 2017, the City of Southport had \$ 64,770 invested with the North Carolina Capital Management Trust's Cash Portfolio which accrued a credit rating of AAAM by Standard and Poor's. The City has no policy regarding credit risk.

3. Receivables - Allowances for Doubtful Accounts

The amounts presented in the Balance Sheet and the Statement of Net Position for the year ended June 30, 2017 are net of the following allowances for doubtful accounts:

|  |                      |
|--|----------------------|
| General Fund:                              |                      |
| Taxes receivable                           | 25,237               |
| Solid waste accounts receivable            | <u>246</u>           |
| Total General Fund                         | <u>25,483</u>        |
| Enterprise Funds                           |                      |
| Electric Fund - accounts receivable        | 9,520                |
| Water and Sewer Fund - accounts receivable | <u>3,380</u>         |
| Total Enterprise Funds                     | <u>12,900</u>        |
| Total                                      | <u><u>38,383</u></u> |

4. Capital Assets

Primary Government

Capital asset activity for the Primary Government for the year ended June 30, 2017, was as follows:

|   | Beginning<br>Balances    | Increases      | Decreases     | Ending<br>Balances       |
|---|--------------------------|----------------|---------------|--------------------------|
| Governmental activities:                    |                          |                |               |                          |
| Capital assets not being depreciated:       |                          |                |               |                          |
| Land  | 2,519,952                |                |               | 2,519,952                |
| Construction in progress                    | 111,921                  |                | 98,092        | 13,829                   |
| Total capital assets not being depreciated  | <u>2,631,873</u>         | -              | <u>98,092</u> | <u>2,533,781</u>         |
| Capital assets being depreciated            |                          |                |               |                          |
| Buildings                                   | 8,949,990                | 394,633        |               | 9,344,623                |
| Other improvements                          | 965,130                  |                |               | 965,130                  |
| Infrastructure                              | 3,154,825                | 28,040         |               | 3,182,865                |
| Vehicles and motorized equipment            | 3,408,919                | 100,048        | 41,797        | 3,467,170                |
| Furniture and equipment                     | 1,100,554                | 70,380         |               | 1,170,934                |
| Total capital assets being depreciated      | <u>17,579,418</u>        | <u>593,101</u> | <u>41,797</u> | <u>18,130,722</u>        |
| Less accumulated depreciation for:          |                          |                |               |                          |
| Buildings                                   | 1,672,000                | 182,640        |               | 1,854,640                |
| Other improvements                          | 426,530                  | 42,137         |               | 468,667                  |
| Infrastructure                              | 802,842                  | 122,061        |               | 924,903                  |
| Vehicles and motorized equipment            | 2,615,040                | 230,644        | 30,791        | 2,814,893                |
| Furniture and equipment                     | 598,808                  | 85,362         |               | 684,170                  |
| Total accumulated depreciation              | <u>6,115,220</u>         | <u>662,844</u> | <u>30,791</u> | <u>6,747,273</u>         |
| Total capital assets being depreciated, net | <u>11,464,198</u>        |                |               | <u>11,383,449</u>        |
| Governmental activity capital assets, net   | <u><u>14,096,071</u></u> |                |               | <u><u>13,917,230</u></u> |

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

|                            |                       |
|----------------------------|-----------------------|
| General government         | 116,013               |
| Public safety              | 359,181               |
| Transportation             | 127,773               |
| Cultural and recreational  | 59,877                |
| Total depreciation expense | <u><u>662,844</u></u> |

|  | Beginning<br>Balances | Increases | Decreases | Ending<br>Balances |
|--|-----------------------|-----------|-----------|--------------------|
| <b>Business-type activities:</b>             |                       |           |           |                    |
| <i>Electric Fund</i>                         |                       |           |           |                    |
| <i>Capital assets not being depreciated:</i> |                       |           |           |                    |
| Construction in process                      | -                     | 1,113     | -         | 1,113              |
| <b>Capital assets being depreciated</b>      |                       |           |           |                    |
| Buildings                                    | 94,816                |           |           | 94,816             |
| Utility systems                              | 10,700,557            | 473,089   |           | 11,173,646         |
| Vehicles and motorized equipment             | 21,156                |           |           | 21,156             |
| Furniture and equipment                      | 196,781               | 74,682    |           | 271,463            |
| Total capital assets being depreciated       | 11,013,310            | 547,771   | -         | 11,561,081         |
| <b>Less accumulated depreciation for:</b>    |                       |           |           |                    |
| Buildings                                    | 14,936                | 2,370     |           | 17,306             |
| Utility systems                              | 3,502,149             | 259,022   |           | 3,761,171          |
| Vehicles and motorized equipment             | 21,156                |           |           | 21,156             |
| Furniture and equipment                      | 98,453                | 17,703    |           | 116,156            |
| Total accumulated depreciation               | 3,636,694             | 279,095   | -         | 3,915,789          |
| Total capital assets being depreciated, net  | 7,376,616             |           |           | 7,645,292          |
| Electric fund capital assets, net            | 7,376,616             |           |           | 7,646,405          |
| <br><i>Water and Sewer Fund</i>              |                       |           |           |                    |
| <b>Capital assets not being depreciated:</b> |                       |           |           |                    |
| Land   | 2,827,985             |           |           | 2,827,985          |
| Construction in progress                     | -                     | 12,500    |           | 12,500             |
| Total capital assets not being depreciated   | 2,827,985             | 12,500    | -         | 2,840,485          |
| <b>Capital assets being depreciated</b>      |                       |           |           |                    |
| Utility systems                              | 18,241,792            | 317,918   |           | 18,559,710         |
| Vehicles and motorized equipment             | 419,802               | 133,357   |           | 553,159            |
| Furniture and equipment                      | 606,992               | 17,537    |           | 624,529            |
| Total capital assets being depreciated       | 19,268,586            | 468,812   | -         | 19,737,398         |
| <b>Less accumulated depreciation for:</b>    |                       |           |           |                    |
| Utility systems                              | 5,419,061             | 416,018   |           | 5,835,079          |
| Vehicles and motorized equipment             | 330,935               | 23,955    |           | 354,890            |
| Furniture and equipment                      | 374,508               | 31,496    |           | 406,004            |
| Total accumulated depreciation               | 6,124,504             | 471,469   | -         | 6,595,973          |
| Total capital assets being depreciated, net  | 13,144,082            |           |           | 13,141,425         |
| Water and Sewer fund capital assets, net     | 15,972,067            |           |           | 15,981,910         |
| Business-type activities capital assets, net | 23,348,683            |           |           | 23,628,315         |

Construction Commitments

The City had no outstanding construction commitments at June 30, 2017.

Discretely presented component unit

Activity for the ABC Board for the year ended June 30, 2017, was as follows:

|   | Beginning<br>Balances | Increases | Decreases | Ending<br>Balances |
|---|-----------------------|-----------|-----------|--------------------|
| Capital assets not being depreciated:       |                       |           |           |                    |
| Land  | 4,600                 | -         | -         | 4,600              |
| Capital assets being depreciated            |                       |           |           |                    |
| Buildings                                   | 121,037               |           |           | 121,037            |
| Building improvements                       | 126,987               | 24,750    |           | 151,737            |
| Furniture and fixtures                      | 3,176                 |           |           | 3,176              |
| Equipment                                   | 30,188                | 20,283    |           | 50,471             |
| Total capital assets being depreciated      | 281,388               | 45,033    | -         | 326,421            |
| Less accumulated depreciation for:          |                       |           |           |                    |
| Buildings                                   | 59,663                | 1,557     |           | 61,220             |
| Building improvements                       | 25,353                | 8,459     |           | 33,812             |
| Furniture and fixtures                      | 2,827                 | 125       |           | 2,952              |
| Equipment                                   | 8,640                 | 6,117     |           | 14,757             |
| Total accumulated depreciation              | 96,483                | 16,258    | -         | 112,741            |
| Total capital assets being depreciated, net | 184,905               |           |           | 213,680            |
| ABC capital assets, net                     | 189,505               |           |           | 218,280            |

B. Liabilities

1. Pension Plan and Postemployment Obligations

a. Local Government Employees' Retirement System

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

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

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

*Contributions.* Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. City of Southport employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The City of Southport's contractually required contribution rate for the year ended June 30, 2017, was 8.00 % for law enforcement officers and 7.25% for general employees, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the City of Southport were \$160,063 for the year ended June 30, 2017.

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

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

At June 30, 2017, the City reported a liability of \$674,690 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015. The total pension liability was then rolled forward to the measurement date of June 30, 2016 utilizing update procedures incorporating the actuarial assumptions. The City's proportion of the net pension asset was based on a projection of the City's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2016, the City's proportion was 0.03179%, which was an increase of 0.00154% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the City recognized pension expense of \$191,540. At June 30, 2017, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|   | <b><u>Deferred<br/>Outflows of<br/>Resources</u></b> | <b><u>Deferred<br/>Inflows of<br/>Resources</u></b> |
|---|--|---|
| Differences between expected and actual experience  | 12,676   | 23,642  |
| Changes of assumptions  | 46,210   | -   |
| Net difference between projected and actual earnings on pension plan investments                          | 373,020  |   |
| Changes in proportion and differences between City contributions and proportionate share of contributions | 30,818   |   |
| City contributions subsequent to the measurement date   | <u>160,063</u>                                       |   |
| Total   | <u><u>622,787</u></u>                                | <u><u>23,642</u></u>                                |

\$160,063 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as an decrease of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

|            |                       |
|------------|-----------------------|
| 2018       | 72,314                |
| 2019       | 72,348                |
| 2020       | 184,655               |
| 2021       | 109,765               |
| 2022       | -                     |
| Thereafter | <u>-</u>              |
|            | <u><u>439,082</u></u> |

*Actuarial Assumptions.* The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

|                           |   |
|---------------------------|---|
| Inflation                 | 3.0 percent   |
| Salary Increases          | 3.50 to 7.75 percent, including inflation and productivity factor         |
| Investment rate of return | 7.25 percent, net of pension plan investment expense, including inflation |

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

The actuarial assumptions used in the December 31, 2015 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2016 are summarized in the following table:

| <u>Asset Class</u>   | <u>Target Allocation</u> | <u>Long-term Expected Real Rate of Return</u> |
|----------------------|--------------------------|---|
| Fixed Income         | 29.0%                    | 1.4%  |
| Global Equity        | 42.0%                    | 5.3%  |
| Real Estate          | 8.0%                     | 4.3%  |
| Alternatives         | 8.0%                     | 8.9%  |
| Credit               | 7.0%                     | 6.0%  |
| Inflation Protection | 6.0%                     | 4.0%  |
| Total                | <u>100.0%</u>            |   |

The information above is based on 30 year expectations developed with the consulting actuary for the 2016 asset, liability and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

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

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

|   | <b>1%<br/>Decrease<br/><u>(6.25%)</u></b> | <b>Discount<br/>Rate<br/><u>(7.25%)</u></b> | <b>1%<br/>Increase<br/><u>(8.25%)</u></b> |
|---|---|---|---|
| City's proportionate share of the net pension liability (asset) | 1,601,355                                 | 674,690                                     | (99,329)                                  |

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

b. Law Enforcement Officers Special Separation Allowance

(1) Plan Description

The City of Southport administers a public employee retirement system (the “Separation Allowance”), a single-employer defined benefit pension plan that provides retirement benefits to the City’s qualified sworn law enforcement officers under the age of 62 who have completed at least 30 years of creditable service or have attained 55 years of age and have completed five or more years of creditable service. 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, 2016, the Separation Allowance's membership consisted of:

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

(2) Summary of Significant Accounting Policies

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

The Separation Allowance has no assets accumulated in a trust that meets the following criteria which are outlined in GASB Statement 73.

(3) Actuarial Assumptions

The entry age normal actuarial cost method was used in the December 31, 2015 valuation. The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

|                  |  |
|------------------|--|
| Inflation        | 3.0 Percent  |
| Salary increases | 3.50 to 7.35 percent, including<br>inflation and productivity factor |
| Discount rate    | 3.86 percent   |

The discount rate is based on the yield of the Bond Buyer General Obligation 20-year Municipal Bond Index rate at December 31, 2016.

Mortality rates are based on the RP-2014 Mortality tables projected to the valuation date using MP-2015

(4) 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 and administrative costs on a pay as you go basis through appropriations made in the General Fund operating budget. There were no contributions made by employees. The City's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. The City paid \$11,340 as benefits came due for the reporting period.

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

At June 30, 2017, the City reported a total pension liability of \$127,190. The total pension liability was measured as of December 31, 2016 based on a December 31, 2015 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2016 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2017, the City recognized pension expense of \$15,780.

|  | <u>Deferred<br/>Outflows of</u> | <u>Deferred<br/>Inflows of</u> |
|--|---------------------------------|--------------------------------|
| Differences between expected and actual experience   | -                               | -                              |
| Changes of assumptions   |                                 | 3,202                          |
| City benefit payments and plan and plan administrative expense made subsequent to the measurement date | <u>6,410</u>                    | <u>-</u>                       |
| Total  | <u><u>6,410</u></u>             | <u><u>3,202</u></u>            |

\$6,410 reported as deferred outflows of resources related to pensions resulting from benefit payments made subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ended June 30, 2018. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**Year Ended June 30:**

|            |                     |
|------------|---------------------|
| 2018       | 543                 |
| 2019       | 543                 |
| 2020       | 543                 |
| 2021       | 543                 |
| 2022       | 543                 |
| Thereafter | <u>487</u>          |
| Total      | <u><u>3,202</u></u> |

(6) Sensitivity of the City's Total Pension Liability to changes in the Discount Rate

The following presents the City's total pension liability calculated using the discount rate of 3.86%, as well as what the City's total pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.86 percent) or 1 percentage point higher (4.86 percent) than the current rate:

|                         | <u>1% Decrease<br/>(2.86%)</u> | <u>Discount Rate<br/>(3.86%)</u> | <u>1% Increase<br/>(4.86%)</u> |
|-------------------------|--------------------------------|----------------------------------|--------------------------------|
| Total pension liability | 140,539                        | 127,190                          | 115,048                        |

**Schedule of Changes in Total Pension Liability  
Law Enforcement Officers' Special Separation Allowance**

|  | <u>2017</u> |
|--|-------------|
| Beginning balance  | 119,542     |
| Service cost   | 12,143      |
| Interest on the total pension liability  | 4,180       |
| Change of benefit terms  | -           |
| Differences between expected and actual experience in the measurement of the total pension liability | -           |
| Changes of assumptions and inputs  | (3,745)     |
| Benefit payments   | (4,930)     |
| Other changes  | -           |
|  | 127,190     |
| Ending balance of the total pension liability  | 127,190     |

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

The actuarial assumptions used in the December 31, 2015 valuation were based on the results of actuarial experience study for the period January 1, 2010 through December 31, 2014.

c. Volunteer Firefighters' Supplemental Retirement Plan

(1) Plan Description

The City of Southport administers a public employee retirement system, the Volunteer Firefighters Retirement Plan (the Plan), a single-employer defined benefit pension plan that provides retirement benefits to the City's qualified volunteer firefighters age 55 or over, who have completed at least 20 years of service with the City of Southport. The annual benefit is equal to \$100 per month. Members with 20 years of service can continue to work and accrue a greater benefit while continuing to receive monthly payments. For each additional year employed with the City beyond 20 years, a Firefighter's benefit will increase by \$5 per month.

All volunteer firefighters of the City are covered by the Plan. At the December 31, 2016 valuation, the Plan's membership consisted of:

|  |    |
|--|----|
| Retirees receiving benefits  | 15 |
| Terminated plan members entitled to but not yet receiving benefits | 2  |
| Active plan members  | 36 |
| Total  | 53 |

(2) Summary of Significant Accounting Policies

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

The Volunteer Firefighters' Supplemental Retirement Plan has no assets accumulated in a trust that meets the following criteria which are outlined in GASB Statement 73.

(3) Actuarial Assumptions

The entry age normal actuarial cost method was used in the December 31, 2016 valuation. The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

|                  |                |
|------------------|----------------|
| Inflation        | 3.0 Percent    |
| Salary increases | Not applicable |
| Discount rate    | 3.86 percent   |

The discount rate is based on the yield of the Bond Buyer General Obligation 20-year Municipal Bond Index rate at December 31, 2016.

Mortality rates are based on the RP-2014 Mortality tables projected to the valuation date using MP-2015

(4) Contributions

The retirement benefits were established by Board action. The Board has chosen to fund the benefit payments and administrative costs on a pay as you go basis through appropriations made in the General Fund operating budget. There were no contributions made by employees. The City's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. The City paid \$25,914 as benefits came due for the reporting period.

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

At June 30, 2017, the City reported a total pension liability of \$573,282. The total pension liability was measured as of December 31, 2016 based on a December 31, 2016 actuarial valuation. For the year ended June 30, 2017, the City recognized pension expense of \$43,961.

|  | <u>Deferred<br/>Outflows of</u> | <u>Deferred<br/>Inflows of</u> |
|--|---------------------------------|--------------------------------|
| Differences between expected and actual experience   | -                               | -                              |
| Changes of assumptions   |                                 | 22,974                         |
| City benefit payments and plan and plan administrative expense made subsequent to the measurement date | <u>12,294</u>                   | <u>-</u>                       |
| Total  | <u>12,294</u>                   | <u>22,974</u>                  |

\$12,294 reported as deferred outflows of resources related to pensions resulting from benefit payments made subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ended June 30, 2018. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**Year Ended June 30:**

|            |               |
|------------|---------------|
| 2018       | 1,682         |
| 2019       | 1,682         |
| 2020       | 1,682         |
| 2021       | 1,682         |
| 2022       | 1,682         |
| Thereafter | <u>14,564</u> |
| Total      | <u>22,974</u> |

(6) Sensitivity of the City's Total Pension Liability to changes in the Discount Rate

The following presents the City's total pension liability calculated using the discount rate of 3.86%, as well as what the City's total pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.86 percent) or 1 percentage point higher (4.86 percent) than the current rate:

|                         | <b>1% Decrease<br/>(2.86%)</b> | <b>Discount Rate<br/>(3.86%)</b> | <b>1% Increase<br/>(4.86%)</b> |
|-------------------------|--------------------------------|----------------------------------|--------------------------------|
| Total pension liability | 665,638                        | 573,282                          | 499,356                        |

**Schedule of Changes in Total Pension Liability  
Volunteer Firefighters' Supplemental Retirement Plan**

|  | <u>2017</u> |
|--|-------------|
| Beginning balance  | 570,595     |
| Service cost   | 25,599      |
| Interest on the total pension liability  | 20,044      |
| Change of benefit terms  | -           |
| Differences between expected and actual experience in the measurement of the total pension liability | -           |
| Changes of assumptions and inputs  | (24,656)    |
| Benefit payments   | (18,300)    |
| Other changes  | -           |
|  | 573,282     |
| Ending balance of the total pension liability  | 573,282     |

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

The actuarial assumptions used in the December 31, 2016 valuation were based on the results of actuarial experience study for the period January 1, 2010 through December 31, 2014.

d. 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. The City made contributions of \$93,195 for the year ended June 30, 2017. No amounts were forfeited.

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.

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

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

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

Funding Policy - The City has chosen to fund the healthcare benefits on a pay as you go basis. The current annual required contribution (ARC) is 35.63% of covered payroll. For the current year, the City contributed \$138,483 or 12.90% of annual covered payroll. The City’s obligation to contribute to the HCB Plan is established and may be amended by the Board of Aldermen.

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

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

|  |                         |
|--|-------------------------|
| Annual required contribution               | 382,458                 |
| Interest on net OPEB obligation            | 59,969                  |
| Adjustment to annual required contribution | <u>(83,365)</u>         |
| Annual OPEB cost                           | 359,062                 |
| Contributions made                         | <u>138,483</u>          |
| Increase (decrease) in net OPEB obligation | 220,579                 |
| Net OPEB obligation, beginning of year     | <u>1,499,218</u>        |
| Net OPEB obligation, end of year           | <u><u>1,719,797</u></u> |

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2017 were as follows:

| For Year Ended<br><u>June 30</u> | 3 Year Trend Information    |  | Net OPEB<br><u>Obligation</u> |
|----------------------------------|-----------------------------|--|-------------------------------|
|                                  | <u>Annual<br/>OPEB Cost</u> | <u>% of Annual OPEB<br/>Cost Contributed</u> |                               |
| 2017                             | 359,062                     | 38.6%  | 1,719,797                     |
| 2016                             | 361,823                     | 51.1%  | 1,499,218                     |
| 2015                             | 365,050                     | 43.3%  | 1,322,267                     |

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

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

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

2. Other Employment Benefits

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

3. Deferred Outflows and Inflows of Resources

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

| <u>Source</u>   | <u>Amount</u>         |
|---|-----------------------|
| Contributions to pension plan in current fiscal year  | 160,063               |
| Benefit payments made and administrative expenses for LEOSSA  | 6,410                 |
| Benefit payments made and administrative expenses for Vovunteer Firefighters' Supplemental Retirement Plan    | 12,294                |
| Differences between expected and actual experience  | 12,676                |
| Changes in assumptions  | 46,210                |
| Net difference between projected and actual earnings  | 373,020               |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | <u>30,818</u>         |
| Total   | <u><u>641,491</u></u> |

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

|  | <u>Statement of<br/>Net Position</u> | <u>General Fund<br/>Balance Sheet</u> |
|--|--------------------------------------|---------------------------------------|
| Prepaid taxes (General Fund)                       | 1,860                                | 1,860                                 |
| Taxes receivable (General Fund)                    |                                      | 143,007                               |
| Differences between expected and actual experience | 23,642                               |                                       |
| Changes of assumptions                             | <u>26,176</u>                        |                                       |
| Total  | <u><u>51,678</u></u>                 | <u><u>144,867</u></u>                 |

#### 4. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City participates in three self-funded risk-financing pools administered by the North Carolina League of Municipalities. Through these pools, the City obtains general liability and auto liability coverage of \$1 million per occurrence, property coverage up to the total insurance values of the property policy, workers' compensation coverage up to the statutory limits, and employee health coverage. The liability and property exposures are reinsured through commercial carriers for claims in excess of retentions as selected by the Board of Trustees each year. Stop loss insurance is purchased by the Board of Trustees to protect against large medical claims that exceed certain dollar cost levels. Specific information on the limits of the reinsurance, excess and stop loss policies purchased by the Board of Trustees can be obtained by contacting the Risk Management Services Department of the NC League of Municipalities. The pools are audited annually by certified public accountants, and the audited financial statements are available to the City upon request.

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2017 were as follows:

| <u>Year Ending June 30</u>              | <u>Total</u>         | <u>Governmental<br/>Activities</u> |
|---|----------------------|------------------------------------|
| 2018                                    | 25,171               | 25,171                             |
| 2019                                    | <u>25,171</u>        | <u>25,171</u>                      |
| Total minimum lease payments            | 50,342               | 50,342                             |
| Less: Amount representing interest      | <u>1,436</u>         | <u>1,436</u>                       |
| Present value of minimum lease payments | <u><u>48,906</u></u> | <u><u>48,906</u></u>               |

b. Installment Purchase

In June 2009, the City entered into \$3,784,000 in installment notes to finance the construction of a new fire station. The installment agreements required principal payments beginning in the fiscal year 2011 with an interest rate of 4.490%. Effective with the July 2014 payment, these notes were refinanced reducing the interest rate to 2.85% while annual principal payments remain the same.

Annual debt service payments of the installment purchase as of June 30, 2017, including \$490,241 of interest is as follows:

| <u>Year Ending June 30</u> | <u>Governmental Activities</u> |                       |
|----------------------------|--------------------------------|-----------------------|
|                            | <u>Principal</u>               | <u>Interest</u>       |
| 2018                       | 189,200                        | 70,099                |
| 2019                       | 189,200                        | 64,706                |
| 2020                       | 189,200                        | 59,314                |
| 2021                       | 189,200                        | 53,922                |
| 2022                       | 189,200                        | 48,530                |
| 2023-2027                  | 946,000                        | 161,766               |
| 2028-2029                  | <u>567,600</u>                 | <u>31,904</u>         |
|                            | <u><u>2,459,600</u></u>        | <u><u>490,241</u></u> |

c. Revolving Loans

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

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

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

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

5. Claims, Judgments and Contingent Liabilities

According to the City Attorney and City Management at June 30, 2017, the City was not a defendant in any lawsuit whose outcome could affect the City's ability to pay obligations as they become due.

6. Long-Term Obligations

a. Capital Leases

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

Below is a summary of the provisions of these leases:

| <u>Date of Lease</u> | <u>Property Leased</u> | <u>Total of Lease</u> | <u>Payment Amount</u> | <u>Remaining Payments</u> | <u>Frequency of Payments</u> |
|----------------------|------------------------|-----------------------|-----------------------|---------------------------|------------------------------|
| 1/12/14              | GMC 4500 Ambulance     | 123,591               | 25,171                | 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:

| <u>Fund</u>  | <u>Class of Property</u>         | <u>Cost</u> | <u>Accumulated Depreciation</u> | <u>Net Book Value</u> |
|--------------|----------------------------------|-------------|---------------------------------|-----------------------|
| General Fund | Vehicles and motorized equipment | 123,591     | 60,324                          | 63,267                |

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

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

| Year Ending June 30 | Business-type Activities |               |
|---------------------|--------------------------|---------------|
|                     | Principal                | Interest      |
| 2018                | 103,401                  | 13,551        |
| 2019                | 103,401                  | 12,045        |
| 2020                | 103,401                  | 10,540        |
| 2021                | 103,401                  | 9,034         |
| 2022                | 103,401                  | 7,528         |
| 2023-2027           | 448,721                  | 15,057        |
| 2028-2031           | 140,467                  | -             |
|                     | <u>1,106,193</u>         | <u>67,755</u> |

At June 30, 2017, the City of Southport had a legal debt margin of \$63,353,778.

d. Changes in Long - Term Liabilities

|                                 | Balance<br><u>6/30/16</u> | Increases        | Decreases      | Balance<br><u>6/30/17</u> | Current<br>Portion of<br><u>Balance</u> |
|---------------------------------|---------------------------|------------------|----------------|---------------------------|---|
| Governmental activities:        |                           |                  |                |                           |   |
| Installment notes payable       | 2,648,800                 |                  | 189,200        | 2,459,600                 | 189,200                                 |
| Capitalized leases              | 186,094                   |                  | 137,188        | 48,906                    | 24,217                                  |
| Compensated absences            | 129,557                   | 126,619          | 114,450        | 141,726                   | 80,000                                  |
| Other postemployment benefits   | 1,067,603                 | 260,277          | 118,318        | 1,209,562                 |   |
| Net pension liability (LGERS)   | 80,880                    | 391,747          | -              | 472,627                   |   |
| Total pension obligation (Fire) |                           | 573,282          |                | 573,282                   |   |
| Total pension obligation (LEO)  | <u>48,794</u>             | <u>78,396</u>    | <u>-</u>       | <u>127,190</u>            | <u>-</u>                                |
|                                 | <u>4,161,728</u>          | <u>1,430,321</u> | <u>559,156</u> | <u>5,032,893</u>          | <u>293,417</u>                          |
| Business-type activities:       |                           |                  |                |                           |   |
| Revolving loans                 | 1,209,594                 |                  | 103,401        | 1,106,193                 | 103,401                                 |
| Compensated absences            | 18,308                    | 18,355           | 17,860         | 18,803                    | 11,000                                  |
| Net Pension liability (LGERS)   | 54,882                    | 147,181          | -              | 202,063                   |   |
| Other postemployment benefits   | <u>431,615</u>            | <u>98,785</u>    | <u>20,165</u>  | <u>510,235</u>            | <u>-</u>                                |
|                                 | <u>1,714,399</u>          | <u>264,321</u>   | <u>141,426</u> | <u>1,837,294</u>          | <u>114,401</u>                          |

C. Interfund Balances and Activity

Transfers to/from other funds at June 30, 2017, consist of the following:

|   |                           |
|---|---------------------------|
| Transfer from Electric Fund to General Fund -<br>payment in lieu of taxes | 75,507                    |
| Transfer from Water and Sewer Fund to General Fund                        | <u>75,507</u>             |
| <br>Total   | <br><u><u>151,014</u></u> |

Transfers are used to move unrestricted revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts providing matching funds for various grant programs. Current transfers to the General Fund were used to replace the roof on the former city hall.

D. Contracts

1. Electric Maintenance Contract and Billing/Collections Contract

The City of Southport has awarded a contract to Brunswick Electric Membership Corporation for the operation and maintenance of the Electric Distribution System of the City of Southport. The contract is for a five-year term beginning on July 1, 2011. This contract has been extended through June 30, 2017. The initial cost to the City under the contract was \$327,026 for the twelve months ending on June 30, 2012. Effective each July 1, under the contract the annual fee will be adjusted based on the increase in the Consumer Price Index and City customer growth. Non-basic operations and maintenance service such as power restoration after catastrophic events, system improvements and upgrades, and system extension are to be provided on a cost-plus basis. The cost of non-basic service will be based on cost of materials, equipment and labor. System additions and extensions are to be approved by the City. For the year ended June 30, 2017, the City payments under this contract totaled \$402,300.

Brunswick Electric Membership Corporation also reads meters, bills revenue and collects billing for the Electric Fund. This contract is based on the number of customers and is adjusted annually. During the year ended June 30, 2017, the City payments under this contract totaled \$184,415.

2. Solid Waste Collection Contract

The City has a contract with Waste Industries, Inc. to provide solid waste collection to the City and its residents. This contract, expiring June 30, 2018, bases fees on the number of residents and frequency of collection. The expense to the City for the year ended June 30, 2017 was \$249,181.

E. On-Behalf Payments for Fringe Benefits and Salaries

The City has recognized as a revenue and an expenditure, on-behalf payments for fringe benefits and salaries of \$1,500 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, 2017. Under State law the local board of trustees for the Fund receives an amount each year, which the board may use at its own discretion for eligible firemen or their departments.

F. Net Investment in Capital Assets

The City's Net Investment in Capital Assets at June 30, 2017, consisted of the following:

|                                  | Governmental<br><u>Funds</u> | Business-type<br><u>Funds</u> |
|----------------------------------|------------------------------|-------------------------------|
| Capital assets                   | 13,917,230                   | 23,628,315                    |
| Less: Long-term Debt             | <u>(2,508,506)</u>           | <u>(1,106,193)</u>            |
| Net investment in capital assets | <u><u>11,408,724</u></u>     | <u><u>22,522,122</u></u>      |

G. Fund Balance

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

|                                       |                         |
|---------------------------------------|-------------------------|
| Total fund balance - General Fund     | <u>2,207,922</u>        |
| Less:                                 |                         |
| Stabilization by State Statute        | 782,622                 |
| Streets - Powell Bill                 | 53,270                  |
| Capital outlay (Capital Reserve Fund) | 164,621                 |
| Committed for fire protection         | <u>58,578</u>           |
| Remaining fund balance                | <u><u>1,148,831</u></u> |

Outstanding encumbrances are amounts needed to pay any commitments related to purchase orders and contracts that remain unperformed at year-end. At June 30, 2017, the City had outstanding encumbrances of \$29,326 in the General Fund.

IV. JOINT VENTURES

The City and the members of the City's fire department each appoint two members to the five-member local board of trustees for the Firemen's Relief Fund. The State Insurance Commissioner appoints one additional member to the local board of trustees. The Fireman's Relief Fund is funded by a portion of the fire and lightning insurance premiums that insurers remit to the State. The State passes these moneys to the local board of the Firemen's Relief Fund. The funds are used to assist fire fighters in various ways. The City obtains an ongoing financial benefit from the Fund for the on-behalf of payments for salaries and fringe benefits made to members of the City's fire department by the board of trustees. During the fiscal year ended June 30, 2017, the City reported revenues and expenditures for payments of \$1,500 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, 2017. The Firemen's Relief Fund does not issue separate audited financial statements. Instead, the local board of trustees files an annual financial report with the State Firemen's Association. This report can be obtained from the Association at 323 West Jones Street, Suite 401, Raleigh, North Carolina 27603.

V. **JOINTLY GOVERNED ORGANIZATIONS**

A. North Carolina Eastern Municipal Power Agency

The City is a member of the North Carolina Eastern Municipal Power Agency (Agency). The Agency was formed to enable municipalities that own electric distribution systems to finance, construct, own, operate, and maintain generation and transmission facilities. Each participating government appoints one commissioner to the Agency's governing board. The twenty-one members, who receive power from the Agency, have signed power sales agreements to purchase a specified share of the power generated by the Agency. Except for the power purchase requirements, no local government participant has any obligation, entitlement, or residual interest. The City's purchases of power for the fiscal year ended June 30, 2017 were \$4,663,066.

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 \$866 to the Council during the fiscal year ended June 30, 2017.

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, 2017, 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, 2017. Complete financial information for the Airport Commission can be obtained from the Airport's administrative offices at 380 Long Beach Road, Southport, North Carolina 28461.

VI. **SUMMARY OF DISCLOSURE OF SIGNIFICANT CONTINGENCIES**

Federal and State Assisted Programs

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

VII. **SUBSEQUENT EVENTS**

Events occurring after June 30, 2017 were evaluated by management on June 11, 2018 to ensure that any subsequent events that met the criteria for recognition and/or disclosure in these financial statements have been included. There are no subsequent events needing disclosure.

VIII. **CHANGE IN ACCOUNTING PRINCIPALS/RESTATEMENT**

The City implemented Governmental Accounting Standards Board (GASB) Statement 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Covered within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, in the fiscal year ending June 30, 2017. The implementation of the statement required the City to record beginning total pension liability and the effects on net position of benefit payments and administrative expenses paid by the City to the Law Enforcement Officers' Special Separation Allowance and the Firefighters' Supplemental Retirement Plan during the measurement period (fiscal year ending June 30, 2016). As a result, net position for the governmental activities decreased by \$618,113.

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 Other Postemployment Benefits
- Proportionate Share of Net Pension Liability (Asset) – Local Government Employee’s Retirement System
- City of Southport’s Contributions – Local Government Employee’s Retirement System
- Schedule of Changes in Total Pension Liability for the Law Enforcement Officers’ Special Separation Allowance
- Schedule of Pension as a Percentage of Covered Payroll for the Law Enforcement Officers’ Special Separation Allowance.
- Schedule of Changes in Total Pension Liability – Firemens’ Supplemental Retirement

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

**EXHIBIT A-1**

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

**SCHEDULE OF EMPLOYER CONTRIBUTION**

| Year Ended<br><u>June 30</u> | Annual Required<br><u>Contribution</u> | Percentage<br><u>Contributed</u> |
|------------------------------|--|----------------------------------|
| 2010                         | 383,344                                | 28.30%                           |
| 2011                         | 383,344                                | 38.08%                           |
| 2012                         | 383,344                                | 42.59%                           |
| 2013                         | 316,477                                | 40.01%                           |
| 2014                         | 316,477                                | 41.00%                           |
| 2015                         | 382,458                                | 41.36%                           |
| 2016                         | 382,458                                | 51.92%                           |
| 2017                         | 382,458                                | 38.57%                           |

Notes to the Required Schedules:

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

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

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

Exhibit A-2

**LOCAL GOVERNMENT EMPLOYEES RETIREMENT SYSTEM**

|  | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|--|-------------|-------------|-------------|-------------|
| City of Southport's proportion of the net pension liability (asset) (%)  | 0.03179%    | 0.03025%    | 0.02832%    | 0.02880%    |
| City of Southport's proportion of the net pension liability (asset) (\$)   | 674,690     | 135,760     | (167,016)   | 347,151     |
| City of Southport's covered payroll  | 2,000,892   | 1,863,345   | 1,773,533   | 1,752,169   |
| City of Southport's proportionate share of the net pension liability (asset) as a percentage of it's covered -employee payroll | 33.72%      | 7.29%       | (9.42%)     | 19.81%      |
| Plan fiduciary net position as a percentage of the total pension liability   | 91.47%      | 98.09%      | 102.64%     | 94.35%      |

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

**Exhibit A-3**

**LOCAL GOVERNMENT EMPLOYEES RETIREMENT SYSTEM**

|  | <u><b>2017</b></u> | <u><b>2016</b></u> | <u><b>2015</b></u> | <u><b>2014</b></u> |
|--|--------------------|--------------------|--------------------|--------------------|
| Contractually required contribution                                  | 160,063            | 135,756            | 133,568            | 126,372            |
| Contributions in relation to the contractually required contribution | <u>160,063</u>     | <u>135,756</u>     | <u>133,568</u>     | <u>126,372</u>     |
| Contribution deficiency (excess)                                     | <u><u>-</u></u>    | <u><u>-</u></u>    | <u><u>-</u></u>    | <u><u>-</u></u>    |
| City of Southport's covered-employee payroll                         | 2,164,697          | 2,000,892          | 1,863,345          | 1,773,533          |
| Contributions as percentage of covered-employee payroll              | 7.39%              | 6.78%              | 7.17%              | 7.13%              |

**CITY OF SOUTHPORT, NORTH CAROLINA**  
**SCHEDULE OF CHANGES IN TOTAL PENSION LIABILITY**  
**LAW ENFORCEMENT OFFICER'S SPECIAL SEPARATION ALLOWANCE**  
**June 30, 2017**

Exhibit A-4

|  | 2017    |
|--|---------|
| Beginning balance  | 119,542 |
| Service cost   | 12,143  |
| Interest on the total pension liability  | 4,180   |
| Changes of benefit terms   | -       |
| Difference between expected and actual experience in the measurement<br>of the total pension liability | -       |
| Changes of assumptionser inputs  | (3,745) |
| Benefit payments   | (4,930) |
| Other changes  | -       |
|  | -       |
| Ending balance of the total pension liability  | 127,190 |

The amounts presented for each fiscal year were determined as of the prior fiscal year ending December 31.

**CITY OF SOUTHPORT, NORTH CAROLINA**  
**SCHEDULE OF PENSION LIABILITY AS A PERCENTAGE OF COVERED PAYROLL**  
**LAW ENFORCEMENT OFFICER'S SPECIAL SEPARATION ALLOWANCE**  
**June 30, 2017**

**Exhibit A-5**

|  | <u>2017</u> |
|--|-------------|
| Total pension liability                          | 127,190     |
| Covered payroll                                  | 552,419     |
| Total pension as a percentage of covered payroll | 23.02%      |

Notes to the schedules:

The City of Southport has no assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 73 to pay related benefits.

**CITY OF SOUTHPORT, NORTH CAROLINA  
 SCHEDULE OF CHANGES IN TOTAL PENSION LIABILITY  
 FIREFIGHTERS' SUPPLEMENTAL RETIREMENT PLAN  
 June 30, 2017**

**Exhibit A-6**

|  | 2017     |
|--|----------|
| Beginning balance  | 570,595  |
| Service cost   | 25,599   |
| Interest on the total pension liability  | 20,044   |
| Changes of benefit terms   | -        |
| Difference between expected and actual experience in the measurement<br>of the total pension liability | -        |
| Changes of assumptionser inputs  | (24,656) |
| Benefit payments   | (18,300) |
| Other changes  | -        |
|  | -        |
| Ending balance of the total pension liability  | 573,282  |

Notes to the statements:

The City of Southport has no assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 73 to pay related benefits.

## 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:

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

**CITY OF SOUTHPORT, NORTH CAROLINA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
For the Year Ended June 30, 2017**

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

|   | <u>Budget</u>    | <u>Actual</u>    | <u>Variance<br/>Positive<br/>(Negative)</u> |
|---|------------------|------------------|---|
| <b>Revenues</b>                         |                  |                  |   |
| Ad valorem taxes                        |                  |                  |   |
| Current year                            | 1,665,249        | 1,805,584        | 140,335                                     |
| Prior years                             | 95,313           | 56,550           | (38,763)                                    |
| Motor vehicle taxes                     | 86,184           | 105,699          | 19,515                                      |
| Penalties and interest                  | <u>19,530</u>    | <u>14,258</u>    | <u>(5,272)</u>                              |
| Total                                   | <u>1,866,276</u> | <u>1,982,091</u> | <u>115,815</u>                              |
|   |                  |                  |   |
| Other taxes                             |                  |                  |   |
| Dog tags                                | 1,000            | 540              | (460)                                       |
| Privilege licenses                      | -                | 725              | 725   |
| Itinerant Peddler Permit                | 100              | 150              | 50  |
| Accommodation tax                       | <u>93,432</u>    | <u>99,200</u>    | <u>5,768</u>                                |
| Total                                   | <u>94,532</u>    | <u>100,615</u>   | <u>6,083</u>                                |
|   |                  |                  |   |
| Unrestricted intergovernmental revenues |                  |                  |   |
| Local option sales tax                  | 802,213          | 854,413          | 52,200                                      |
| Beer and wine tax                       | 13,500           | 14,951           | 1,451                                       |
| ABC Profit distribution                 | 275,000          | 280,848          | 5,848                                       |
| Utility franchise tax                   | <u>292,199</u>   | <u>362,904</u>   | <u>70,705</u>                               |
| Total                                   | <u>1,382,912</u> | <u>1,513,116</u> | <u>130,204</u>                              |
|   |                  |                  |   |
| Restricted intergovernmental revenues   |                  |                  |   |
| State street-aid allocation             | 108,313          | 111,943          | 3,630                                       |
| On-behalf of payments - fire and rescue | -                | 1,500            | 1,500                                       |
| Solid waste disposal tax                | 1,200            | 1,714            | 514   |
| FEMA Assistance to Firefighters         | 10,000           | -                | (10,000)                                    |
| ABC Revenue for law enforcement         | 13,000           | 12,312           | (688)                                       |
| Brunswick County rescue fees            | 36,000           | 36,000           | -   |
| Brunswick County for rescue             | 5,000            | -                | (5,000)                                     |
| FEMA Reimbursement                      | 13,150           | 242,777          | 229,627                                     |
| Police grants                           | 10,000           | -                | (10,000)                                    |
| Fire district fees                      | <u>689,751</u>   | <u>703,297</u>   | <u>13,546</u>                               |
| Total                                   | <u>886,414</u>   | <u>1,109,543</u> | <u>223,129</u>                              |
|   |                  |                  |   |
| Licenses and permits                    |                  |                  |   |
| Building permits                        | 190,000          | 178,673          | (11,327)                                    |
| Fire Inspection fees                    | 20,000           | 6,443            | (13,557)                                    |
| Reinspection fees                       | -                | 2,150            | 2,150                                       |
| Planning and zoning fees                | <u>13,000</u>    | <u>8,080</u>     | <u>(4,920)</u>                              |
| Total                                   | <u>223,000</u>   | <u>195,346</u>   | <u>(27,654)</u>                             |

**CITY OF SOUTHPORT, NORTH CAROLINA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
For the Year Ended June 30, 2017**

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

|  | <u>Budget</u> | <u>Actual</u> | <u>Variance<br/>Positive<br/>(Negative)</u> |
|--|---------------|---------------|---|
| <b>Sales and services</b>                |               |               |   |
| Cemetery lot sales                       | -             | 969           | 969   |
| Refuse collection fees                   | 220,000       | 231,460       | 11,460                                      |
| Boat slip rentals                        | 19,800        | 3,325         | (16,475)                                    |
| Rescue squad fees                        | 170,000       | 180,898       | 10,898                                      |
| Community building rent                  | 162,440       | 98,925        | (63,515)                                    |
| Community building annex rentals         | 18,000        | -             | (18,000)                                    |
| Lease revenue                            | 89,323        | 39,044        | (50,279)                                    |
| CAM Revenues                             | 16,356        | 8,378         | (7,978)                                     |
| Tourism - Visitor Center sales           | -             | 230           | 230   |
| Recreation fees                          | 20,552        | 19,861        | (691)                                       |
| Duke Energy Progress for fire department | 25,000        | 25,000        | -   |
| Total                                    | 741,471       | 608,090       | (133,381)                                   |
| <b>Investment earnings</b>               |               |               |   |
| Interest income                          | 3,720         | 3,520         | (200)                                       |
| <b>Miscellaneous</b>                     |               |               |   |
| Insurance reimbursement                  | -             | 20,991        | 20,991                                      |
| Donations - Firemen's fund               | -             | 33,988        | 33,988                                      |
| Donations - Recreation department        | 5,000         | 4,925         | (75)  |
| Donations - Beautification               | -             | 1,630         | 1,630                                       |
| Fire Department Response fees            | 25,000        | 15,454        | (9,546)                                     |
| Lord Street Gym donations                | 160,000       | -             | (160,000)                                   |
| Homeowners recovery fund                 | 600           | 336           | (264)                                       |
| Miscellaneous - Police department        | 5,000         | 4,314         | (686)                                       |
| Miscellaneous - Fire department          | 5,000         | 9,000         | 4,000                                       |
| Miscellaneous - Rescue squad             | 50,000        | 5,282         | (44,718)                                    |
| Miscellaneous - Tourism                  | 94,340        | 95,312        | 972   |
| Miscellaneous - Community Garden         | 2,000         | 1,260         | (740)                                       |
| Special events - Community Building      | 50,000        | 19,244        | (30,756)                                    |
| Sales - fixed assets                     | 87,500        | 29,600        | (57,900)                                    |
| Miscellaneous                            | 4,000         | 7,647         | 3,647                                       |
| Total                                    | 488,440       | 248,983       | (239,457)                                   |
| Total revenues                           | 5,686,765     | 5,761,304     | 74,539                                      |
| <b>Expenditures</b>                      |               |               |   |
| <b>General government</b>                |               |               |   |
| Board expense                            |               |               |   |
| Full-Time employees                      | 68,000        | 65,718        |   |
| Social security                          | 5,200         | 5,027         |   |
| Group insurance                          | 1,760         | 276           |   |
| Workers compensation                     | 1,759         | 1,759         |   |
| Professional fees                        | 41,958        | 27,888        |   |
| Departmental supplies                    | 4,066         | 3,025         |   |

**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, 2017**

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

|                              | <u>Budget</u>  | <u>Actual</u>  | <u>Variance<br/>Positive<br/>(Negative)</u> |
|------------------------------|----------------|----------------|---|
| Training and travel          | 9,500          | 11,958         |   |
| Miscellaneous                | 7,100          | 7,100          |   |
| Other services               | 7,133          | 7,133          |   |
| Contract Services            | 7,190          | 7,591          |   |
| Insurance and bonds          | 3,000          | 2,880          | -   |
| Donations                    | 2,110          | 2,110          |   |
| Capital outlay               | <u>250,000</u> | <u>151,014</u> | <u>-</u>                                    |
| Total                        | <u>408,776</u> | <u>293,479</u> | <u>115,297</u>                              |
|                              |                |                |   |
| Administration               |                |                |   |
| Full-time employees          | 77,500         | 66,706         |   |
| 401(k) Retirement supplement | 3,875          | 3,297          |   |
| Social security              | 5,929          | 4,921          |   |
| Group insurance              | 16,876         | 18,042         |   |
| Retirement                   | 5,445          | 4,861          |   |
| Workers compensation         | 1,911          | 1,910          |   |
| Vehicle supplies             | 1,800          | 911            |   |
| Departmental supplies        | 18,000         | 10,295         |   |
| Training and travel          | 5,324          | 4,311          |   |
| Communications               | 7,500          | 6,404          |   |
| Utilities                    | 9,000          | 10,362         |   |
| Advertising                  | 6,500          | 6,492          |   |
| Other services               | 19,473         | 15,645         |   |
| Contract services            | 11,340         | 7,343          |   |
| Insurance and bonding        | <u>6,800</u>   | <u>6,738</u>   | <u>-</u>                                    |
| Total                        | <u>197,273</u> | <u>168,238</u> | <u>29,035</u>                               |
|                              |                |                |   |
| Finance                      |                |                |   |
| Full-time employees          | 72,806         | 72,686         |   |
| Employee overtime            | -              | 2              |   |
| 401(k) Retirement supplement | 3,591          | 3,448          |   |
| Social security              | 5,893          | 5,627          |   |
| Group insurance              | 28,912         | 30,512         |   |
| Retirement                   | 5,419          | 5,089          |   |
| Workers compensation         | 2,246          | 2,246          |   |
| Departmental supplies        | 18,518         | 17,392         |   |
| Training and travel          | 5,824          | 2,574          |   |
| Communications               | 7,700          | 6,015          |   |
| Utilities                    | 3,500          | 3,380          |   |
| Community garden expenses    | 2,500          | 713            |   |

**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, 2017**

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

|                                      | <u>Budget</u> | <u>Actual</u> | <u>Variance<br/>Positive<br/>(Negative)</u> |
|--------------------------------------|---------------|---------------|---|
| Contract services                    | 18,404        | 21,881        |   |
| Property tax fees                    | 13,800        | 14,085        |   |
| Motor vehicle fees                   | 4,000         | 4,852         |   |
| Insurance and bonding                | 3,152         | 3,151         | -   |
| Total                                | 196,265       | 193,653       | 2,612                                       |
| <br>                                 |               |               |   |
| Buildings and Grounds                |               |               |   |
| Full-time employees                  | 227,527       | 228,200       |   |
| Employee overtime                    | -             | 772           |   |
| Part-time employees                  | 11,140        | 9,669         |   |
| 401(k) Retirement supplement         | 11,611        | 11,449        |   |
| Social security                      | 18,265        | 17,992        |   |
| Group insurance                      | 100,192       | 98,213        |   |
| Retirement                           | 16,710        | 16,893        |   |
| Workers compensation                 | 6,825         | 6,824         |   |
| Uniforms and protective gear         | 7,000         | 6,128         |   |
| Vehicle supplies                     | 6,500         | 7,669         |   |
| Departmental supplies                | 17,000        | 15,599        |   |
| Training and travel                  | 1,373         | 1,168         |   |
| Communications                       | 1,300         | 1,254         |   |
| Utilities                            | 12,000        | 6,580         |   |
| Cam expenses                         | 15,726        | 18,860        |   |
| Repairs and maintenance - equipment  | 3,000         | 2,171         |   |
| Repairs and maintenance - vehicles   | 800           | 642           |   |
| Repairs and maintenance - facilities | 70,897        | 73,010        |   |
| Other services                       | 8,000         | 7,560         |   |
| Contract services                    | 4,486         | 15,230        |   |
| Insurance and bonding                | 6,145         | 6,144         |   |
| Capital outlay - facilities          | 20,674        | 10,374        | -   |
| Total                                | 567,171       | 562,401       | 4,770                                       |
| <br>                                 |               |               |   |
| Tourism                              |               |               |   |
| Full-time employees                  | 85,332        | 85,780        |   |
| 401(k) Retirement supplement         | 4,267         | 4,289         |   |
| Social security                      | 6,528         | 6,311         |   |
| Group insurance                      | 22,843        | 20,350        |   |
| Retirement                           | 7,167         | 6,438         |   |
| Workers compensation                 | 2,174         | 2,174         |   |
| Departmental supplies                | 26,500        | 20,798        |   |
| Beautification committee             | 3,000         | 2,552         |   |
| Special marketing opps               | 2,000         | 1,645         |   |
| Grant matching funds                 | 8,000         | 7,170         |   |
| Training and travel                  | 3,324         | 389           |   |
| Communications                       | 2,573         | 2,631         |   |
| Utilities                            | 9,669         | 8,750         |   |

**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, 2017**

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

|                                      | <u>Budget</u> | <u>Actual</u> | <u>Variance<br/>Positive<br/>(Negative)</u> |
|--------------------------------------|---------------|---------------|---|
| Repairs and maintenance - facilities | 2,000         | 1,656         |   |
| Contract services                    | 3,000         | 840           |   |
| Insurance and bonding                | 4,082         | 4,081         |   |
| Capital outlay - other               | 144,340       | 125,923       | -   |
| Total                                | 336,799       | 301,777       | 35,022                                      |
| <br>Community Building               |               |               |   |
| Full-time employees                  | 34,243        | 34,245        |   |
| Part-time employees                  | 19,216        | 19,654        |   |
| 401(k) Retirement supplement         | 1,812         | 1,712         |   |
| Social security                      | 4,703         | 4,092         |   |
| Group insurance                      | 626           | 631           |   |
| Retirement                           | 2,697         | 2,526         |   |
| Workers compensation                 | 1,591         | 1,590         |   |
| Departmental supplies                | 6,848         | 6,877         |   |
| Communications                       | 3,927         | 3,210         |   |
| Utilities                            | 14,280        | 14,816        |   |
| Repairs and maintenance - facilities | 54,177        | 48,349        |   |
| Contract services                    | 13,800        | 13,638        |   |
| Insurance and bonding                | 5,620         | 5,620         | -   |
| Total                                | 163,540       | 156,960       | 6,580                                       |
| <br>City Garage                      |               |               |   |
| Full-time employees                  | 92,405        | 92,762        |   |
| 401 (k) retirement supplement        | 4,620         | 4,638         |   |
| Social security                      | 6,984         | 6,935         |   |
| Group insurance                      | 26,797        | 25,576        |   |
| Retirement                           | 7,044         | 6,844         |   |
| Workers compensation                 | 2,222         | 2,221         |   |
| Uniforms and protective gear         | 6,800         | 6,521         |   |
| Vehicle supplies                     | 750           | 1,544         |   |
| Departmental supplies                | 3,500         | 3,416         |   |
| Training and travel                  | 1,208         | 498           |   |
| Communications                       | 1,650         | 1,415         |   |
| Utilities                            | 23,500        | 23,155        |   |
| Repairs and maintenance - equipment  | 500           | 329           |   |
| Repairs and maintenance - vehicles   | 500           | 321           |   |
| Contracted services                  | 2,023         | 2,428         |   |
| Insurance and bonding                | 3,640         | 3,639         | -   |
| Total                                | 184,143       | 182,242       | 1,901                                       |
| Total general government             | 2,053,967     | 1,858,750     | 195,217                                     |

**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, 2017**

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

|                                       | <u>Budget</u>    | <u>Actual</u>    | <u>Variance<br/>Positive<br/>(Negative)</u> |
|---------------------------------------|------------------|------------------|---|
| Public Safety                         |                  |                  |   |
| Police                                |                  |                  |   |
| Full-time employees                   | 513,822          | 511,717          |   |
| Employee overtime                     | -                | 3,954            |   |
| Part-time employees                   | 85,654           | 72,047           |   |
| Separation allowance - LEO            | 11,400           | 11,340           |   |
| 401 (k) retirement supplement         | 1,196            | -                |   |
| Social security                       | 46,973           | 45,129           |   |
| Group insurance                       | 152,690          | 151,630          |   |
| Retirement                            | 75,350           | 67,390           |   |
| Unemployment expense                  | 3,377            | 3,377            |   |
| Workers compensation                  | 14,379           | 14,840           |   |
| Professional services                 | 500              | 169              |   |
| Vehicle supplies                      | 32,400           | 35,870           |   |
| Departmental supplies                 | 5,000            | 5,142            |   |
| Uniforms and protective gear          | 13,600           | 13,338           |   |
| Training and travel                   | 12,770           | 12,128           |   |
| Community resource program            | 5,000            | 666              |   |
| Communications                        | 21,200           | 17,059           |   |
| Utilities                             | 7,000            | 5,201            |   |
| Repairs and maintenance - equipment   | 3,000            | 932              |   |
| Repairs and maintenance - vehicles    | 17,000           | 19,337           |   |
| Other services                        | 500              | -                |   |
| Contract services                     | 9,829            | 11,313           |   |
| Insurance and bonding                 | 25,535           | 25,534           |   |
| Capital outlay - equipment            | 17,522           | 16,294           |   |
| Capital outlay - vehicles             | 44,471           | 44,471           |   |
| Capital outlay - facilities           | 2,070            | -                | -   |
| Total                                 | <u>1,122,238</u> | <u>1,088,878</u> | <u>33,360</u>                               |
| Fire and Rescue Department            |                  |                  |   |
| Full-time employees                   | 114,416          | 114,515          |   |
| Employee overtime                     | -                | 528              |   |
| Part-time employees                   | 13,000           | 12,683           |   |
| Volunteer fees                        | 128,863          | 131,588          |   |
| Volunteer incentives                  | 116,685          | 122,158          |   |
| 401 (k) retirement supplement         | 5,974            | 5,752            |   |
| Social security                       | 32,718           | 31,139           |   |
| Firefighter pension plan contribution | 8,109            | 8,488            |   |
| Firefighter retirement                | -                | 1,500            |   |
| Payments to retirees                  | 37,021           | 25,914           |   |
| Group insurance                       | 23,654           | 24,130           |   |
| Workers compensation                  | 11,896           | 11,895           |   |
| Professional fees                     | 100              | 100              |   |
| Vehicle supplies                      | 12,770           | 13,170           |   |
| Departmental supplies -fire           | 23,626           | 38,037           |   |

**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, 2017**

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

|                                      | <u>Budget</u> | <u>Actual</u> | <u>Variance<br/>Positive<br/>(Negative)</u> |
|--------------------------------------|---------------|---------------|---|
| Departmental supplies -rescue        | 17,500        | 17,719        |   |
| Uniforms and protective gear         | 12,000        | 11,778        |   |
| Inspections                          | 2,065         | 2,065         |   |
| Fire prevention                      | 7,000         | 6,906         |   |
| Training and travel                  | 16,896        | 15,931        |   |
| Communications                       | 17,700        | 17,455        |   |
| Utilities                            | 39,200        | 43,514        |   |
| Repairs and maintenance - equipment  | 10,000        | 9,504         |   |
| Repairs and maintenance - vehicles   | 18,600        | 18,027        |   |
| Repairs and maintenance - facilities | 4,595         | 5,048         |   |
| Contract services                    | 54,000        | 56,959        |   |
| Other services                       | -             | 17,002        |   |
| Southport firemen's expenses         | -             | 19,734        |   |
| Insurance and bonding                | 30,584        | 30,583        |   |
| Capital outlay - equipment           | 28,626        | 34,082        |   |
| Capital outlay - other equipment     | 45,867        | 20,004        | -   |
| Total                                | 833,465       | 867,908       | (34,443)                                    |
| <br>                                 |               |               |   |
| Code Enforcement                     |               |               |   |
| Full-time employees                  | 178,780       | 152,519       |   |
| Employee overtime                    | -             | 62            |   |
| 401 (k) retirement supplement        | 8,939         | 7,629         |   |
| Social security                      | 13,677        | 11,074        |   |
| Group insurance                      | 27,214        | 26,901        |   |
| Retirement                           | 12,482        | 11,257        |   |
| Workers compensation                 | 4,957         | 4,956         |   |
| Vehicle supplies                     | 1,800         | 1,134         |   |
| Departmental supplies                | 12,100        | 8,578         |   |
| Training and travel                  | 8,063         | 5,523         |   |
| Communications                       | 3,500         | 3,297         |   |
| Utilities                            | 1,750         | 1,564         |   |
| Repairs and maintenance - vehicles   | 168           | 167           |   |
| Other services                       | 2,810         | 2,810         |   |
| Contract services                    | 3,396         | 4,577         |   |
| Insurance and bonding                | 1,042         | 1,042         |   |
| Capital outlay - equipment           | 7,500         | -             |   |
| Capital outlay - other equipment     | 172           | -             | -   |
| Total                                | 288,350       | 243,090       | 45,260                                      |
| <br>                                 |               |               |   |
| Total public safety                  | 2,244,053     | 2,199,876     | 44,177                                      |

**CITY OF SOUTHPORT, NORTH CAROLINA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
For the Year Ended June 30, 2017**

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

|                                      | <u>Budget</u> | <u>Actual</u> | <u>Variance<br/>Positive<br/>(Negative)</u> |
|--------------------------------------|---------------|---------------|---|
| Transportation                       |               |               |   |
| Street                               |               |               |   |
| Full-time employees                  | 108,968       | 109,057       |   |
| Employee overtime                    | -             | 759           |   |
| 401 (k) retirement supplement        | 5,794         | 5,380         |   |
| Social security                      | 8,028         | 7,693         |   |
| Group insurance                      | 33,833        | 33,497        |   |
| Retirement                           | 9,019         | 8,126         |   |
| Workers compensation                 | 2,345         | 2,584         |   |
| Uniforms and protective gear         | 5,400         | 5,208         |   |
| Vehicle supplies                     | 10,000        | 8,813         |   |
| Departmental supplies                | 38,143        | 35,404        |   |
| Communications                       | 1,600         | 1,395         |   |
| Utilities                            | 97,000        | 104,472       |   |
| Repairs and maintenance - equipment  | 14,000        | 12,828        |   |
| Repairs and maintenance - vehicles   | 7,500         | 6,531         |   |
| Repairs and maintenance - facilities | 61,000        | 60,882        |   |
| Contract services                    | 436           | 1,186         |   |
| Insurance and bonding                | 3,935         | 4,159         |   |
| Capital outlay - equipment           | 20,204        | 20,204        | -   |
| Capital outlay - other               | 24,680        | 12,812        | -   |
| Total                                | 451,885       | 440,990       | 10,895                                      |
| Powell Bill                          |               |               |   |
| Departmental supplies                | 42,338        | 58,815        |   |
| Capital outlay - other               | 55,183        | -             | -   |
| Total                                | 97,521        | 58,815        | 38,706                                      |
| Total transportation                 | 549,406       | 499,805       | 49,601                                      |
| Environmental Protection             |               |               |   |
| Solid Waste                          |               |               |   |
| Contract services                    | 250,927       | 249,181       | -   |
| Total                                | 250,927       | 249,181       | 1,746                                       |
| Total environmental protection       | 250,927       | 249,181       | 1,746                                       |

**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, 2017**

EXHIBIT B-1  
Page 9 of 10

|   | <u>Budget</u>    | <u>Actual</u>    | <u>Variance<br/>Positive<br/>(Negative)</u> |
|---|------------------|------------------|---|
| Cultural and Recreational               |                  |                  |   |
| Parks and recreation                    |                  |                  |   |
| Full-time employees                     | 95,024           | 96,175           |   |
| Employee overtime                       | -                | 195              |   |
| Part-time employees                     | 83,000           | 85,467           |   |
| 401 (k) retirement supplement           | 4,717            | 4,819            |   |
| Social security                         | 12,953           | 13,483           |   |
| Group insurance                         | 27,579           | 25,828           |   |
| Retirement                              | 7,370            | 7,110            |   |
| Workers compensation                    | 4,994            | 4,993            |   |
| Uniforms and protective gear            | 500              | 427              |   |
| Vehicle supplies                        | 4,020            | 2,739            |   |
| Departmental supplies                   | 154,550          | 51,791           |   |
| Training and tavel                      | 3,807            | 3,751            |   |
| Communications                          | 7,500            | 6,853            |   |
| Utilities                               | 39,906           | 38,023           |   |
| Repairs and maintenance - vehicles      | 1,967            | 1,988            |   |
| Repairs and maintenance - Fort Johnston | 19,660           | 18,954           |   |
| Contract services                       | 13,200           | 13,107           |   |
| Insurance and bonding                   | 11,479           | 11,478           | -   |
| Capital outlay                          | 362,761          | 43,991           | -   |
| Total cultural and recreational         | <u>854,987</u>   | <u>431,172</u>   | <u>423,815</u>                              |
| Debt service                            |                  |                  |   |
| Principal                               | 331,689          | 326,388          |   |
| Interest and fees                       | 79,000           | 78,909           | -   |
| Total debt service                      | <u>410,689</u>   | <u>405,297</u>   | <u>5,392</u>                                |
| Contingency                             | <u>5,500</u>     | <u>-</u>         | <u>5,500</u>                                |
| Total expenditures                      | <u>6,369,529</u> | <u>5,644,081</u> | <u>725,448</u>                              |
| Revenues over (under) expenditures      | <u>(682,764)</u> | <u>117,223</u>   | <u>799,987</u>                              |

**CITY OF SOUTHPORT, NORTH CAROLINA**  
**GENERAL FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
**For the Year Ended June 30, 2017**

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

|                                      | <u>Budget</u>  | <u>Actual</u>    | <u>Variance<br/>Positive<br/>(Negative)</u> |
|--------------------------------------|----------------|------------------|---|
| Other financing sources (uses)       |                |                  |   |
| Proceeds of financing                | <u>410,000</u> | <u>-</u>         | <u>(410,000)</u>                            |
| Transfers from other funds           |                |                  |   |
| Transfer from Electric Fund          | -              | 75,507           | 75,507                                      |
| Transfer from Water and Sewer Fund   | <u>-</u>       | <u>75,507</u>    | <u>75,507</u>                               |
| Total other financing sources (uses) | 410,000        | 151,014          | (258,986)                                   |
| Appropriated fund balance            | <u>272,764</u> | <u>-</u>         | <u>(272,764)</u>                            |
| Net change in fund balance           | <u>-</u>       | 268,237          | <u>268,237</u>                              |
| Fund Balance                         |                |                  |   |
| Beginning of year                    |                | <u>1,775,064</u> |   |
| End of year                          |                | <u>2,043,301</u> |   |

**CITY OF SOUTHPORT, NORTH CAROLINA**  
**CAPITAL RESERVE FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
**For the Year Ended June 30, 2017**

EXHIBIT B-2

|                                    | <u>Budget</u> | <u>Actual</u> | <u>Variance<br/>Positive<br/>(Negative)</u> |
|------------------------------------|---------------|---------------|---|
| Revenues                           |               |               |   |
| Investment earnings                |               |               |   |
| Interest income                    | -             | 354           | 354   |
|                                    | <hr/>         | <hr/>         | <hr/>                                       |
| Total revenues                     | -             | 354           | 354   |
|                                    | <hr/>         | <hr/>         | <hr/>                                       |
| Revenues over (under) expenditures | -             | 354           | 354   |
|                                    | <hr/>         | <hr/>         | <hr/>                                       |
| Net change in fund balance         | -             | 354           | 354   |
|                                    | <hr/> <hr/>   | <hr/> <hr/>   | <hr/> <hr/>                                 |
| Fund Balance                       |               |               |   |
| Beginning of year                  |               | 164,267       |   |
|                                    |               | <hr/>         |   |
| End of year                        |               | 164,621       |   |
|                                    |               | <hr/>         |   |

**CITY OF SOUTHPORT, NORTH CAROLINA  
BUILDING CAPITAL IMPROVEMENT FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
For the Year Ended June 30, 2017**

EXHIBIT B-3

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

## ENTERPRISE FUNDS

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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.

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

**CITY OF SOUTHPORT, NORTH CAROLINA  
ELECTRIC FUND  
SCHEDULE OF REVENUES, EXPENSES, AND  
SUPPLEMENTAL BUDGET EXPENDITURES - BUDGET AND ACTUAL (NON-GAAP)  
For the Year Ended June 30, 2017**

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

|                                      | <u>Budget</u> | <u>Actual</u> | <u>Variance<br/>Positive<br/>(Negative)</u> |
|--------------------------------------|---------------|---------------|---|
| Revenues                             |               |               |   |
| Operating revenues                   |               |               |   |
| Charges for services                 |               |               |   |
| Electricity sales                    | 7,700,187     | 7,366,246     | (333,941)                                   |
| Underground service                  | 160,000       | 50,625        | (109,375)                                   |
| Load management switches             | -             | -             | -   |
| Service charges                      | 90,000.00     | 53,108.00     | (36,892.00)                                 |
| Total charges for services           | 7,950,187     | 7,469,979     | (480,208)                                   |
| Other operating revenues             |               |               |   |
| Miscellaneous                        | -             | -             | -   |
| Total operating revenues             | 7,950,187     | 7,469,979     | (480,208)                                   |
| Nonoperating revenues                |               |               |   |
| Interest on investments              | 3,000         | 9,129         | 6,129                                       |
| Total nonoperating revenues          | 3,000         | 9,129         | 6,129                                       |
| Total revenues                       | 7,953,187     | 7,479,108     | (474,079)                                   |
| Expenditures                         |               |               |   |
| Expenditures other than depreciation |               |               |   |
| Salaries                             | 240,375       | 238,743       |   |
| Employee overtime                    | -             | 49            |   |
| Professional services                | 19,500        | 16,509        |   |
| Social security                      | 19,544        | 17,888        |   |
| Group insurance                      | 70,428        | 70,535        |   |
| Retirement                           | 19,126        | 17,283        |   |
| 401 (k) retirement supplement        | 12,834        | 11,715        |   |
| Workers compensation insurance       | 5,306         | 5,305         |   |
| Uniforms and protective gear         | 1,000         | 957           |   |
| Telephone and postage                | 13,500        | 12,846        |   |
| Utilities                            | 1,800         | 1,710         |   |
| Travel and training                  | 4,698         | 2,638         |   |

**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, 2017**

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

|   | <u>Budget</u>    | <u>Actual</u>    | <u>Variance<br/>Positive<br/>(Negative)</u> |
|---|------------------|------------------|---|
| Expenditures  |                  |                  |   |
| Expenditures other than depreciation                        |                  |                  |   |
| Equipment maintenance                                       | 1,000            | 58,222           |   |
| Vehicle maintenance   | 1,000            | 312              |   |
| Gas, oil and tires  | 1,500            | 1,271            |   |
| Departmental supplies                                       | 11,083           | 8,108            |   |
| Utility sales tax   | 503,751          | 474,769          |   |
| Power purchased   | 4,811,257        | 4,663,066        |   |
| Billing contract  | -                | 184,416          |   |
| Contract services   | 732,692          | 505,033          |   |
| Insurance and bonding                                       | 4,362            | 4,362            | -   |
| Total expenditures other than depreciation                  | <u>6,474,756</u> | <u>6,295,737</u> | <u>179,019</u>                              |
| Supplemental budget expenditures                            |                  |                  |   |
| Capital outlay  | 1,482,806        | 548,884          | -   |
| Total supplemental expenditures                             | <u>1,482,806</u> | <u>548,884</u>   | <u>933,922</u>                              |
| Total expenditures  | <u>7,957,562</u> | <u>6,844,621</u> | <u>1,112,941</u>                            |
| Excess of revenues over (under) expenditures                | <u>(4,375)</u>   | <u>634,487</u>   | <u>638,862</u>                              |
| Other financing sources (uses)                              |                  |                  |   |
| Appropriated fund balance                                   | 4,375            | -                | (4,375)                                     |
| Transfers to other funds                                    |                  |                  |   |
| Transfer to General Fund                                    | -                | (75,507)         | (75,507)                                    |
| Other financing sources over (under) uses                   | <u>4,375</u>     | <u>(75,507)</u>  | <u>(79,882)</u>                             |
| Revenues and other sources over expenditures and other uses | <u>-</u>         | <u>558,980</u>   | <u>558,980</u>                              |

**CITY OF SOUTHPORT, NORTH CAROLINA**  
**ELECTRIC FUND**  
**SCHEDULE OF REVENUES, EXPENSES, AND**  
**SUPPLEMENTAL BUDGET EXPENDITURES - BUDGET AND ACTUAL (NON-GAAP)**  
**For the Year Ended June 30, 2017**

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

|  | <u>Budget</u> | <u>Actual</u>  | <u>Variance<br/>Positive<br/>(Negative)</u> |
|--|---------------|----------------|---|
| Reconciliation of modified accrual<br>basis to full accrual basis:               |               |                |   |
| Excess of revenues and other sources<br>over (under) expenditures and other uses |               | 558,980        |   |
| Depreciation   |               | (279,095)      |   |
| Total supplemental budget expenditures   |               | 548,884        |   |
| Increase in deferred outflows of resources - pensions                            |               | 47,050         |   |
| Increase in net pension liability  |               | (56,749)       |   |
| Decrease in deferred inflows of resources - pensions                             |               | 5,335          |   |
| (Increase) decrease in unfunded OPEB liability                                   |               | (44,593)       |   |
| (Increase) decrease in accrued vacation  |               | <u>(1,250)</u> |   |
| Change in net position   |               | <u>778,562</u> |   |

**CITY OF SOUTHPORT, NORTH CAROLINA  
WATER AND SEWER FUND  
SCHEDULE OF REVENUES, EXPENSES, AND  
SUPPLEMENTAL BUDGET EXPENDITURES - BUDGET AND ACTUAL (NON-GAAP)  
For the Year Ended June 30, 2017**

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

|                                      | <u>Budget</u>    | <u>Actual</u>    | <u>Variance<br/>Positive<br/>(Negative)</u> |
|--------------------------------------|------------------|------------------|---|
| Revenues                             |                  |                  |   |
| Operating revenues                   |                  |                  |   |
| Charges for services                 |                  |                  |   |
| Water and sewer services             | 3,267,000        | 2,935,102        | (331,898)                                   |
| Water and sewer tap fees             | <u>20,000</u>    | <u>35,100</u>    | <u>15,100</u>                               |
| Total charges for services           | 3,287,000        | 2,970,202        | (316,798)                                   |
| Other operating revenues             |                  |                  |   |
| Miscellaneous                        | <u>-</u>         | <u>8,607</u>     | <u>8,607</u>                                |
| Total operating revenues             | <u>3,287,000</u> | <u>2,978,809</u> | <u>(308,191)</u>                            |
| Nonoperating revenues                |                  |                  |   |
| Interest on investments              | 3,000            | 4,312            | 1,312                                       |
| Availability fees                    | <u>195,000</u>   | <u>469,112</u>   | <u>274,112</u>                              |
| Total nonoperating revenues          | <u>198,000</u>   | <u>473,424</u>   | <u>275,424</u>                              |
| Total revenues                       | <u>3,485,000</u> | <u>3,452,233</u> | <u>(32,767)</u>                             |
| Expenditures                         |                  |                  |   |
| Expenditures other than depreciation |                  |                  |   |
| Salaries                             | 385,124          | 376,987          |   |
| Employee overtime                    | -                | 1,571            |   |
| Professional fees                    | 36,000           | 34,293           |   |
| Social security                      | 29,210           | 28,004           |   |
| Group insurance                      | 109,080          | 109,323          |   |
| Retirement                           | 26,730           | 27,549           |   |
| 401 (k) retirement supplement        | 23,601           | 18,799           |   |
| Workers compensation insurance       | 9,700            | 9,939            |   |
| Uniforms and protective gear         | 6,900            | 7,089            |   |
| Telephone and postage                | 25,500           | 25,894           |   |
| Utilities                            | 43,200           | 49,530           |   |
| Travel and training                  | 8,846            | 8,674            |   |

**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, 2017**

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

|  | <u>Budget</u>    | <u>Actual</u>         | <u>Variance<br/>Positive<br/>(Negative)</u> |
|--|------------------|-----------------------|---|
| Expenditures   |                  |                       |   |
| Expenditures other than depreciation                                   |                  |                       |   |
| Equipment repair   | 20,500           | 38,501                |   |
| Vehicle repair   | 3,000            | 2,317                 |   |
| Sewer system repairs   | 145,798          | 124,826               |   |
| Gas, oil and tires   | 8,200            | 9,384                 |   |
| Water and sewer supplies   | 92,559           | 91,969                |   |
| Annual permits and fees  | 6,200            | 4,400                 |   |
| Water purchases  | 698,096          | 467,184               |   |
| Sewer capital charge   | 750,000          | 750,000               |   |
| Contract services  | 463,800          | 450,100               |   |
| Insurance and bonding  | <u>8,703</u>     | <u>8,703</u>          | <u>-</u>                                    |
| Total expenditures other than depreciation                             | <u>2,900,747</u> | <u>2,645,036</u>      | <u>255,711</u>                              |
| Supplemental budget expenditures                                       |                  |                       |   |
| Capital outlay   | 598,603          | 481,312               | 117,291                                     |
| Long-term debt payments  | 119,963          | 103,401               | 16,562                                      |
| Interest expense   | <u>-</u>         | <u>15,056</u>         | <u>(15,056)</u>                             |
| Total supplemental expenditures  | <u>718,566</u>   | <u>599,769</u>        | <u>118,797</u>                              |
| Total expenditures   | <u>3,619,313</u> | <u>3,244,805</u>      | <u>374,508</u>                              |
| Revenues over (under) expenditures                                     | <u>(134,313)</u> | <u>207,428</u>        | <u>341,741</u>                              |
| Other financing sources (uses)   |                  |                       |   |
| Fund balance appropriated  | <u>134,313</u>   | <u>-</u>              | <u>(134,313)</u>                            |
| Transfer to other funds  |                  |                       |   |
| Transfer to General Fund   | <u>-</u>         | <u>(75,507)</u>       | <u>(75,507)</u>                             |
| Other financing sources over (under) uses                              | <u>134,313</u>   | <u>(75,507)</u>       | <u>(209,820)</u>                            |
| Revenues and other sources over (under)<br>expenditures and other uses | <u><u>-</u></u>  | <u><u>131,921</u></u> | <u><u>131,921</u></u>                       |

**CITY OF SOUTHPORT, NORTH CAROLINA**  
**WATER AND SEWER FUND**  
**SCHEDULE OF REVENUES, EXPENSES, AND**  
**SUPPLEMENTAL BUDGET EXPENDITURES - BUDGET AND ACTUAL (NON-GAAP)**  
**For the Year Ended June 30, 2017**

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

|  | <u>Budget</u> | <u>Actual</u>      | <u>Variance<br/>Positive<br/>(Negative)</u> |
|--|---------------|--------------------|---|
| Reconciliation of modified accrual<br>basis to full accrual basis: |               |                    |   |
| Revenues and other sources over<br>expenditures and other uses     |               | 131,921            |   |
| Principal retirement   |               | 103,401            |   |
| Capital outlay   |               | 481,312            |   |
| Depreciation   |               | (471,469)          |   |
| (Increase) decrease in accrued vacation pay                        |               | 755                |   |
| (Increase) decrease in interest payable                            |               | 247                |   |
| Increase in deferred outflows of resources - pensions              |               | 78,088             |   |
| Increase in net pension liability                                  |               | (90,432)           |   |
| Decrease in deferred inflows of resources - pensions               |               | 7,630              |   |
| (Increase) decrease in OPEB liability                              |               | <u>(34,027)</u>    |   |
| <br>Change in net position of Water and Sewer Fund                 |               | <br><u>207,426</u> |   |

## OTHER SCHEDULES

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

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

**CITY OF SOUTHPORT**  
**SCHEDULE OF AD VALOREM TAXES RECEIVABLE**  
**June 30, 2017**

**EXHIBIT D-1**

| <u>Fiscal Year</u>                                | <u>Uncollected<br/>Balance<br/>June 30, 2016</u> | <u>Additions</u> | <u>Collections<br/>and Credits</u> | <u>Uncollected<br/>Balance<br/>June 30, 2017</u> |
|---|--|------------------|------------------------------------|--|
| 2016 - 2017                                       |  | 1,947,691        | 1,911,781                          | 35,910   |
| 2015 - 2016                                       | 49,267   |                  | 29,160                             | 20,107   |
| 2014 - 2015                                       | 29,651   |                  | 11,518                             | 18,133   |
| 2013 - 2014                                       | 25,491   |                  | 6,882                              | 18,609   |
| 2012 - 2013                                       | 20,961   |                  | 5,021                              | 15,940   |
| 2011 - 2012                                       | 17,444   |                  | 2,929                              | 14,515   |
| 2010 - 2011                                       | 26,462   |                  | 798                                | 25,664   |
| 2009 - 2010                                       | 11,279   |                  | 537                                | 10,742   |
| 2008 - 2009                                       | 5,528  |                  | 275                                | 5,253  |
| 2007 - 2008                                       | 3,618  |                  | 247                                | 3,371  |
| 2006 - 2007                                       | 2,205  | -                | 2,205                              | -  |
| Total   | <u>191,906</u>                                   | <u>1,947,691</u> | <u>1,971,353</u>                   | <u>168,244</u>                                   |
| Less allowance for uncollectible taxes receivable |  |                  |                                    | <u>25,237</u>                                    |
| Ad Valorem taxes receivable - net                 |  |                  |                                    | <u>143,007</u>                                   |
| Reconcilement with revenues                       |  |                  |                                    |  |
| Taxes - ad valorem - General Fund                 |  |                  |                                    | 1,982,091  |
| Amounts written off for tax year                  |  |                  |                                    |  |
| 2006 - 2007 per statute of limitations            |  |                  |                                    | 2,205  |
| Releases and adjustments                          |  |                  |                                    | <u>1,316</u>                                     |
| Subtotal  |  |                  |                                    | 1,985,612  |
| Less: Interest collected                          |  |                  |                                    | <u>14,259</u>                                    |
| Total collections and credits                     |  |                  |                                    | <u>1,971,353</u>                                 |

**CITY OF SOUTHPORT, NORTH CAROLINA  
ANALYSIS OF CURRENT TAX LEVY  
CITY-WIDE LEVY  
June 30, 2017**

**EXHIBIT D-2**

|                                    | City-Wide                     |             |                       | Total Levy  |  |
|------------------------------------|-------------------------------|-------------|-----------------------|---|--|
|                                    | <u>Property<br/>Valuation</u> | <u>Rate</u> | <u>Total<br/>Levy</u> | <u>Property<br/>Excluding<br/>Registered<br/>Motor<br/>Vehicles</u> | <u>Registered<br/>Motor<br/>Vehicles</u> |
| Original Levy:                     |                               |             |                       |   |  |
| Property taxed at current rate     | 784,153,502                   | 0.002456    | 1,925,881             | 1,820,776   | 105,105                                  |
| Total                              | 784,153,502                   |             | 1,925,881             | 1,820,776   | 105,105                                  |
| Discoveries                        |                               |             |                       |   |  |
| Current year taxes                 | 7,768,730                     | 0.002456    | 19,080                | 18,965  | 115                                      |
| Penalties                          | -                             |             | 2,730                 | 2,730   | -  |
| Total valuation                    | <u>791,922,231</u>            |             |                       |   |  |
| Net levy                           |                               |             | 1,947,691             | 1,842,471   | 105,220                                  |
| Uncollected taxes at June 30, 2017 |                               |             | 35,910                | 35,909  | 1  |
| Current year's taxes collected     |                               |             | <u>1,911,781</u>      | <u>1,806,562</u>  | <u>105,219</u>                           |
| Current levy collection percentage |                               |             | <u>98.16%</u>         | <u>98.05%</u>   | <u>100.00%</u>                           |

SUPPLEMENTARY INFORMATION:

COMPLIANCE SECTION

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

INDEPENDENT AUDITOR'S REPORT

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Southport, North Carolina, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprises the City of Southport's basic financial statements, and have issued our report thereon dated June 11, 2018.

Internal Control Over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses: 17-1 and 17-2.

A significant deficiency is a deficiency or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant weaknesses: 17-3 and 17-4.

Compliance and Other Matters

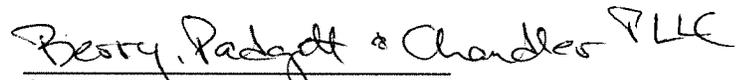
As part of obtaining reasonable assurance about whether the City of Southport's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material 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 the following instances of noncompliance or other matters that are required to be reported under *Government Auditing: Finding 17-4*.

City of Southport's Response to Findings

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

Purpose of this Report

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

  
Certified Public Accountants

Southport, North Carolina 28461  
June 11, 2018

**City of Southport, North Carolina  
Schedule of Findings and Questioned Costs  
For the Fiscal Year Ended June 30, 2017**

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

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness identified? Xyes      \_\_\_no
  
- Significant Deficiencies identified that are not considered to be material weaknesses Xyes      \_\_\_no
  
- Noncompliance material to financial statements noted \_\_\_yes      Xno

II. Financial Statement Findings

**MATERIAL WEAKNESS**

**Finding 17-1 Bank Accounts, Ad Valorem Taxes and Utility Revenues and Receivables Not Timely Reconciled to the General Ledger**

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

Condition: Bank accounts, ad valorem taxes and utility revenues and receivable accounts were not timely reconciled every month.

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

Cause: Failure to follow and enforce city policy.

Identification of a repeat finding: This is a repeat finding from the previous two years: 16-1 and 15-2.

Recommendation: Reconcile accounts in time to present to the board and management reconciled monthly reports.

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

**Finding 17-2 Failure to File Timely Audit Report**

Criteria: The Local Government Commission requires that audited financial statements are submitted to them no later than October 31 following the financial year-end.

Condition: Audited financial statements were submitted to the Local Government Commission significantly later than the due date.

**City of Southport, North Carolina  
Schedule of Findings and Questioned Costs  
For the Fiscal Year Ended June 30, 2017**

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

Effect: The Local Government Commission cannot timely monitor the financial condition of the City to fulfill their responsibility to the State Treasurer and the State Legislature. The governing body and management do not have timely information for monitoring, oversight and planning.

Cause: Failure to timely provide reconciliations of cash, accounts receivable ledgers.

Recommendation: Establish a given time to have subsidiary ledgers, general ledger and financial statements reconciled soon after month-end each month.

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

**SIGNIFICANT DEFICIENCIES**

**Finding 17- 3 Lack of Written Internal Control Policies and Procedures**

Criteria: *Standards for Internal Controls in the Federal Government* (Green Book) requires units receiving and spending federal monies have internal controls in writing.

Condition: Lack of written internal control policies and procedures.

Effect: Potential to be denied funding or reimbursement of federal grant funds expended.

Cause: Failure to codify internal controls.

Recommendation: Codify internal controls.

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

**Finding 17 – 4 Expenditures in Excess of Appropriations**

Criteria: G.S. 159-8(a) states that all moneys received and expended by a local government or public authority should be included in the budget ordinance.

Condition: The City of Southport expended funds in excess of amounts appropriated in the annual budget ordinance.

Effect: Funds expended that had not been appropriated in the budget jeopardizes the financial position of the City.

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

Recommendation: Budget amendments should be adopted prior to expenditures of funds.

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

**City of Southport, North Carolina  
Corrective Action Plan  
For the Year Ended June 30, 2017**

**Exhibit E-2**

I. Financial Statement Findings

**Finding 17-1**

Name of contact person: Melanie Trexler, Finance Officer

Corrective Action: Will train staff to timely reconcile subsidiary ledgers to the general ledger.

Proposed completion date: August 31, 2018

**Finding 17-2**

Name of contact person: Melanie Trexler, Finance Officer

Corrective Action: To timely provide required information.

Proposed completion date: August 31, 2018

**Finding 17-3**

Name of contact person: Melanie Trexler, Finance Officer

Corrective Action: To provide an internal control document for board adoption.

Proposed completion date: October 31, 2018

**Finding 17-4**

Name of contact person: Melanie Trexler, Finance Officer

Corrective Action: To closely monitor budget expenditures and pre-audit requirements.

Proposed completion date: June 30, 2019

**City Of Southport, North Carolina  
Summary Schedule of Prior Year Findings  
For the Year Ended June 30, 2017**

**Exhibit E-3**

**Finding: 2015-2**

Status: The condition continues.

**Finding: 2016-1**

Status: The condition continues.

**Finding: 2016-2**

Status: The condition has been corrected.