

CITY OF SOUTHPORT

Southport, North Carolina

AUDITED FINANCIAL STATEMENTS

June 30, 2018

BOARD OF ALDERMEN

JV Dove, Mayor  
Todd Coring, Mayor Pro Tem  
Karen Mosteller  
James F. Powell, III  
Rick Pukenas  
Mark Spencer  
Lora Sharkey

ADMINISTRATIVE AND FINANCIAL STAFF

Bruce Oakley, City Manager  
Melanie Trexler, Finance Director  
Michele Windham, City Clerk

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FINANCIAL SECTION

Independent Auditors' Report

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

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Southport, North Carolina, as of and for the year ended June 30, 2018, 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***

### ***Basis for Qualified Opinion on Governmental Activities and General Fund***

In July 2018, two members of the Police Department were indicted for various charges, which included being paid for their duties as employees of the City while they actually had other employment at other locations. The effect on the expenditures and fund balance of the General Fund has not been determined.

### ***Qualified Opinion***

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion on Governmental Activities and General Fund" paragraph, the financial statements present fairly, in all material respects, the financial position of the governmental activities and the General Fund of the City of Southport, North Carolina, as of June 30, 2018, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Unmodified Opinions***

In our opinion, based on our audit, and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of 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, 2018, and the respective changes in financial position and cash flows, where appropriate, thereof 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 Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability and Contributions on Exhibits A-1 and A-2, 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-3 and A-4, and the Firefighters' Supplemental Retirement Plan Schedule of Changes in Total Pension Liability on Exhibit A-5 and the Other Postemployment Benefits' Schedule of Changes in the Total OPEB Liability and Related Ratios on Exhibit A-6 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

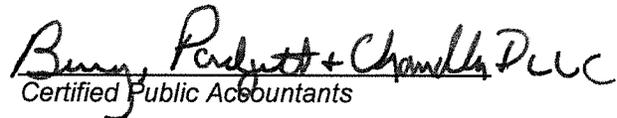
### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the City of Southport, North Carolina. The combining and individual fund statements, budgetary schedules, and other schedules, are presented for 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 October 24, 2019 on our consideration of City of Southport's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Southport's internal control over financial reporting and compliance.

  
Certified Public Accountants

Southport, North Carolina  
October 24, 2019

## 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, 2018. 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 \$39,449,783 even after required restatements due to GASB 75, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions" resulted in a significant increase in total liabilities.
- Governmental activities revenues exceeded expenses by \$1,157,836, while Business-type activities revenues exceeded expenses by \$1,064,606.
- As of the close of the current fiscal year, the City of Southport's governmental funds reported combined ending fund balances of \$3,091,119 with a net increase of \$881,923 in fund balance. Approximately 37.26% of this total amount, or \$1,151,622, is non-spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,642,279, or 26.9% of total general fund expenditures for the fiscal year.
- The City of Southport's total debt increased by \$97,836 (1.02%) during the current fiscal year. The key factor in this debt increase was the increase in installment notes payable for the purchase of a new fire truck.

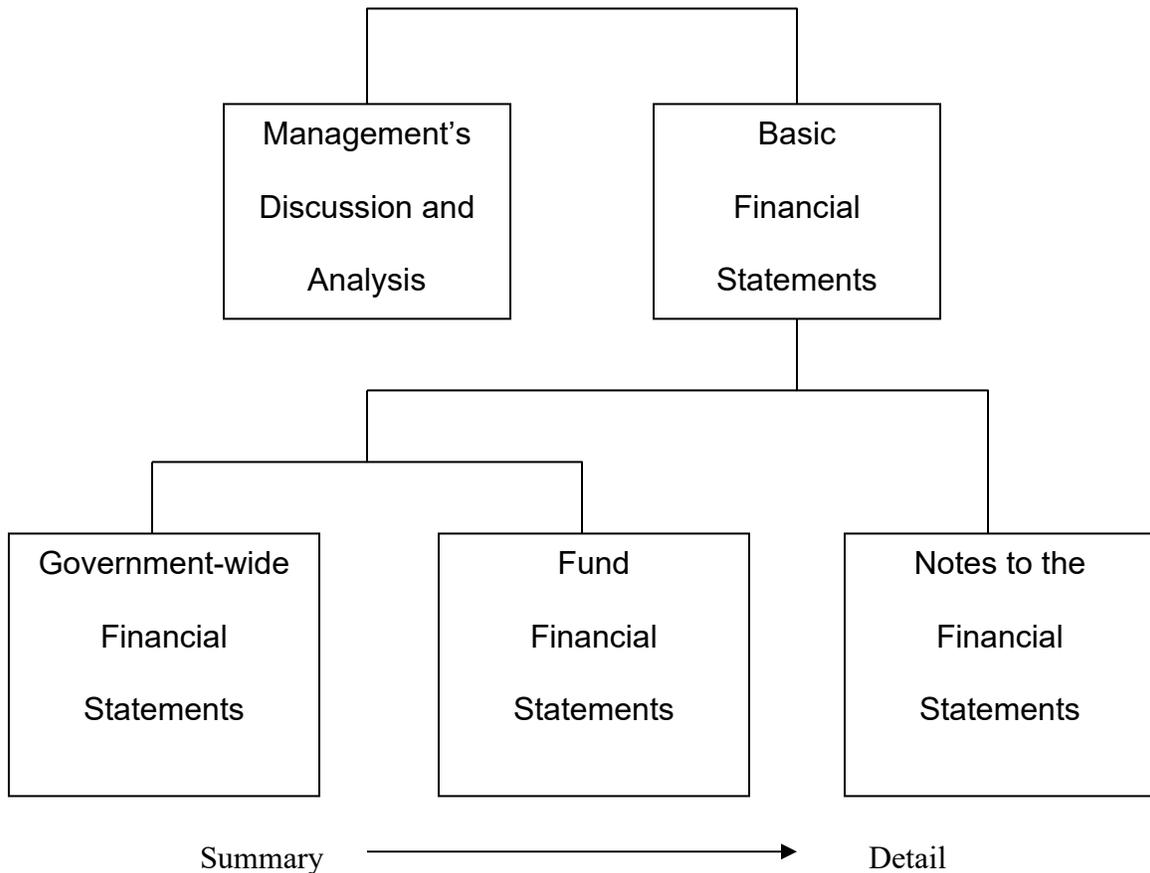
### **Overview of the Financial Statements**

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, and proprietary funds.

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

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

**Proprietary Funds** – City of Southport has one 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 Activities		Business Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 3,467,092	\$ 2,619,869	\$ 8,457,147	\$ 7,324,115	\$ 11,924,239	\$ 9,943,984
Capital assets	14,554,990	13,917,230	23,711,274	23,628,315	38,266,264	37,545,545
Deferred outflows of resources	611,728	470,427	153,267	171,064	764,995	641,491
Total assets and deferred outflows of resources	18,633,810	17,007,526	32,321,688	31,123,494	50,955,498	48,131,020
Long-term liabilities outstanding	6,816,560	4,739,476	2,354,593	1,722,893	9,171,153	6,462,369
Other liabilities	686,154	582,431	1,326,971	1,576,736	2,013,125	2,159,167
Deferred inflows of resources	228,827	43,663	92,610	8,015	321,437	51,678
Total liabilities and deferred inflows of resources	7,731,541	5,365,570	3,774,174	3,307,644	11,505,715	8,673,214
Net position:						
Net investment in capital assets	12,259,901	11,408,724	22,708,482	22,522,122	34,968,383	33,930,846
Restricted	1,151,622	1,000,261	1,761,435	1,251,005	2,913,057	2,251,266
Unrestricted	(2,509,254)	(767,029)	4,077,597	4,042,723	1,568,343	3,275,694
Total net position	\$ 10,902,269	\$ 11,641,956	\$ 28,547,514	\$ 27,815,850	\$ 39,449,783	\$ 39,457,806

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 \$39,449,783 as of June 30, 2018. The City's net position decreased by \$(8,023) for the fiscal year ended June 30, 2018. However, the largest portion (88.6%) 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, \$2,913,057, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$1,568,343 is unrestricted.

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

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 98.16%. The statewide average in fiscal year 2018 was 98.78%.
- Property tax revenues increased by \$512,861 due to an increase in the property tax rate of 5 cents per \$100 of value. Other tax revenues of approximately \$71,900 increased due to tourism growth in the City.

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

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 2,102,468	\$ 1,619,465	\$11,163,238	\$10,440,226	\$13,265,706	\$12,059,691
Operating grants and contributions	279,451	464,253	38,996	8,562	318,447	472,815
Capital grants and contributions	-	24,840	229,450	469,112	229,450	493,952
General revenues:						
Property taxes	2,477,454	1,964,593	-	-	2,477,454	1,964,593
Other taxes	1,026,928	955,028	-	-	1,026,928	955,028
Not restricted to specific programs	668,945	658,703	-	-	668,945	658,703
Unrestricted Investment earnings	11,488	3,874	37,504	13,441	48,992	17,315
Other	210,047	58,238	-	-	210,047	58,238
Total revenues	6,776,781	5,748,994	11,469,188	10,931,341	18,245,969	16,680,335
<b>Expenses:</b>						
General government	1,666,561	1,714,247	-	-	1,666,561	1,714,247
Public safety	2,796,896	2,594,629	-	-	2,796,896	2,594,629
Transportation	462,299	603,412	-	-	462,299	603,412
Environmental protection	234,718	249,181	-	-	234,718	249,181
Cultural and recreation	489,962	478,553	-	-	489,962	478,553
Interest on long-term debt	71,387	72,208	-	-	71,387	72,208
Water and sewer	-	-	3,363,586	3,169,300	3,363,586	3,169,300
Electric	-	-	6,938,118	6,625,039	6,938,118	6,625,039
Total expenses	5,721,823	5,712,230	10,301,704	9,794,339	16,023,527	15,506,569
Change in net position before transfers	1,054,958	36,764	1,167,484	1,137,002	2,222,442	1,173,766
Transfers	102,878	151,014	(102,878)	(151,014)	-	-
Change in net position	1,157,836	187,778	1,064,606	985,988	2,222,442	1,173,766
Net position, July 1 previously reported	11,641,956	12,072,291	27,815,850	26,829,862	39,457,806	38,902,153
Restatement	(1,897,523)	(618,113)	(332,942)	-	(2,230,465)	(618,113)
Net position, beginning, restated	9,744,433	11,454,178	27,482,908	26,829,862	37,227,341	38,284,040
Net position, June 30	\$10,902,269	\$11,641,956	\$28,547,514	\$27,815,850	\$39,449,783	\$39,457,806

**Governmental activities.** Governmental activities revenues exceeded expenses by \$1,157,836 thereby accounting for 52% of the total change in net position. The City's population growth continues to grow at a rate of 6%. The increase in the tax base and property tax rate caused a favorable impact on the net position. Tourism has had a favorable impact on the sales tax collections. Capital grants from FEMA covered the cost of damages from Hurricane Matthew. City management acknowledges that 2018 was a successful year and plans on improving upon these approaches as a long-term strategy to realize continued fiscal health.

**Business-type activities.** Business-type activities revenues exceeded expenses by \$1,064,606 accounting for 48% of the total change in net position.

Key elements of this increase are as follows:

- The City's Electric Fund net position increased by \$833,685 due to an increase in usage for the year. There were no rate changes.

- The City's Water and Sewer fund recognized a change in net position of \$230,921. Capital contributions of availability fees accounted for 99% of the change. Sewer rates structure was simplified, with an increase of the rates on average of 12.5%. There will be increases in the sewer rates in the future for the construction of a wastewater treatment plant.

### **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 \$1,642,279, while total fund balance reached \$3,091,119. The City currently has an available fund balance of 26.9% of general fund expenditures, and total fund balance represents 50.6% 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 \$(528,063), and for the Electric Fund, \$4,605,660. The total change in net position for the Water and Sewer and the Electric Funds was \$230,921 and \$833,685, respectively. The change in net position in the Water and Sewer Fund is a result of collections of Availability fees and an increase in the sewer rates.

### **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, 2018, totals \$38,266,264 (net of accumulated depreciation). These assets include buildings, roads, land, machinery and equipment, park facilities, and vehicles.

Major capital asset transactions during the year include the following:

- Purchase of a backhoe \$108,290.
- Drainage project in the Yacht Basin and improvements to the bulkhead along Bay street at a cost of \$233,502.

- Fiber Optics to City buildings at a cost of \$103,991.
- Electric Underground infrastructure at a cost of \$503,383.

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

**Figure 4**

	Governmental Activities		Business-Type Activities		Totals	
	2018	2017	2018	2017	2018	2017
Land	\$2,917,452	\$2,519,952	\$2,827,985	\$2,827,985	\$5,745,437	\$5,347,937
Buildings	7,411,544	7,489,983	75,614	77,510	7,487,158	7,567,493
Improvements other than buildings	454,233	496,463	-	-	454,233	496,463
Utility systems	-	-	20,270,275	20,137,106	20,270,275	20,137,106
Furniture and equipment	465,632	486,764	274,261	373,832	739,893	860,596
Infrastructure	2,475,735	2,257,962	-	-	2,475,735	2,257,962
Vehicles and motorized equipment	731,996	652,277	250,639	198,269	982,635	850,546
Construction in progress	98,398	13,829	12,500	13,613	110,898	27,442
<b>Total</b>	<b>\$14,554,990</b>	<b>\$13,917,230</b>	<b>\$23,711,274</b>	<b>\$23,628,315</b>	<b>\$38,266,264</b>	<b>\$37,545,545</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, 2018, the City of Southport had total debt from financing of assets outstanding of \$3,723,192 in installment debt and \$24,689 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.

**Figure 5  
Outstanding Debt**

	Governmental Activities		Business Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Installment notes payable	\$ 2,720,400	\$ 2,459,600	\$ 1,002,792	\$ 1,106,193	\$ 3,723,192	\$ 3,565,793
Capitalized leases	24,689	48,906	-	-	24,689	48,906
Compensated absences	172,282	141,726	22,611.00	18,803.00	194,893	160,529
Postemployment benefits	3,028,950	3,107,085	1,275,856.00	1,310,655.00	4,304,806	4,417,740
Pension related debt (LGERS)	378,579	472,627	167,735.00	202,063.00	546,314	674,690
Pension related debt (LEO)	204,305	127,190	-	-	204,305	127,190
Pension related debt (Fire)	667,767	573,282	-	-	667,767	573,282
<b>Total</b>	<b>\$ 7,196,972</b>	<b>\$ 6,930,416</b>	<b>\$ 2,468,994</b>	<b>\$ 2,637,714</b>	<b>\$ 9,665,966</b>	<b>\$ 9,568,130</b>

## **City of Southport's Outstanding Debt**

The City of Southport's total debt increased by \$97,836 (1.02%) during the past fiscal year, primarily due to the increase in installment notes payable for the purchase of a new fire truck.

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 \$66,349,337.

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 tax and occupancy tax is growing annually as a result of the advertisements.
- Property tax increase of 5cent on \$100 of value impacted the fund balance growth.
- Property reevaluations will take place for next year's budget.

## **Budget Highlights for the Fiscal Year Ending June 30, 2019**

**Governmental Activities:** Property taxes (benefiting from the economic growth and tax rate increase and reevaluation of values) and revenues from local option sales tax are expected to lead the increase in budgeted revenue. The City will use these increases in revenues to finance programs currently in place and to replenish the general fund balance.

Budgeted expenditures in the General Fund are expected to remain flat. The largest increments are in employee compensation, including compensation and benefits adjustments.

The City has chosen to appropriate fund balance in the fiscal year 2019 budget for projects in process at year end. Management believes that increased revenues and continued restrictions on spending will maintain the City's financial position. 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 33%, primarily to cover increased costs of debt service upon the completion of the Waste Water Treatment Plant to be built. General operating expenses will increase by 2% to cover increased personnel costs, and 2.5% to cover

increased costs of material, supplies, and other operating expenses. Rates for electricity will remain unchanged. City continues to implement an overhead to underground program throughout the city and encourages citizens to participate in the load management program to aid in controlling cost of electricity for the citizens and 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 28461. One can also call (910)457-7900, visit our website [www.CityofSouthport.com](http://www.CityofSouthport.com) or send an email to [www.SouthportNC.com](http://www.SouthportNC.com) for more information.

## BASIC FINANCIAL STATEMENTS

**CITY OF SOUTHPORT, NORTH CAROLINA**  
**STATEMENT OF NET POSITION**  
**June 30, 2018**

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

	<u>Primary Government</u>			<u>Component Unit</u>
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	<u>Southport ABC Board</u>
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	2,171,173	5,219,374	7,390,547	375,063
Taxes receivable (net)	103,918	-	103,918	
Accounts receivable	12,449	1,177,717	1,190,166	-
Accrued interest receivable on taxes	39,777		39,777	
Due from other governments	416,806	-	416,806	
Due from component unit	93,371		93,371	
Inventories				258,360
Prepaid expenses	-		-	10,422
Restricted cash and cash equivalents	629,598	2,060,056	2,689,654	
Total current assets	<u>3,467,092</u>	<u>8,457,147</u>	<u>11,924,239</u>	<u>643,845</u>
Non-current assets				
Capital assets				
Land, non-depreciable improvements, and construction in progress	3,015,850	2,840,485	5,856,335	4,600
Other capital assets, net of depreciation	11,539,140	20,870,789	32,409,929	206,144
Total capital assets	<u>14,554,990</u>	<u>23,711,274</u>	<u>38,266,264</u>	<u>210,744</u>
Total non-current assets	<u>14,554,990</u>	<u>23,711,274</u>	<u>38,266,264</u>	<u>210,744</u>
Total Assets	<u>18,022,082</u>	<u>32,168,421</u>	<u>50,190,503</u>	<u>854,589</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Pension deferrals	476,622	126,676	603,298	39,838
OPEB deferrals	135,106	26,591	161,697	4,890
Total deferred outflows of resources	<u>611,728</u>	<u>153,267</u>	<u>764,995</u>	<u>44,728</u>
<b>LIABILITIES</b>				
Current liabilities				
Accounts payable and accrued expenses	230,051	911,969	1,142,020	289,138
Customer deposits	1,845	124,651	126,496	
Accrued interest	73,846	1,980	75,826	-
Due to primary government				93,371
Payable from restricted assets	-	173,970	173,970	
Current portion of long-term liabilities	380,412	114,401	494,813	30,564
Total current liabilities	<u>686,154</u>	<u>1,326,971</u>	<u>2,013,125</u>	<u>413,073</u>
Long-term liabilities				
Net pension liability	378,579	167,735	546,314	37,124
Total pension liability	872,072		872,072	
Total OPEB liability	3,028,950	1,275,856	4,304,806	78,135
Due in more than one year	<u>2,536,959</u>	<u>911,002</u>	<u>3,447,961</u>	<u>48,897</u>
Total liabilities	<u>7,502,714</u>	<u>3,681,564</u>	<u>11,184,278</u>	<u>577,229</u>

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

CITY OF SOUTHPORT, NORTH CAROLINA  
STATEMENT OF NET POSITION  
June 30, 2018

EXHIBIT 1  
Page 2 of 2

	<u>Primary Government</u>			<u>Component Unit</u>
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	<u>Southport ABC Board</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Pension deferrals	33,587	5,828	39,415	1,051
OPEB Deferrals	194,858	86,782	281,640	4,568
Unearned income	382	-	382	-
	<u>228,827</u>	<u>92,610</u>	<u>321,437</u>	<u>5,619</u>
<b>NET POSITION</b>				
Net investment in capital assets	12,259,901	22,708,482	34,968,383	131,284
Restricted for:				
Stabilization by State Statute	523,869		523,869	
Streets-Powell Bill	12,285	-	12,285	-
Other functions	-		-	96,588
Capital outlay	615,468	1,761,435	2,376,903	-
Unrestricted	<u>(2,509,254)</u>	<u>4,077,597</u>	<u>1,568,343</u>	<u>88,597</u>
Total net position	<u>10,902,269</u>	<u>28,547,514</u>	<u>39,449,783</u>	<u>316,469</u>

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

**CITY OF SOUTHPORT, NORTH CAROLINA  
STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2018**

EXHIBIT 2

Functions/Programs	<u>Net (Expense) Revenue and Changes in Net Position</u>							
	Expenses	<u>Program Revenue</u>			<u>Primary Government</u>			<u>Component Unit</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	<u>Southport ABC Board</u>
<b>Primary government</b>								
Governmental Activities								
General Government	1,666,561	530,847	6,887	-	(1,128,827)		(1,128,827)	
Public Safety	2,796,896	1,302,752	156,656	-	(1,337,488)		(1,337,488)	
Transportation	462,299	10,000	113,783	-	(338,516)		(338,516)	
Culture and Recreation	489,962	31,037	2,125	-	(456,800)		(456,800)	
Environmental Protection	234,718	227,832	-	-	(6,886)		(6,886)	
Interest on Long-term debt	71,387	-	-	-	(71,387)		(71,387)	
Total governmental activities	<u>5,721,823</u>	<u>2,102,468</u>	<u>279,451</u>	<u>-</u>	<u>(3,339,904)</u>		<u>(3,339,904)</u>	
Business-type activities								
Electric Operations	6,938,118	7,845,846	2,679	-		910,407	910,407	
Water and Sewer Operations	3,363,586	3,317,392	36,317	229,450		219,573	219,573	
Total business-type activities	<u>10,301,704</u>	<u>11,163,238</u>	<u>38,996</u>	<u>229,450</u>		<u>1,129,980</u>	<u>1,129,980</u>	
Total primary government	<u>16,023,527</u>	<u>13,265,706</u>	<u>318,447</u>	<u>229,450</u>	<u>(3,339,904)</u>	<u>1,129,980</u>	<u>(2,209,924)</u>	
<b>Component Unit</b>								
Southport ABC Board	3,254,514	3,282,533	-	-				28,019
Total component units	<u>3,254,514</u>	<u>3,282,533</u>	<u>-</u>	<u>-</u>				<u>28,019</u>
General revenues:								
Taxes:								
Property taxes, levied for general purposes					2,477,454	-	2,477,454	-
Other taxes					1,026,928	-	1,026,928	-
Grants and contributions not restricted to specific programs					668,945	-	668,945	-
Unrestricted investment earnings					11,488	37,504	48,992	1,981
Miscellaneous					210,047	-	210,047	-
Total general revenues not including transfers					<u>4,394,862</u>	<u>37,504</u>	<u>4,432,366</u>	<u>1,981</u>
Transfers					102,878	(102,878)	-	-
Total general revenues and transfers					<u>4,497,740</u>	<u>(65,374)</u>	<u>4,432,366</u>	<u>1,981</u>
Change in net position					<u>1,157,836</u>	<u>1,064,606</u>	<u>2,222,442</u>	<u>30,000</u>
Net position - beginning as previously reported					11,641,956	27,815,850	39,457,806	130,000
Restatement					(1,897,523)	(332,942)	(2,230,465)	156,469
Net position - beginning restated					<u>9,744,433</u>	<u>27,482,908</u>	<u>37,227,341</u>	<u>286,469</u>
Net position - ending					<u>10,902,269</u>	<u>28,547,514</u>	<u>39,449,783</u>	<u>316,469</u>

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

CITY OF SOUTHPORT, NORTH CAROLINA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2018

EXHIBIT 3  
Page 1 of 2

	<u>Major Fund</u>	<u>Non-Major Funds</u>	
	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash and cash equivalents	2,171,173	-	2,171,173
Restricted cash and cash equivalents	629,598	-	629,598
Taxes receivable, net	103,918	-	103,918
Receivable from other governments	416,806	-	416,806
Receivable from other component unit	93,371	-	93,371
Other receivables	12,449	-	12,449
Total assets	3,427,315	-	3,427,315
<b>LIABILITIES</b>			
Liabilities:			
Accounts payable	127,706	-	127,706
Other accrued expenses	102,345	-	102,345
Customer deposits	1,845	-	1,845
Total liabilities	231,896	-	231,896
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Property taxes receivable	103,918	-	103,918
Prepaid property taxes	382	-	382
Total deferred inflows of resources	104,300	-	104,300
<b>FUND BALANCES</b>			
Restricted			
Stabilization by State Statute	523,869	-	523,869
Streets	12,285	-	12,285
Capital outlay	615,468	-	615,468
Committed			
Fire protection	69,768	-	69,768
Assigned			
Designated for subsequent year	227,450	-	227,450
Unassigned	1,642,279	-	1,642,279
Total fund balances	3,091,119	-	3,091,119
Total liabilities, deferred inflows of resources and fund balances	3,427,315	-	3,427,315

**CITY OF SOUTHPORT, NORTH CAROLINA  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
June 30, 2018**

**EXHIBIT 3  
Page 2 of 2**

Total fund balance, governmental funds	3,091,119
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position.	14,554,990
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Deferred outflows of resources related to pensions are not reported in the funds	476,622
--	---------

Deferred outflows of resources related to OPEB are not reported in the funds	135,106
--	---------

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.	39,777
---	--------

Liabilities for earned revenues considered deferred inflows of resources in fund statements	103,918
---	---------

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	(73,846)	
Capital leases payable	(24,689)	
Installment notes payable	(2,720,400)	
Compensated absences	(172,282)	
Total OPEB liability	(3,028,950)	
Net pension liability (LGERS)	(378,579)	
Total pension liability (Fire)	(667,767)	
Total pension liability (LEO)	(204,305)	
	(7,270,818)	(7,270,818)

Deferred inflows of resources related to pensions are not reported in the funds	(33,587)
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Deferred inflows of resources related to OPEB are not reported in the funds	(194,858)
---	-----------

Net position of governmental activities	10,902,269
---	------------

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, 2018**

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

	<u>Major Fund</u>	<u>Non-Major Funds</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
	<u>General Fund</u>	<u>Other</u> <u>Governmental</u> <u>Funds</u>	
<b>REVENUES</b>			
Property taxes	2,527,070	-	2,527,070
Other taxes	108,555	-	108,555
Unrestricted intergovernmental revenues	1,587,318	-	1,587,318
Restricted intergovernmental revenues	1,111,234	-	1,111,234
Licenses and permits	215,401	-	215,401
Sales and services	524,333	-	524,333
Investment earnings	11,488	-	11,488
Miscellaneous	343,498	-	343,498
Total revenues	<u>6,428,897</u>	<u>-</u>	<u>6,428,897</u>
<b>EXPENDITURES</b>			
Current:			
General government	1,760,222	-	1,760,222
Public safety	2,699,943	-	2,699,943
Transportation	556,115	-	556,115
Environmental protection	234,718	-	234,718
Culture and recreation	564,384	-	564,384
Debt Service:			
Principal	213,417	-	213,417
Interest and other charges	71,053	-	71,053
Total expenditures	<u>6,099,852</u>	<u>-</u>	<u>6,099,852</u>
Excess (deficiency) of revenues over expenditures	<u>329,045</u>	<u>-</u>	<u>329,045</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds from long-term debt, net	450,000	-	450,000
Transfers in	104,152	-	104,152
Transfers out	-	(1,274)	(1,274)
Total other financing sources and uses	<u>554,152</u>	<u>(1,274)</u>	<u>552,878</u>
Net change in fund balances	883,197	(1,274)	881,923
Fund balances - beginning	<u>2,207,922</u>	<u>1,274</u>	<u>2,209,196</u>
Fund balances - ending	<u>3,091,119</u>	<u>-</u>	<u>3,091,119</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, 2018**

Net change in fund balances - total governmental funds: 881,923

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.

This is the amount by which capital outlays \$927,952 exceed depreciation \$687,692 in the current period. 240,260

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 397,500  
Change in unavailable revenue for tax revenues (49,616)

Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities 124,043

Benefit payments paid and Administrative expense for the LEOSSA 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 11,360

OPEB benefit payments and administrative costs made in the current year are not included in the Statement of Activities 122,600

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 213,417  
Proceeds of long-term debt (450,000)  
Change in accrued interest (334)

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:

Compensated absences (30,556)  
Pension expense (145,613)  
Separation allowance (20,790)  
Firefighters' retirement (38,551)  
OPEB plan expense (104,217)

Change in net position of governmental activities 1,157,836

**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, 2018**

**EXHIBIT 5**

	Budgeted Amounts		Actual Amounts	<u>Variance with Final Budget - Positive (Negative)</u>
	Original	Final		
<b>REVENUES</b>				
Ad valorem taxes	2,349,841	2,349,841	2,527,070	177,229
Other taxes	89,300	89,300	108,555	19,255
Unrestricted intergovernmental revenues	1,491,538	1,491,538	1,587,318	95,780
Restricted intergovernmental revenues	1,069,767	1,073,550	1,111,234	37,684
Licenses and permits	195,400	195,400	215,401	20,001
Sales and services	558,000	558,000	524,333	(33,667)
Investment earnings	2,000	2,000	10,673	8,673
Miscellaneous	62,000	263,684	343,498	79,814
Total revenues	5,817,846	6,023,313	6,428,082	404,769
<b>EXPENDITURES</b>				
Current:				
General government	1,862,376	1,908,152	1,760,222	147,930
Public safety	2,975,813	2,982,126	2,699,943	282,183
Transportation	466,659	669,646	556,115	113,531
Environmental protection	240,000	240,000	234,718	5,282
Culture and recreation	438,700	569,150	564,384	4,766
Debt Service:				
Principal	284,298	213,416	213,417	(1)
Interest and other charges	-	71,053	71,053	-
Total expenditures	6,267,846	6,653,543	6,099,852	553,691
Excess (deficiency) of revenues over expenditures	(450,000)	(630,230)	328,230	958,460
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from financing	450,000	450,000	450,000	-
Transfers in	-	-	104,152	104,152
Total other financing sources and uses	450,000	450,000	554,152	104,152
Fund balance appropriated	-	180,230	-	(180,230)
Net change in fund balance	-	-	882,382	882,382
Fund balance - beginning			2,043,301	
Fund balance - ending			2,925,683	
A legally budgeted Capital Reserve Fund is consolidated into the General Fund for reporting purposes:				
Interest income			815	
Fund balance - beginning			164,621	
Fund balance - ending			165,436	
Fund balance - ending (Exhibit 4)			3,091,119	

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, 2018**

**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	4,872,428	346,946	5,219,374
Accounts receivable customers, net	506,215	277,589	783,804
Accounts receivable BEMC	393,913	-	393,913
Restricted assets			
Cash and cash equivalents	78,036	1,982,020	2,060,056
Total current assets	<u>5,850,592</u>	<u>2,606,555</u>	<u>8,457,147</u>
Non-current assets:			
Capital assets:			
Land and improvements	-	2,827,985	2,827,985
Construction in progress	-	12,500	12,500
Utility system	11,831,131	18,746,208	30,577,339
Buildings	94,816	-	94,816
Equipment and furniture	271,463	591,364	862,827
Vehicles	21,156	609,897	631,053
Less: Accumulated depreciation	<u>(4,235,489)</u>	<u>(7,059,757)</u>	<u>(11,295,246)</u>
Total capital assets	<u>7,983,077</u>	<u>15,728,197</u>	<u>23,711,274</u>
Total non-current assets	<u>7,983,077</u>	<u>15,728,197</u>	<u>23,711,274</u>
Total assets	<u>13,833,669</u>	<u>18,334,752</u>	<u>32,168,421</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension deferrals	48,598	78,078	126,676
OPEB deferrals	2,236	24,355	26,591
Total deferred outflows of resources	<u>50,834</u>	<u>102,433</u>	<u>153,267</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	717,816	162,136	879,952
Salaries payable	12,165	19,852	32,017
Customer deposits	78,036	46,615	124,651
Accounts payable from restricted assets	-	173,970	173,970
Compensated absences	6,000	5,000	11,000
Accrued interest payable	-	1,980	1,980
Bonds, notes and loans payable	-	103,401	103,401
Total current liabilities	<u>814,017</u>	<u>512,954</u>	<u>1,326,971</u>
Non-current liabilities:			
Compensated absences	7,667	3,944	11,611
Total OPEB liability	377,356	898,500	1,275,856
Net pension liability	59,878	107,857	167,735
Bonds, notes and loans payable	-	899,391	899,391
Total non-current liabilities	<u>444,901</u>	<u>1,909,692</u>	<u>2,354,593</u>
Total liabilities	<u>1,258,918</u>	<u>2,422,646</u>	<u>3,681,564</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, 2018

EXHIBIT 6  
 Page 2 of 2

	<b>Major Enterprise Funds</b>		
	<b><u>Electric Fund</u></b>	<b><u>Water and Sewer Fund</u></b>	<b><u>Total</u></b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Pension deferrals	2,015	3,813	5,828
OPEB deferrals	34,833	51,949	86,782
Total deferred inflows of resources	36,848	55,762	92,610
<b>NET POSITION</b>			
Net investment in capital assets	7,983,077	14,725,405	22,708,482
Restricted for capital projects	-	1,761,435	1,761,435
Unrestricted	4,605,660	(528,063)	4,077,597
Total net position	12,588,737	15,958,777	28,547,514

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, 2018**

**EXHIBIT 7**

	<b>Major Enterprise Funds</b>		
	<u>Electric Fund</u>	<u>Water and Sewer Fund</u>	<u>Total</u>
<b>REVENUES</b>			
Charges for services	7,845,846	3,301,212	11,147,058
Miscellaneous	2,679	52,497	55,176
Total operating revenues	7,848,525	3,353,709	11,202,234
<b>OPERATING EXPENSES</b>			
Electric operations	6,618,418	-	6,618,418
Water and sewer operations	-	2,853,334	2,853,334
Depreciation	319,700	496,949	816,649
Total operating expenses	6,938,118	3,350,283	10,288,401
Operating income (loss)	910,407	3,426	913,833
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Interest and investment revenue	26,156	11,348	37,504
Interest expense	-	(13,303)	(13,303)
Total non-operating revenue (expenses)	26,156	(1,955)	24,201
Income (loss) before contributions	936,563	1,471	938,034
Capital contributions - customers	-	229,450	229,450
Transfers out	(102,878)	-	(102,878)
Change in net position	833,685	230,921	1,064,606
Total net position - beginning, previously reported	11,994,043	15,821,807	27,815,850
Restatement	(238,991)	(93,951)	(332,942)
Total net position - beginning, restated	11,755,052	15,727,856	27,482,908
 Total net position - ending	12,588,737	15,958,777	28,547,514

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, 2018**

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

	<u>Major Enterprise Funds</u>		<u>Total</u>
	<u>Electric Fund</u>	<u>Water &amp; Sewer Fund</u>	
<b>Cash flows from operating activities:</b>			
Cash received from customers	7,776,751	3,289,193	11,065,944
Cash paid for goods and services	(6,088,940)	(2,524,027)	(8,612,967)
Cash paid to employees	(262,937)	(379,834)	(642,771)
Change in customer deposits	30,580	8,764	39,344
Other operating revenues	<u>2,679</u>	<u>52,497</u>	<u>55,176</u>
Net cash provided (used) by operating activities	<u>1,458,133</u>	<u>446,593</u>	<u>1,904,726</u>
<b>Cash flows from noncapital financing activities:</b>			
Transfers from (to) other funds	<u>(102,878)</u>	<u>-</u>	<u>(102,878)</u>
<b>Cash flows from capital and related financing activities:</b>			
Acquisition of capital assets	(656,372)	(243,236)	(899,608)
Principal paid on long-term debt	-	(103,401)	(103,401)
Interest paid on long-term debt	-	(13,551)	(13,551)
Contributions from customers	<u>-</u>	<u>229,450</u>	<u>229,450</u>
Net cash provided (used) for capital and related financing activities	<u>(656,372)</u>	<u>(130,738)</u>	<u>(787,110)</u>
<b>Cash flows from investing activities:</b>			
Interest on investments	<u>26,156</u>	<u>11,348</u>	<u>37,504</u>
Net increase (decrease) in cash and cash equivalents	725,039	327,203	1,052,242
Cash and cash equivalents, beginning	<u>4,225,425</u>	<u>2,001,763</u>	<u>6,227,188</u>
Cash and cash equivalents, ending	<u>4,950,464</u>	<u>2,328,966</u>	<u>7,279,430</u>

**CITY OF SOUTHPORT, NORTH CAROLINA**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**For the Year Ended June 30, 2018**

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

	<b>Major Enterprise Funds</b>		
	<b>Electric Fund</b>	<b>Water &amp; Sewer Fund</b>	<b>Total</b>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income (loss)	910,407	3,426	913,833
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	319,700	496,949	816,649
Changes in assets and liabilities			
(Increase) decrease in accounts receivable	(68,771)	(12,019)	(80,790)
Increase in deferred outflows of resources - pensions	17,396	26,992	44,388
Increase in deferred outflows of resources - OPEB	(2,236)	(24,355)	(26,591)
Increase in net pension liability	(13,454)	(20,874)	(34,328)
Decrease in deferred inflows of resources - pensions	(857)	(1,330)	(2,187)
Increase (decrease) in accounts payable	239,584	(68,647)	170,937
Increase (decrease) in accrued wages	3,066	4,938	8,004
Increase (decrease) in collected in advance	(324)	-	(324)
Increase (decrease) in customer deposits	30,580	8,764	39,344
Increase (decrease) in accrued vacation	2,176	1,632	3,808
Increase in deferred inflows of resources - OPEB	34,833	(20,832)	14,001
Increase (decrease) in OPEB liability	(13,967)	51,949	37,982
Total adjustments	547,726	443,167	990,893
Net cash provided (used) by operating activities	1,458,133	446,593	1,904,726

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. All remaining governmental funds are aggregated and reported as non-major funds.

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. This fund was closed during the current fiscal year.

The City reports the following major enterprise funds:

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

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

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	
Customer deposits	1,845
Streets	12,285
Capital outlay	<u>615,468</u>
Total governmental activities	<u>629,598</u>
Business-type Activities	
Electric Fund	
Customer deposits	78,036
Water and Sewer Fund	
Customer deposits	46,615
Impact fees collected	<u>1,935,405</u>
Total Business-type Activities	<u>2,060,056</u>
Total Restricted Cash	<u><u>2,689,654</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, 2017.

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 recorded as expenditures as used rather than when purchased.

7. Capital Assets

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

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

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

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

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

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

#### 8. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and will not be recognized as an expense or expenditure until then. The City has two items meeting this criterion, pension deferrals and OPEB deferrals for the 2018 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, pension deferrals and OPEB 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, 2018, 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. At June 30, 2018 also included in this balance is unexpended proceeds of a loan to purchase a new truck for the fire department.

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.

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 available staff having to deal with additional administrative duties due to Hurricane Florence and SBI investigation. Additional staff has been hired and emergency response procedures have been updated 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 was caused due to delays caused by Hurricane Florence and staff availability. For future periods, additional financial staff has been hired to prepare the information necessary for the audit.

C. Excess of Expenditures over Appropriations

For the year ended June 30, 2018, the expenditures by the building and grounds department in the City's General Fund exceeded the authorized appropriations by \$125,150. These over expenditures occurred because expenditures for general government functions were budgeted in enterprise funds. In future periods staff will be more diligent in determining proper budgeting of city-wide projects.

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, 2018, the City's deposits had a carrying amount of \$9,758,596 and a bank balance of \$9,814,756. The carrying amount of deposits of the ABC Board was \$373,563 and the bank balance was \$330,991. \$250,000 of the ABC Board and \$500,000 of the City was covered by federal depository insurance. The balances of the deposits \$9,314,756 for the City and \$80,991 by the ABC Board were collateralized by institutions using the Pooling Method. At June 30, 2018, the City's cash on hand totaled \$450.

2. Investments

At June 30, 2018, the City's investment balances were as follows:

<u>Investment by Type</u>	<u>Valuation Measurement Method</u>	<u>Book Value 6/30/18</u>	<u>Maturity</u>	<u>Rating</u>
NC Capital Management Trust-Government Portfolio	Amortized Cost	71,872	N/A	AAAm
NC Capital Management Trust-Term Portfolio	Fair Value Level 1	<u>249,283</u>	.09 years	Unrated
Total		<u>321,155</u>		

All investments are measured using the market approach: using prices and other relevant information generated by market transactions involving identical or comparative assets or a group of assets. Level of fair value hierarchy: Level 1 debt securities are valued using directly observable, quoted prices (unadjusted) in active markets for identical assets. Level 2 debt securities are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' benchmark quoted prices.

*Interest Rate Risk.* The City has no formal investment policy that limits investment maturities as a mean of managing its exposure to fair value losses arising from increasing interest rates.

*Credit Risk.* The City has no formal policy regarding credit risk, but has internal management procedures that limits the City's investments to the provisions of G.S. 159-30. The City's investment in the NC Capital Management Trust Government Portfolio carried a credit rating of AAAm by Standard & Poor's as of June 30, 2018. The City's investment in the NC Capital Management Trust Term Portfolio is unrated. The Term Portfolio is authorized to invest in obligations of the U. S. government and agencies, and in high grade money market instruments as permitted under North Carolina General Statutes 159-30 as amended.

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, 2018 are net of the following allowances for doubtful accounts:

General Fund:	
Taxes receivable	18,339
Solid waste accounts receivable	<u>295</u>
Total General Fund	<u>18,634</u>
Enterprise Funds	
Electric Fund - accounts receivable	9,757
Water and Sewer Fund - accounts receivable	<u>4,410</u>
Total Enterprise Funds	<u>14,167</u>
Total	<u><u>32,801</u></u>

4. Capital Assets

Primary Government

Capital asset activity for the Primary Government for the year ended June 30, 2018, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	2,519,952	397,500		2,917,452
Construction in progress	13,829	98,398	13,829	98,398
Total capital assets not being depreciated	<u>2,533,781</u>	<u>495,898</u>	<u>13,829</u>	<u>3,015,850</u>
Capital assets being depreciated				
Buildings	9,344,623	109,239		9,453,862
Other improvements	965,130			965,130
Infrastructure	3,182,865	350,209		3,533,074
Vehicles and motorized equipment	3,467,170	316,706		3,783,876
Furniture and equipment	1,170,934	67,229	5,863	1,232,300
Total capital assets being depreciated	<u>18,130,722</u>	<u>843,383</u>	<u>5,863</u>	<u>18,968,242</u>
Less accumulated depreciation for:				
Buildings	1,854,640	187,678		2,042,318
Other improvements	468,667	42,230		510,897
Infrastructure	924,903	132,436		1,057,339
Vehicles and motorized equipment	2,814,893	236,987		3,051,880
Furniture and equipment	684,170	88,361	5,863	766,668
Total accumulated depreciation	<u>6,747,273</u>	<u>687,692</u>	<u>5,863</u>	<u>7,429,102</u>
Total capital assets being depreciated, net	<u>11,383,449</u>			<u>11,539,140</u>
Governmental activity capital assets, net	<u>13,917,230</u>			<u>14,554,990</u>

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

General government	129,399
Public safety	365,726
Transportation	130,015
Cultural and recreational	62,552
Total depreciation expense	<u>687,692</u>

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
<i>Electric Fund</i>				
<i>Capital assets not being depreciated:</i>				
Construction in process	1,113		1,113	-
Capital assets being depreciated				
Buildings	94,816			94,816
Utility systems	11,173,646	657,485		11,831,131
Vehicles and motorized equipment	21,156			21,156
Furniture and equipment	271,463			271,463
Total capital assets being depreciated	11,561,081	657,485	-	12,218,566
Less accumulated depreciation for:				
Buildings	17,306	1,896		19,202
Utility systems	3,761,171	290,822		4,051,993
Vehicles and motorized equipment	21,156			21,156
Furniture and equipment	116,156	26,982		143,138
Total accumulated depreciation	3,915,789	319,700	-	4,235,489
Total capital assets being depreciated, net	7,645,292			7,983,077
Electric fund capital assets, net	7,646,405			7,983,077
<i>Water and Sewer Fund</i>				
<i>Capital assets not being depreciated:</i>				
Land	2,827,985			2,827,985
Construction in progress	12,500			12,500
Total capital assets not being depreciated	2,840,485	-	-	2,840,485
<i>Capital assets being depreciated</i>				
Utility systems	18,559,710	186,498		18,746,208
Vehicles and motorized equipment	553,159	56,738		609,897
Furniture and equipment	624,529		33,165	591,364
Total capital assets being depreciated	19,737,398	243,236	33,165	19,947,469
Less accumulated depreciation for:				
Utility systems	5,835,079	419,992		6,255,071
Vehicles and motorized equipment	354,890	37,533	33,165	359,258
Furniture and equipment	406,004	39,424		445,428
Total accumulated depreciation	6,595,973	496,949	33,165	7,059,757
Total capital assets being depreciated, net	13,141,425			12,887,712
Water and Sewer fund capital assets, net	15,981,910			15,728,197
Business-type activities capital assets, net	23,628,315			23,711,274

Construction Commitments

The City had no outstanding construction commitments at June 30, 2018.

Discretely presented component unit

Activity for the ABC Board for the year ended June 30, 2018, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets not being depreciated:				
Land	4,600	-	-	4,600
Capital assets being depreciated				
Buildings	121,037			121,037
Building improvements	151,737	14,119		165,856
Furniture and fixtures	3,176			3,176
Equipment	50,471			50,471
Total capital assets being depreciated	326,421	14,119	-	340,540
Less accumulated depreciation for:				
Buildings	61,220	1,557		62,777
Building improvements	33,812	10,137		43,949
Furniture and fixtures	2,952	125		3,077
Equipment	14,757	9,836		24,593
Total accumulated depreciation	112,741	21,655	-	134,396
Total capital assets being depreciated, net	213,680			206,144
ABC capital assets, net	218,280			210,744

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, 2018, was 8.25% for law enforcement officers and 7.50% 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 \$171,008 for the year ended June 30, 2018.

*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, 2018, the City reported a liability of \$546,314 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016. The total pension liability was then rolled forward to the measurement date of June 30, 2017 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, 2017, the City's proportion was 0.03576%, which was an increase of 0.00397% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the City recognized pension expense of \$200,450. At June 30, 2018, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b><u>Deferred Outflows of Resources</u></b>	<b><u>Deferred Inflows of Resources</u></b>
Differences between expected and actual experience	31,473	15,464
Changes of assumptions	78,021	-
Net difference between projected and actual earnings on pension plan investments	132,645	
Changes in proportion and differences between City contributions and proportionate share of contributions	43,643	
City contributions subsequent to the measurement date	<u>170,008</u>	
Total	<u><u>455,790</u></u>	<u><u>15,464</u></u>

\$170,008 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2019	45,172
2020	171,844
2021	88,224
2022	(34,922)
2023	-
Thereafter	<u>-</u>
	<u><u>270,318</u></u>

*Actuarial Assumptions.* 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	3.50 to 8.10 percent, including inflation and productivity factor
Investment rate of return	7.20 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, 2016 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, 2017 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 7.20%. 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 7.20 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 (6.20 percent) or one percentage point higher (8.20 percent) than the current rate:

	<b>1% Decrease <u>(6.20%)</u></b>	<b>Discount Rate <u>(7.20%)</u></b>	<b>1% Increase <u>(8.20%)</u></b>
City's proportionate share of the net pension liability (asset)	1,640,046	546,314	(366,608)

*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, 2017, the Separation Allowance's membership consisted of:

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

(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, 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	2.5 Percent
Salary increases	3.50 to 7.35 percent, including inflation and productivity factor
Discount rate	3.16 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 \$12,819 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, 2018, the City reported a total pension liability of \$204,305. The total pension liability was measured as of December 31, 2017 based on a December 31, 2016 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2017 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2018, the City recognized pension expense of \$27,541.

	<u>Deferred Outflows of</u>	<u>Deferred Inflows of</u>
Differences between expected and actual experience	51,841	-
Changes of assumptions	10,351	2,659
City benefit payments and plan and plan administrative expense made subsequent to the measurement date	<u>6,410</u>	<u>-</u>
Total	<u><u>68,602</u></u>	<u><u>2,659</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, 2019. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**Year Ended June 30:**

2019	10,868
2020	10,868
2021	10,868
2022	10,868
2023	10,924
Thereafter	<u>5,137</u>
Total	<u><u>59,533</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 3.16%, 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 (2.16 percent) or 1 percentage point higher (4.16 percent) than the current rate:

	<u>1% Decrease (2.16%)</u>	<u>Discount Rate (3.16%)</u>	<u>1% Increase (4.16%)</u>
Total pension liability	221,962	204,305	188,303

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

	<u>2017</u>
Beginning balance	127,190
Service cost	11,669
Interest on the total pension liability	4,662
Change of benefit terms	-
Differences between expected and actual experience in the measurement of the total pension liability	61,353
Changes of assumptions and inputs	12,250
Benefit payments	(12,819)
Other changes	-
	<hr/>
Ending balance of the total pension liability	<u><u>204,305</u></u>

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.

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	<hr/> 36
Total	<u><u>53</u></u>

(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	2.50 percent
Salary increases	Not applicable
Discount rate	3.16 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 \$23,485 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, 2018, the City reported a total pension liability of \$667,767. The total pension liability was measured as of December 31, 2017 based on a December 31, 2016 actuarial valuation. For the year ended June 30, 2018, the City recognized pension expense of \$49,312.

	<u>Deferred Outflows of</u>	<u>Deferred Inflows of</u>
Differences between expected and actual experience	-	-
Changes of assumptions	66,546	21,292
City benefit payments and plan and plan administrative expense made subsequent to the measurement date	<u>11,360</u>	<u>-</u>
Total	<u><u>77,906</u></u>	<u><u>21,292</u></u>

\$11,360 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, 2019. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**Year Ended June 30:**

2019	3,190
2020	3,190
2021	3,190
2022	3,190
2023	3,190
Thereafter	<u>29,304</u>
Total	<u><u>45,254</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 3.16%, 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 (2.16 percent) or 1 percentage point higher (4.16 percent) than the current rate:

	<u>1% Decrease</u> <u>(2.16%)</u>	<u>Discount Rate</u> <u>(3.16%)</u>	<u>1% Increase</u> <u>(4.16%)</u>
Total pension liability	784,379	667,767	575,595

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

	<u>2018</u>
Beginning balance	573,282
Service cost	24,438
Interest on the total pension liability	21,684
Change of benefit terms	-
Differences between expected and actual experience in the measurement of the total pension liability	-
Changes of assumptions and inputs	71,418
Benefit payments	(23,055)
Other changes	-
Ending balance of the total pension liability	<u><u>667,767</u></u>

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.

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

Following is information related to the proportionate share and pension expense for all pension plans:

	<u>LGERS</u>	<u>LEOSSA</u>	<u>VFSRP</u>	<u>Total</u>
Pension Expense	200,450	27,541	49,312	277,303
Pension Liability	546,314	204,305	667,767	1,418,386
Proportionate share of the net pension liability	0.03576%	n/a	n/a	
<b>Deferred Outflows of Resources</b>				
Differences between expected and actual experience	31,473	51,841		83,314
Changes of assumptions	78,021	10,351	66,546	154,918
Net difference between projected and actual earnings on plan investments	132,645			132,645
Changes in proportion and differences between contributions and proportionate share of contributions	43,643			43,643
Benefit payments and administrative costs paid subsequent to the measurement date	<u>171,008</u>	<u>6,410</u>	<u>11,360</u>	<u>188,778</u>
Total	<u>456,790</u>	<u>68,602</u>	<u>77,906</u>	<u>603,298</u>
<b>Deferred Inflows of Resources</b>				
Differences between expected and actual experience	15,464			15,464
Changes of assumptions		2,659	21,292	23,951
Net difference between projected and actual earnings on plan investments				-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-	-	-
Total	<u>15,464</u>	<u>2,659</u>	<u>21,292</u>	<u>39,415</u>

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 \$106,056 for the year ended June 30, 2018. 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.

The Retiree Health Plan does not issue a publicly available financial report.

Membership in the Plan consisted of the following at June 30, 2017, the date of the latest valuation:

Inactive Employees or Beneficiaries Currently Receiving Benefits	19
Inactive Members Entitled to But Ont Yet Receiving Benefits	0
Active Employees	<u>19</u>
 Total Membership	 <u><u>38</u></u>

Total OPEB Liability. The City’s total OPEB liability of \$4,304,806 was measured as of June 30, 2017 and was determined by an actuarial valuation as of that date.

Actuarial assumptions and other inputs. The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Inflation	2.5 percent
Real wage growth	1.0 percent
Wage inflation	3.5 percent
Salary Increases	
General Employees	3.50%-7.75%
Law Enforcement Employees	3.50%-7.35%
Discount rate	2.56 percent
Healthcare cost trend rates	
Pre-Medicare	7.50% for 2017 decreasing to an ultimate rate of 5.00% by 2023
Medicare	5.50% for 2017 decreasing to an ultimate rate of 5.00% by 2020

The discount rate is based on the yield of the June average of the Bond Buyer General Obligation 20-year Municipal Bond Index published weekly by The Bond Buyer.

Changes in the Total OPEB Liability:

Balance at July 1, 2016	<u>4,578,423</u>
Changes for the year	
Service cost	109,016
Interest	135,410
Changes of benefit terms	
Differences between expected and actual experience	24,508
Changes in assumptions or other input	(381,868)
Benefit payments and implicit subsidy credit	<u>(160,683)</u>
Net changes	<u>(273,617)</u>
Balance at June 30, 2017	<u><u>4,304,806</u></u>

Changes in assumptions and other inputs reflect a change in the discount rate from 3.01% to 3.56%

Mortality rates were based on the RP-2014 mortality tables, with adjustments for LGERS experience and generational mortality improvements using Scale MP-2015.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period January 2010 through December 2014, adopted by the LGERS.

*Sensitivity of the total OPEB liability to changes in the discount rate.* The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using the discount rate that is 1-percentage point lower (2.56%) or 1-percentage point higher (4.56%) than the current discount rate:

	<b>1% Decrease</b> <b><u>2.56%</u></b>	<b>Discount Rate</b> <b><u>3.56%</u></b>	<b>1% Increase</b> <b><u>4.56%</u></b>
Total OPEB liability	5,037,714	4,304,806	3,720,955

*Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates.* The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using healthcare trend rates that are 1-percentage point lower or 1-percentage point higher than the current healthcare cost trend rates:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Total OPEB liability	3,686,612	4,304,806	5,086,470

*OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB*

For the year ended June 30, 2018, the City Recognized OPEB expense of \$150,631. At June 30, 2018, the Board reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	18,075	
Changes of assumptions		281,640
Benefit payments and administrative costs made subsequent to the measurement date	<u>143,622</u>	
Total	<u>161,697</u>	<u>281,640</u>

\$142,622 reported as deferred outflows of resources related to OPEB resulting from benefit payments and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred inflows of resources related to OPEB will be recognized in expense as follows:

**Measurement period ended June 30:**

2018	(93,795)
2019	(93,795)
2020	(75,975)
2021	
2022	
Thereafter	<u>                    </u>
Total	<u><u>(263,565)</u></u>

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	171,008
Benefit payments made and administrative expenses for LEOSSA made subsequent to measurement date	6,410
Benefit payments made and administrative expenses for VFSR Plan made subsequent to measurement date	11,360
Benefit payments made and administrative expenses for OPEB made subsequent to measurement date	143,622
Differences between expected and actual experience	101,389
Changes in assumptions	154,918
Net difference between projected and actual earnings	132,645
Changes in proportion and differences between employer contributions and proportionate share of contributions	43,643
	<u>43,643</u>
Total	<u><u>764,995</u></u>

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

	<u>Statement of Net Position</u>	<u>General Fund Balance Sheet</u>
Prepaid taxes (General Fund)	382	382
Taxes receivable (General Fund)		103,918
Differences between expected and actual experience	15,464	
Changes of assumptions	<u>305,591</u>	
 Total	 <u>321,437</u>	 <u>104,300</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 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, 2018, 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	1	Annual

In this agreement, 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	77,980	45,611

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2018 were as follows:

<u>Year Ending June 30</u>	<u>Total</u>	<u>Governmental Activities</u>
2019	<u>25,171</u>	<u>25,171</u>
Total minimum lease payments	25,171	25,171
Less: Amount representing interest	<u>482</u>	<u>482</u>
Present value of minimum lease payments	<u><u>24,689</u></u>	<u><u>24,689</u></u>

b. Installment Purchase

In June 2009, the City obtained \$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.

On October 10, 2017, the City entered into a financing agreement of \$450,000 for the purchase of a Rosenbauer fire truck. The agreement required principal payments of \$95,388 annually for five years with an interest rate of 1.97%.

Annual debt service payments of the installment purchase as of June 30, 2018, including \$447,082 of interest is as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2019	275,723	73,571
2020	277,428	66,475
2021	279,166	59,344
2022	280,938	52,180
2023	282,745	44,980
2024-2028	946,000	134,805
2029	378,400	15,727
	<u>2,720,400</u>	<u>447,082</u>

c. Revolving Loans

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

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

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

Year Ending June 30	Business-type Activities	
	Principal	Interest
2019	103,401	12,045
2020	103,401	10,540
2021	103,401	9,034
2022	103,401	7,528
2023	103,401	6,023
2024-2028	380,437	9,034
2029-2031	105,350	-
	<u>1,002,792</u>	<u>54,204</u>

At June 30, 2018, the City of Southport had a legal debt margin of \$66,349,337.

d. Changes in Long - Term Liabilities

	<u>Balance</u> <u>6/30/17</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>6/30/18</u>	<u>Current</u> <u>Portion of</u> <u>Balance</u>
Governmental activities:					
Installment notes payable	2,459,600	450,000	189,200	2,720,400	275,723
Capitalized leases	48,906		24,217	24,689	24,689
Compensated absences	141,726	144,377	113,821	172,282	80,000
Other postemployment benefits	3,107,085		78,135	3,028,950	
Net pension liability (LGERS)	472,627		94,048	378,579	
Total pension obligation (Fire)	573,282	94,485		667,767	
Total pension obligation (LEO)	<u>127,190</u>	<u>77,115</u>	<u>-</u>	<u>204,305</u>	<u>-</u>
Governmental activity long-term liabilities	<u>6,930,416</u>	<u>765,977</u>	<u>499,421</u>	<u>7,196,972</u>	<u>380,412</u>
Business-type activities:					
<u>Water and Sewer Fund</u>					
Revolving loans	1,106,193		103,401	1,002,792	103,401
Compensated absences	7,312	9,930	8,298	8,944	5,000
Net Pension liability (LGERS)	128,731		20,874	107,857	
Other postemployment benefits	<u>919,332</u>	<u>-</u>	<u>20,832</u>	<u>898,500</u>	<u>-</u>
Water and Sewer Fund long-term liabilities	<u>2,161,568</u>	<u>9,930</u>	<u>153,405</u>	<u>2,018,093</u>	<u>108,401</u>
<u>Electric Fund</u>					
Compensated absences	11,491	9,137	6,961	13,667	6,000
Net Pension liability (LGERS)	73,332		13,454	59,878	
Other postemployment benefits	<u>391,323</u>	<u>-</u>	<u>13,967</u>	<u>377,356</u>	<u>-</u>
Electric Fund long-term liabilities	<u>476,146</u>	<u>9,137</u>	<u>34,382</u>	<u>450,901</u>	<u>6,000</u>
Business type activity long-term liabilities	<u>2,637,714</u>	<u>19,067</u>	<u>187,787</u>	<u>2,468,994</u>	<u>114,401</u>

C. Interfund Balances and Activity

Transfers to/from other funds at June 30, 2018, consist of the following:

Transfer from Electric Fund to General Fund - reimbursement for General Fund capital assets	102,878
Transfer from Building Capital Improvement Fund to General Fund - closing project fund	<u>1,274</u>
Total	<u>104,152</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 from the Electric Fund were used to install fiber optic cable between all of the City buildings. The transfer from the Building Capital Improvement Fund to the General Fund closed the fund after the project was complete.

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 and electric customer account services. The contract is for a five-year term beginning on July 1, 2017 and ending June 30, 2022. The initial cost to the City under the contract was \$11.4001 per meter per month for the operation and maintenance and \$5.2215 per meter per month for the customer account services. 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, 2018, the City payments under this contract totaled \$576,239.

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, 2018 was \$234,718.

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, 2018. 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, 2018, consisted of the following:

	Governmental <u>Funds</u>	Business-type <u>Funds</u>
Capital assets	14,554,990	23,711,274
Less: Long term debt	(2,745,089)	(1,002,792)
Add: Unexpended debt proceeds	<u>450,000</u>	<u>                    </u>
Net investment in capital assets	<u>12,259,901</u>	<u>22,708,482</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>3,091,119</u>
Less:	
Stabilization by State Statute	523,869
Streets - Powell Bill	12,285
Appropriated Fund Balance in 2019 Budget	227,450
Capital outlay (Capital Reserve Fund)	165,436
Capital outlay (Debt proceeds)	450,032
Committed for fire protection	<u>69,768</u>
Remaining fund balance	<u>1,642,279</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, 2018, the City had outstanding encumbrances of \$1,243 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 lightening insurance premiums that insurers remit to the State. The State passes these moneys to the local board of the Firemen's Relief Fund. The funds are used to assist fire fighters in various ways. The City obtains an ongoing financial benefit from the Fund for the on-behalf of payments for salaries and fringe benefits made to members of the City's fire department by the board of trustees. During the fiscal year ended June 30, 2018, 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, 2018. 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, 2018 were \$5,000,495.

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 \$895 to the Council during the fiscal year ended June 30, 2018.

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, 2018, 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, 2018. 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**

In September 2018 Hurricane Florence struck the coast of Southeastern North Carolina. This caused the City of Southport to be under an emergency declaration from September 10, 2018 through October 3, 2018. The infrastructure of the City suffered severe damage. Claims for damages have been filed with FEMA for damages of around two million dollars. All of the claims have not been settled as of the date of these financial statements. It is the opinion of City management that these claims will cover the losses suffered by the City. No allowance has been recorded in these financial statements.

Other events occurring after June 30, 2018 were evaluated by management on October 24, 2019 to ensure that any subsequent events that met the criteria for recognition and/or disclosure in these financial statements have been included. There were no additional subsequent events needing disclosure.

**VIII. RESTATEMENTS**

Prior Period Adjustment

During the fiscal year ended June 30, 2018, the statute of limitations on impact fees that were determined to have been collected illegally expired. Under a decision of the North Carolina Supreme Court, persons who paid these fees could apply for a refund. This claim for refund must be filed within three years of payment. The total amount of these fees that became non-refundable during the current year was \$467,478. This adjustment was recorded as an increase in beginning fund balance and net position in the Water and Sewer Fund.

Change in Accounting Principle

The City implemented Governmental Accounting Standards Board (GASB) Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in the fiscal year ending June 30, 2018. The implementation of the statement required the City to record beginning OPEB liability and the effects on net position of benefit payments and administrative expenses paid by the City related to OPEB during the measurement period (fiscal year ending June 30, 2017). Beginning deferred outflows and inflows of resources associated with the implementation were excluded from the restatement. As a result, net position for the governmental activities decreased \$1,897,523 and \$800,420 for the business-type activities.

**IX. OTHER MATTERS**

On July 26, 2018, the Police Chief and a Lieutenant in the Police Department were arrested by officers of the State Bureau of Investigation and were charged with possible violations of obtaining property by false pretense, willful failure to discharge a duty of office, and obstruction of justice. The officers have been terminated by the City and are awaiting trial. The officers are charged with working at other jobs while receiving payment from the City for the same hours. No adjustment to employee costs or additional possible liabilities have been recorded in these statements.

REQUIRED SUPPLEMENTARY  
FINANCIAL DATA

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

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- 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 – Volunteer Firefighters' Supplemental Retirement Plan
- Schedule of Changes in the Total OPEB Liability and Related Ratios

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

Exhibit A-1

**LOCAL GOVERNMENT EMPLOYEES RETIREMENT SYSTEM**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
City of Southport's proportion of the net pension liability (asset) (%)	0.03576%	0.03179%	0.03025%	0.02832%	0.02880%
City of Southport's proportion of the net pension liability (asset) (\$)	546,314	674,690	135,760	(167,016)	347,151
City of Southport's covered payroll	2,164,697	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	25.24%	33.72%	7.29%	(9.42%)	19.81%
Plan fiduciary net position as a percentage of the total pension liability	94.18%	91.47%	98.09%	102.64%	94.35%

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

**Exhibit A-2**

**LOCAL GOVERNMENT EMPLOYEES RETIREMENT SYSTEM**

	<u><b>2018</b></u>	<u><b>2017</b></u>	<u><b>2016</b></u>	<u><b>2015</b></u>	<u><b>2014</b></u>
Contractually required contribution	171,008	160,063	135,756	133,568	126,372
Contributions in relation to the contractually required contribution	<u>171,008</u>	<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>
City of Southport's covered-employee payroll	2,228,199	2,164,697	2,000,892	1,863,345	1,773,533
Contributions as percentage of covered-employee payroll	7.67%	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, 2018**

**Exhibit A-3**

	2018	2017
Beginning balance	127,190	119,542
Service cost	11,669	12,143
Interest on the total pension liability	4,662	4,180
Changes of benefit terms	-	-
Difference between expected and actual experience in the measurement of the total pension liability	61,353	-
Changes of assumptions and other inputs	12,250	(3,745)
Benefit payments	(12,819)	(4,930)
Other changes	-	-
	204,305	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, 2018**

**Exhibit A-4**

	<u>2018</u>	<u>2017</u>
Total pension liability	204,305	127,190
Covered payroll	549,341	552,419
Total pension as a percentage of covered payroll	37.19%	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, 2018**

**Exhibit A-5**

	<b>2018</b>	<b>2017</b>
Beginning balance	573,282	570,595
Service cost	24,438	25,599
Interest on the total pension liability	21,684	20,044
Changes of benefit terms		-
Difference between expected and actual experience in the measurement of the total pension liability		-
Changes of assumptionser inputs	71,418	(24,656)
Benefit payments	(23,055)	(18,300)
Other changes	-	-
	<b>667,767</b>	<b>573,282</b>
Ending balance of the total pension liability		

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.

**CITY OF SOUTHPORT, NORTH CAROLINA**  
**SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS**  
**June 30, 2018**

**Exhibit A-6**

	2017
Service cost	109,016
Interest	135,410
Changes of benefit terms	-
Difference between expected and actual experience in the measurement of the total pension liability	24,508
Changes of assumptions or other inputs	(381,868)
Benefit payments	(138,483)
Implicit subsidy credit	(22,200)
Other changes	-
Net change in Total OPEB Liability	(273,617)
Total OPEB Liability - beginning	4,578,423
Total OPEB Liability - ending	4,304,806
Covered-employee payroll	989,080
Total OPEB Liability as a percentage of covered-employee payroll	435.23%

Notes to the schedule:

Changes of assumptions: Changes of assumptions and other inputs reflect the effects of changes in the discount rate of each period. The following are the discount rates used in period:

<u>Plan Year</u>	<u>Rate</u>
2017	3.56%

INDIVIDUAL FUND STATEMENTS AND SCHEDULES

## 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, 2018**

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

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>Revenues</b>			
Ad valorem taxes			
Current year	2,134,431	2,306,486	172,055
Prior years	75,000	71,885	(3,115)
Motor vehicle taxes	120,110	121,790	1,680
Penalties and interest	<u>20,300</u>	<u>26,909</u>	<u>6,609</u>
Total	<u>2,349,841</u>	<u>2,527,070</u>	<u>177,229</u>
Other taxes			
Dog tags	700	690	(10)
Privilege licenses	500	720	220
Itinerant Peddler Permit	100	300	200
Accommodation tax	<u>88,000</u>	<u>106,845</u>	<u>18,845</u>
Total	<u>89,300</u>	<u>108,555</u>	<u>19,255</u>
Unrestricted intergovernmental revenues			
Local option sales tax	876,538	918,373	41,835
Beer and wine tax	18,000	14,848	(3,152)
ABC Profit distribution	228,000	289,240	61,240
Utility franchise tax	<u>369,000</u>	<u>364,857</u>	<u>(4,143)</u>
Total	<u>1,491,538</u>	<u>1,587,318</u>	<u>95,780</u>
Restricted intergovernmental revenues			
State street-aid allocation	113,783	113,783	-
Solid waste disposal tax	1,600	2,277	677
FEMA Assistance to Firefighters	25,000	-	(25,000)
ABC Revenue for law enforcement	15,000	13,007	(1,993)
Brunswick County rescue fees	36,000	-	(36,000)
FEMA Reimbursement	-	83,168	83,168
Fire district fees	<u>882,167</u>	<u>898,999</u>	<u>16,832</u>
Total	<u>1,073,550</u>	<u>1,111,234</u>	<u>37,684</u>
Licenses and permits			
Building permits	175,000	189,183	14,183
Fire Inspection fees	12,000	6,897	(5,103)
Reinspection fees	1,000	900	(100)
Golf cart fees	-	625	625
Planning and zoning fees	<u>7,400</u>	<u>17,796</u>	<u>10,396</u>
Total	<u>195,400</u>	<u>215,401</u>	<u>20,001</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, 2018**

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

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>Sales and services</b>			
Cemetery lot sales	-	525	525
Refuse collection fees	240,000	227,307	(12,693)
Rescue squad fees	180,000	138,718	(41,282)
Community building rent	90,000	95,420	5,420
Payment in lieu - Recreation facilities	-	7,400	7,400
Lease revenue	-	10	10
Tourism - Visitor Center sales	-	1,316	1,316
Recreation fees	18,000	23,637	5,637
Duke Energy Progress for fire department	30,000	30,000	-
Total	<u>558,000</u>	<u>524,333</u>	<u>(33,667)</u>
<b>Investment earnings</b>			
Interest income	<u>2,000</u>	<u>10,673</u>	<u>8,673</u>
<b>Miscellaneous</b>			
Insurance reimbursement	-	14,447	14,447
Donations - Firemen's fund	-	33,664	33,664
Donations - Recreation department	5,000	2,125	(2,875)
Donations - Beautification	1,200	14,000	12,800
Donations - Forestry committee	2,000	3,530	1,530
Fire Department Response fees	10,000	19,160	9,160
Homeowners recovery fund	1,000	474	(526)
Police - Shop with a cop	-	-	-
Miscellaneous - Police department	5,000	26,817	21,817
Miscellaneous - Fire department	11,484	-	(11,484)
Miscellaneous - Tourism	10,000	1,000	(9,000)
Miscellaneous - Community Garden	1,500	1,080	(420)
Miscellaneous - Powell Bill	10,000	10,000	-
Special events - Tourism	17,000	21,601	4,601
Sales - fixed assets	12,000	1,212	(10,788)
Miscellaneous	177,500	194,388	16,888
Total	<u>263,684</u>	<u>343,498</u>	<u>79,814</u>
Total revenues	<u>6,023,313</u>	<u>6,428,082</u>	<u>404,769</u>
<b>Expenditures</b>			
<b>General government</b>			
<b>Board expense</b>			
Full-Time employees	24,357	20,056	
Social security	1,836	1,507	
Group insurance	300	299	
Workers compensation	885	885	
Professional fees	21,581	24,430	
Departmental supplies	10,883	9,939	

**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, 2018**

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

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Training and travel	19,184	19,183	
Communications	18	17	
Utilities	7,500	7,369	
Miscellaneous	152,664	14,243	
Other services	4,497	4,289	
Contract Services	8,105	8,470	
Insurance and bonds	2,548	2,547	-
Donations	2,000	2,000	
Elections	2,847	2,847	-
Total	<u>259,205</u>	<u>118,081</u>	<u>141,124</u>
Administration			
Full-time employees	48,100	49,642	
Overtime	1,900	1,489	
401(k) Retirement supplement	2,600	2,276	
Social security	3,900	3,720	
Group insurance	15,700	16,069	
Retirement	3,900	3,460	
Workers compensation	1,880	1,880	
Vehicle supplies	1,200	920	
Departmental supplies	18,000	9,866	
Training and travel	5,000	2,418	
Communications	6,200	5,810	
Utilities	9,000	8,018	
Emergency preparedness	25,000	-	
Advertising	6,000	6,282	
Other services	24,000	15,822	
Contract services	5,251	9,319	
Insurance and bonding	8,569	8,385	-
Total	<u>186,200</u>	<u>145,376</u>	<u>40,824</u>
Finance			
Full-time employees	92,265	90,504	
Employee overtime	735	590	
401(k) Retirement supplement	4,800	4,555	
Social security	7,300	6,752	
Group insurance	28,000	25,403	
Retirement	7,200	6,922	
Unemployment expense	772	771	
Workers compensation	3,317	3,317	
Departmental supplies	14,121	16,663	
Training and travel	4,000	2,717	
Communications	5,800	5,501	
Utilities	5,618	4,497	
Community garden expenses	3,000	1,806	

**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, 2018**

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

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Other services	1,200	-	
Contract services	27,659	27,533	
Property tax fees	17,913	17,897	
Motor vehicle fees	1,800	9,112	
Insurance and bonding	3,200	2,717	-
Capital purchases under \$5,000	7,000	-	
Capital outlay - equipment	6,000	-	-
Total	241,700	227,257	14,443
Buildings and Grounds			
Full-time employees	235,900	222,797	
Employee overtime	7,000	1,998	
Part-time employees	11,700	9,669	
401(k) Retirement supplement	12,200	11,237	
Social security	18,600	17,565	
Group insurance	106,700	104,829	
Retirement	18,500	17,080	
Unemployment expense	641	641	
Workers compensation	9,869	9,869	
Uniforms and protective gear	7,810	8,098	
Forestry projects	2,000	6,156	
Vehicle supplies	6,826	6,264	
Departmental supplies	20,000	19,887	
Training and travel	649	340	
Communications	2,262	2,080	
Utilities	8,484	8,245	
Repairs and maintenance - equipment	2,000	1,116	
Repairs and maintenance - vehicles	800	914	
Repairs and maintenance - facilities	74,802	67,799	
Other services	10,080	9,860	
Contract services	9,957	10,706	
Insurance and bonding	5,944	5,943	
Capital outlay - facilities	47,438	202,219	-
Total	620,162	745,312	(125,150)
Tourism			
Full-time employees	94,000	90,319	
Overtime	500	-	
401(k) Retirement supplement	4,800	4,516	
Social security	7,300	6,748	
Group insurance	24,000	23,692	
Retirement	7,200	6,863	
Workers compensation	3,207	3,206	
Departmental supplies	34,023	35,752	
Beautification committee	3,042	3,042	

**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, 2018**

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

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Special marketing opps	2,500	2,165	
Grant matching funds	8,000	6,909	
Training and travel	3,000	2,723	
Communications	3,950	2,886	
Utilities	12,000	7,624	
Repairs and maintenance - facilities	9,700	10,156	
Contract services	5,100	5,564	
Insurance and bonding	3,751	3,481	
Capital outlay - other	16,753	9,897	-
Total	242,826	225,543	17,283
 Community Building			
Full-time employees	35,887	30,440	
Overtime	13	12	
Part-time employees	18,700	16,973	
401(k) Retirement supplement	1,800	1,472	
Social security	4,800	3,597	
Group insurance	700	649	
Retirement	2,600	2,237	
Workers compensation	1,990	1,990	
Departmental supplies	7,000	5,925	
Communications	4,000	1,821	
Utilities	18,500	11,209	
Repairs and maintenance - facilities	30,700	16,669	
Contract services	13,600	12,621	
Insurance and bonding	5,810	5,094	
Capital outlay - buildings	15,000	-	-
Total	161,100	110,709	50,391
 City Garage			
Full-time employees	99,350	97,895	
Overtime	650	532	
401 (k) retirement supplement	5,100	4,921	
Social security	7,700	7,368	
Group insurance	28,460	28,196	
Retirement	7,100	7,479	
Workers compensation	3,870	3,870	
Uniforms and protective gear	6,600	6,533	
Vehicle supplies	932	954	
Departmental supplies	4,500	2,175	
Other equipment	4,599	4,054	
Training and travel	300	170	
Communications	1,650	1,188	
Utilities	22,948	20,391	
Repairs and maintenance - equipment	500	225	

**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, 2018**

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

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Repairs and maintenance - vehicles	500	123	
Contracted services	2,200	1,870	-
Total	<u>196,959</u>	<u>187,944</u>	<u>9,015</u>
 Total general government	 <u>1,908,152</u>	 <u>1,760,222</u>	 <u>147,930</u>
Public Safety			
Police			
Full-time employees	488,900	484,159	
Employee overtime	41,960	26,782	
Part-time employees	86,000	72,141	
Separation allowance - LEO	12,896	12,819	
401 (k) retirement supplement	18,584	35,107	
Social security	49,100	44,451	
Group insurance	175,500	165,826	
Retirement	53,416	32,639	
Workers compensation	24,495	24,495	
Professional services	500	339	
Vehicle supplies	42,400	41,651	
Departmental supplies	11,000	6,366	
Uniforms and protective gear	16,000	8,155	
Miscellaneous expense	-	-	
Training and travel	12,549	8,577	
Community resource program	725	1,225	
Communications	21,200	17,317	
Utilities	7,000	4,940	
Repairs and maintenance - equipment	3,000	2,336	
Repairs and maintenance - vehicles	26,834	32,725	
Other services	500	-	
Contract services	16,552	18,368	
Insurance and bonding	26,215	26,216	
Capital outlay - vehicles	72,430	79,570	
Capital outlay - facilities	7,140	-	-
Total	<u>1,214,896</u>	<u>1,146,204</u>	<u>68,692</u>
 Fire and Rescue Department			
Full-time employees	169,372	166,440	
Employee overtime	6,030	7,089	
Part-time salary	48,400	52,224	
Part-time employees	143,545	145,960	
Volunteer fees	129,440	129,287	
Volunteer incentives	2,755	-	
401 (k) retirement supplement	9,400	8,677	
Social security	38,500	39,011	
Firefighter pension plan contribution	14,500	13,190	
Firefighter retirement	7,000	4,200	

**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, 2018**

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

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Payments to retirees	24,180	23,485	
Group insurance	39,500	37,886	
Unemployment expense	143	142	
Workers compensation	22,113	22,113	
Professional fees	2,500	594	
Vehicle supplies	25,000	23,899	
Departmental supplies -fire	25,274	32,325	
Departmental supplies -rescue	21,755	22,766	
Uniforms and protective gear	16,777	19,401	
Inspections	7,720	7,720	
Fire prevention	15,000	11,117	
Training and travel	7,945	10,132	
Communications	13,000	13,224	
Utilities	41,500	42,441	
Repairs and maintenance - equipment	13,000	9,114	
Repairs and maintenance - vehicles	31,521	32,641	
Repairs and maintenance - facilities	13,695	21,134	
Substation	25,000	15,000	
Contract services	49,836	55,605	
Southport firemen's expenses	-	22,586	
Insurance and bonding	45,118	45,118	
Capital outlay - equipment	26,961	25,155	
Capital outlay - vehicles	450,000	237,136	-
Total	1,486,480	1,296,812	189,668
Code Enforcement			
Full-time employees	149,400	150,054	
Employee overtime	10,600	8,994	
401 (k) retirement supplement	8,000	7,952	
Social security	12,300	11,880	
Group insurance	35,200	35,110	
Retirement	12,200	12,085	
Workers compensation	5,750	5,749	
Vehicle supplies	1,800	1,326	
Departmental supplies	12,100	4,909	
Training and travel	8,558	5,145	
Communications	4,216	4,175	
Utilities	1,750	1,679	
Repairs and maintenance - equipment	500	-	
Repairs and maintenance - vehicles	2,176	2,049	
Other services	1,000	740	
Contract services	4,000	4,061	
Insurance and bonding	1,200	1,019	
Capital outlay - other equipment	10,000	-	-
Total	280,750	256,927	23,823

**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, 2018**

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

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Total public safety	<u>2,982,126</u>	<u>2,699,943</u>	<u>282,183</u>
Transportation			
Street			
Full-time employees	99,019	86,612	
Employee overtime	11,600	6,829	
401 (k) retirement supplement	5,800	4,672	
Social security	8,800	6,621	
Group insurance	31,359	33,367	
Retirement	8,700	7,102	
Workers compensation	4,377	4,376	
Uniforms and protective gear	5,000	5,335	
Vehicle supplies	10,000	9,302	
Departmental supplies	27,700	23,357	
Communications	1,600	1,071	
Utilities	97,000	88,609	
Repairs and maintenance - equipment	5,000	3,044	
Repairs and maintenance - vehicles	3,645	3,420	
Contract services	387	2,137	
Insurance and bonding	6,672	6,671	
Capital outlay - Capital improvement	175,000	98,398	
Capital outlay - other	1,750	-	-
Total	<u>503,409</u>	<u>390,923</u>	<u>112,486</u>
Powell Bill			
Departmental supplies	40,147	40,140	
Capital outlay - other	126,090	125,052	-
Total	<u>166,237</u>	<u>165,192</u>	<u>1,045</u>
Total transportation	<u>669,646</u>	<u>556,115</u>	<u>113,531</u>
Environmental Protection			
Solid Waste			
Contract services	240,000	234,718	-
Total	<u>240,000</u>	<u>234,718</u>	<u>5,282</u>
Total environmental protection	<u>240,000</u>	<u>234,718</u>	<u>5,282</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, 2018**

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

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Cultural and Recreational			
Parks and recreation			
Full-time employees	102,900	99,116	
Employee overtime	5,100	4,932	
Part-time employees	98,600	100,938	
401 (k) retirement supplement	5,400	5,199	
Social security	15,900	15,278	
Group insurance	28,200	28,572	
Retirement	8,200	7,902	
Workers compensation	7,355	7,355	
Uniforms and protective gear	500	290	
Vehicle supplies	5,083	4,047	
Departmental supplies	46,000	49,851	
Training and travel	1,450	865	
Communications	7,500	6,358	
Utilities	33,000	34,911	
Repairs and maintenance - equipment	1,600	296	
Repairs and maintenance - vehicles	2,500	2,093	
Repairs and maintenance - Fort Johnston	20,500	17,980	
Contract services	17,800	16,839	
Insurance and bonding	11,037	11,037	
Capital outlay - buildings	130,198	150,525	
Capital outlay - improvements	20,327	-	-
Total cultural and recreational	569,150	564,384	4,766
Debt service			
Principal	213,416	213,417	
Interest and fees	71,053	71,053	-
Total debt service	284,469	284,470	(1)
Total expenditures	6,653,543	6,099,852	553,691
Revenues over (under) expenditures	(630,230)	328,230	958,460

**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, 2018**

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

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Other financing sources (uses)			
Proceeds of financing	<u>450,000</u>	<u>450,000</u>	<u>-</u>
Transfers from other funds			
Transfer from Building Improvement Fund	-	1,274	1,274
Transfer from Electric Fund	<u>-</u>	<u>102,878</u>	<u>102,878</u>
Total other financing sources (uses)	450,000	554,152	104,152
Appropriated fund balance	<u>180,230</u>	<u>-</u>	<u>(180,230)</u>
Net change in fund balance	<u>-</u>	882,382	<u>882,382</u>
Fund Balance			
Beginning of year		<u>2,043,301</u>	
End of year		<u>2,925,683</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, 2018**

EXHIBIT B-2

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues			
Investment earnings			
Interest income	-	815	815
	<hr/>	<hr/>	<hr/>
Total revenues	-	815	815
	<hr/>	<hr/>	<hr/>
Revenues over (under) expenditures	-	815	815
	<hr/>	<hr/>	<hr/>
Net change in fund balance	-	815	815
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Fund Balance			
Beginning of year		164,621	
		<hr/>	
End of year		165,436	
		<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, 2018

EXHIBIT B-3

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Actual Current Year</u>	<u>Total To Date</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues					
Investment earnings					
Interest earned	-	246	-	246	246
Miscellaneous					
Lease termination proceeds	36,800	36,819	-	36,819	19
Miscellaneous	-	480	-	480	480
Total revenues	<u>36,800</u>	<u>37,545</u>	<u>-</u>	<u>37,545</u>	<u>745</u>
Expenditures					
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)
Total expenditures	<u>1,970,000</u>	<u>1,969,471</u>	<u>-</u>	<u>1,969,471</u>	<u>529</u>
Excess of (under) revenues over expenditures	<u>(1,933,200)</u>	<u>(1,931,926)</u>	<u>-</u>	<u>(1,931,926)</u>	<u>1,274</u>
Other financing sources (uses)					
Transfers from other funds	1,933,200	1,933,200		1,933,200	
Transfers to other funds	-	-	(1,274)	(1,274)	(1,274)
Excess of revenues and other sources over expenditures	<u>-</u>	<u>1,274</u>	<u>(1,274)</u>	<u>-</u>	<u>-</u>
Fund balance					
Beginning of year			<u>1,274</u>		
End of year			<u>-</u>		

## 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, 2018**

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

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues			
Operating revenues			
Charges for services			
Electricity sales	7,864,500	7,769,992	(94,508)
Underground service	-	35,035	35,035
Service charges	<u>36,800</u>	<u>40,819</u>	<u>4,019</u>
Total charges for services	<u>7,901,300</u>	<u>7,845,846</u>	<u>(55,454)</u>
Other operating revenues			
Miscellaneous	<u>8,800</u>	<u>2,679</u>	<u>(6,121)</u>
Total operating revenues	<u>7,910,100</u>	<u>7,848,525</u>	<u>(61,575)</u>
Nonoperating revenues			
Interest on investments	<u>1,000</u>	<u>26,156</u>	<u>25,156</u>
Total nonoperating revenues	<u>1,000</u>	<u>26,156</u>	<u>25,156</u>
Total revenues	<u>7,911,100</u>	<u>7,874,681</u>	<u>(36,419)</u>
Expenditures			
Expenditures other than depreciation			
Salaries	264,065	266,003	
Employee overtime	9,235	3,184	
Professional services	18,000	14,152	
Social security	20,900	19,994	
Group insurance	73,600	76,594	
Retirement	20,800	18,206	
401 (k) retirement supplement	13,700	11,979	
Workers compensation insurance	9,730	9,730	
Uniforms and protective gear	1,179	1,300	
Telephone and postage	17,000	9,439	
Utilities	9,500	1,424	
Travel and training	4,700	625	

**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, 2018**

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

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Expenditures			
Expenditures other than depreciation			
Equipment maintenance	1,000	32,521	
Vehicle maintenance	1,000	12	
Gas, oil and tires	1,500	622	
Departmental supplies	15,950	12,658	
Utility sales tax	514,500	500,644	
Power purchased	5,000,000	5,000,495	
Billing contract	175,100	178,011	
Contract services	35,000	30,736	
Operations and maintenance contract	444,156	398,228	
Install load management switches	176,250	-	
Insurance and bonding	7,800	7,970	-
Total expenditures other than depreciation	<u>6,834,665</u>	<u>6,594,527</u>	<u>240,138</u>
Supplemental budget expenditures			
Capital outlay	1,583,628	656,372	-
Total supplemental expenditures	<u>1,583,628</u>	<u>656,372</u>	<u>927,256</u>
Total expenditures	<u>8,418,293</u>	<u>7,250,899</u>	<u>1,167,394</u>
Excess of revenues over (under) expenditures	<u>(507,193)</u>	<u>623,782</u>	<u>1,130,975</u>
Other financing sources (uses)			
Appropriated fund balance	507,193	-	(507,193)
Transfers to other funds			
Transfer to General Fund	-	(102,878)	(102,878)
Other financing sources over (under) uses	<u>507,193</u>	<u>(102,878)</u>	<u>(610,071)</u>
Revenues and other sources over expenditures and other uses	<u>-</u>	<u>520,904</u>	<u>520,904</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, 2018**

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

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Reconciliation of modified accrual basis to full accrual basis:			
Excess of revenues and other sources over (under) expenditures and other uses		520,904	
Depreciation		(319,700)	
Total supplemental budget expenditures		656,372	
Increase (decrease) in deferred outflows of resources - pensions		(17,396)	
(Increase) decrease in net pension liability		13,454	
(Increase) decrease in deferred inflows of resources - pensions		857	
(Increase) decrease in deferred outflows of resources - OPEB		2,236	
(Increase) decrease in unfunded OPEB liability		13,967	
(Increase) decrease in deferred inflows of resources - OPEB		(34,833)	
(Increase) decrease in accrued vacation		<u>(2,176)</u>	
Change in net position		<u><u>833,685</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, 2018**

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

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>Revenues</b>			
Operating revenues			
Charges for services			
Water sales	1,573,000	1,450,332	(122,668)
Sewer sales	1,704,000	1,780,781	76,781
Water and sewer tap fees	35,000	38,850	3,850
Service charges	<u>9,000</u>	<u>31,249</u>	<u>22,249</u>
Total charges for services	<u>3,321,000</u>	<u>3,301,212</u>	<u>(19,788)</u>
Other operating revenues			
Credit card fees	-	16,180	16,180
Miscellaneous	<u>2,709</u>	<u>36,317</u>	<u>33,608</u>
Total operating revenues	<u>3,323,709</u>	<u>3,353,709</u>	<u>30,000</u>
Nonoperating revenues			
Interest on investments	1,000	11,348	10,348
Wastewater treatment environmental study	36,000	-	(36,000)
Availability fees	<u>125,000</u>	<u>229,450</u>	<u>104,450</u>
Total nonoperating revenues	<u>162,000</u>	<u>240,798</u>	<u>78,798</u>
Total revenues	<u>3,485,709</u>	<u>3,594,507</u>	<u>108,798</u>
<b>Expenditures</b>			
Expenditures other than depreciation			
Salaries	408,565	386,404	
Employee overtime	27,035	15,053	
Professional fees	36,800	29,653	
Social security	33,400	29,359	
Group insurance	119,383	127,264	
Retirement	30,010	28,232	
401 (k) retirement supplement	25,090	18,574	
Unemployment expense	6,335	6,334	
Workers compensation insurance	15,862	15,861	
Uniforms and protective gear	8,500	8,368	
Telephone and postage	29,400	23,736	
Utilities	55,000	40,674	
Travel and training	5,400	3,775	

**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, 2018**

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

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Expenditures			
Expenditures other than depreciation			
Equipment repair	4,668	4,677	
Vehicle repair	15,570	17,711	
Sewer system repairs	150,705	161,628	
Gas, oil and tires	13,200	14,344	
Water and sewer supplies	151,301	151,254	
Annual permits and fees	6,200	4,495	
Water purchases	698,096	586,262	
Sewer capital charge	750,000	750,000	
Contract services	412,500	406,835	
Insurance and bonding	10,000	9,659	-
	<u>3,013,020</u>	<u>2,840,152</u>	<u>172,868</u>
Supplemental budget expenditures			
Capital outlay	396,118	243,236	152,882
Long-term debt payments	103,401	103,401	-
Interest expense	13,551	13,551	-
	<u>513,070</u>	<u>360,188</u>	<u>152,882</u>
Total expenditures	<u>3,526,090</u>	<u>3,200,340</u>	<u>325,750</u>
Revenues over (under) expenditures	<u>(40,381)</u>	<u>394,167</u>	<u>434,548</u>
Other financing sources (uses)			
Fund balance appropriated	40,381	-	(40,381)
	<u>40,381</u>	<u>-</u>	<u>(40,381)</u>
Other financing sources over (under) uses	<u>40,381</u>	<u>-</u>	<u>(40,381)</u>
Revenues and other sources over (under) expenditures and other uses	<u>-</u>	<u>394,167</u>	<u>394,167</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, 2018**

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

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Reconciliation of modified accrual basis to full accrual basis:			
Revenues and other sources over expenditures and other uses		394,167	
Principal retirement		103,401	
Capital outlay		243,236	
Depreciation		(496,949)	
(Increase) decrease in accrued vacation pay		(1,632)	
(Increase) decrease in interest payable		248	
Increase in deferred outflows of resources - pensions		(26,992)	
Increase in net pension liability		20,874	
Decrease in deferred inflows of resources - pensions		1,330	
Increase in deferred outflows of resources - OPEB		24,355	
(Increase) decrease in OPEB liability		20,832	
Decrease in deferred inflows of resources - OPEB		<u>(51,949)</u>	
 Change in net position of Water and Sewer Fund		 <u>230,921</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, 2018**

**EXHIBIT D-1**

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2017</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2018</u>
2017 - 2018		2,454,411	2,427,086	27,325
2016 - 2017	35,910		20,884	15,026
2015 - 2016	20,107		8,536	11,571
2014 - 2015	18,133		8,116	10,017
2013 - 2014	18,609		8,794	9,815
2012 - 2013	15,940		7,381	8,559
2011 - 2012	14,515		8,084	6,431
2010 - 2011	25,664		5,958	19,706
2009 - 2010	10,742		1,529	9,213
2008 - 2009	5,253		659	4,594
2007 - 2008	<u>3,371</u>	<u>-</u>	<u>3,371</u>	<u>-</u>
Total	<u>168,244</u>	<u>2,454,411</u>	<u>2,500,398</u>	122,257
Less allowance for uncollectible taxes receivable				<u>18,339</u>
Ad valorem taxes receivable - net				<u>103,918</u>
Reconciliation to revenues				
Ad Valorem Taxes - General Fund				2,527,070
Reconciling items				
Interest collected				(26,909)
Releases and adjustments				<u>237</u>
Subtotal				(26,672)
Total collections and credits				<u>2,500,398</u>

**City of Southport  
ANALYSIS OF CURRENT TAX LEVY  
CITY-WIDE LEVY  
June 30,2018**

**EXHIBIT D-2**

	City-Wide			Total Levy	
	<u>Property Valuation</u>	<u>Rate</u>	<u>Total Levy</u>	<u>Property Excluding Registered Motor Vehicles</u>	<u>Registered Motor Vehicles</u>
Original Levy:					
Property taxed at current rate	825,367,727	0.002956	2,439,787	2,319,187	120,600
Total	825,367,727		2,439,787	2,319,187	120,600
Discoveries					
Current year taxes	3,998,985	0.002956	11,821	11,821	
Penalties			2,803	2,803	-
Total valuation	829,366,712				
Net levy			2,454,411	2,333,811	120,600
Uncollected taxes at June 30, 2017			27,325	27,325	-
Current year's taxes collected			2,427,086	2,306,486	120,600
Current levy collection percentage			98.89%	98.83%	100.00%

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, 2018, 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 October 24, 2019.

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: 18-1 and 18-2.

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: 18-3.

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 18-3*.

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  
October 24, 2019

**City of Southport, North Carolina  
Schedule of Findings and Questioned Costs  
For the Fiscal Year Ended June 30, 2018**

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

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Modified

Internal control over financial reporting:

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

II. Financial Statement Findings

**MATERIAL WEAKNESS**

**Finding 18-1 Bank Accounts Not Timely Reconciled to the General Ledger**

Criteria: Internal Control Policies of the City require monthly reconciliation of bank accounts with the general ledger to ensure that receipts have been deposited and expenditures are correctly accounted for through the City's general ledger.

Condition: Bank accounts were not timely reconciled every month.

Effect: Financial reports may not correctly reflect the current cash, revenue, receivables, and expenditures.

Cause: Failure to follow and enforce city policy.

Identification of a repeat finding: This is a repeat finding from the previous year: 17-1

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 18-2 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, 2018**

**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: Staff was unable to have information readily available because of Hurricane Florence in September 2018 and the related after effects.

Identification of a repeat finding: This a repeat finding from the previous year: 17-2

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 DEFICIENCY**

**Finding 18 – 3 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 budgeted expenditures for General Government purposes in the Electric Fund.

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

Cause: Expenditures were not recorded in proper fund to determine needed budget amendments.

Identification of a repeat finding: This is a repeat finding from the previous year: 17- 4

Recommendation: Budget should be adopted with expenditures in the proper fund.

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, 2018**

**Exhibit E-2**

I. Financial Statement Findings

**Finding 18-1**

Name of contact person: Melanie Trexler, Finance Officer

Corrective Action: Will hire and train additional staff to timely reconcile bank statements to the general ledger.

Proposed completion date: September 30, 2019

**Finding 18-2**

Name of contact person: Melanie Trexler, Finance Officer

Corrective Action: To timely provide required information.

Proposed completion date: September 30, 2019

**Finding 18-3**

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, 2018**

**Exhibit E-3**

**Finding: 2017-1**

Status: The condition continues.

**Finding: 2017-2**

Status: The condition continues.

**Finding: 2017-3**

Status: The condition has been corrected.

**Finding: 2017-4**

Status: The condition continues