

**CITY OF SOUTHPORT**

**Financial Statements**

Southport, North Carolina

For the Year Ended June 30, 2023

City of Southport, North Carolina  
Financial Statements  
June 30, 2023

Mayor

Joseph Hatem

Board of Aldermen

Thomas Lombardi

Karen Mosteller

Robert Carroll

Richard Alt

John Allen

Lowe Davis

City Manager

Bonnie Therrien

Finance Director

Paul Gross (interim)

City Clerk

Dorothy Dutton

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## FINANCIAL SECTION



## INDEPENDENT AUDITORS' REPORT

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

### Opinions

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, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Southport, North Carolina, as of June 30, 2023, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of City of Southport ABC Board, which represents 100 percent of the assets, net position, and revenues of the aggregate discretely presented component unit as of June 30, 2023, and the respective changed in financial position, and where applicable, cash flows thereof for the year then ended. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the City of Southport ABC Board, is based solely on the report of the other auditors.

### Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Southport, North Carolina, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the Local Government Employee's Retirement System's Schedules of the Proportionate Share of the Net Pension Liability and Contributions, the Law Enforcement's Officers' Special Separation Allowance schedules of the Changes in Total Pension Liability, the Total Pension Liability as a Percentage of Covered Payroll, the Other Postemployment Benefits Schedule of Changes in the Total OPEB Liability and Related Ratios, and budgetary comparison information be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.



We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements.

We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Supplementary Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual fund financial statements, budgetary schedules and other schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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. In our opinion, the combining and individual nonmajor fund financial statements 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 January 12, 2024, on our consideration of the City of Southport's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Southport's 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 Wilson's Mills' internal control over financial reporting and compliance.

*Sharpe Patel PLLC*

Raleigh, North Carolina  
January 12, 2024

## 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, 2023. 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

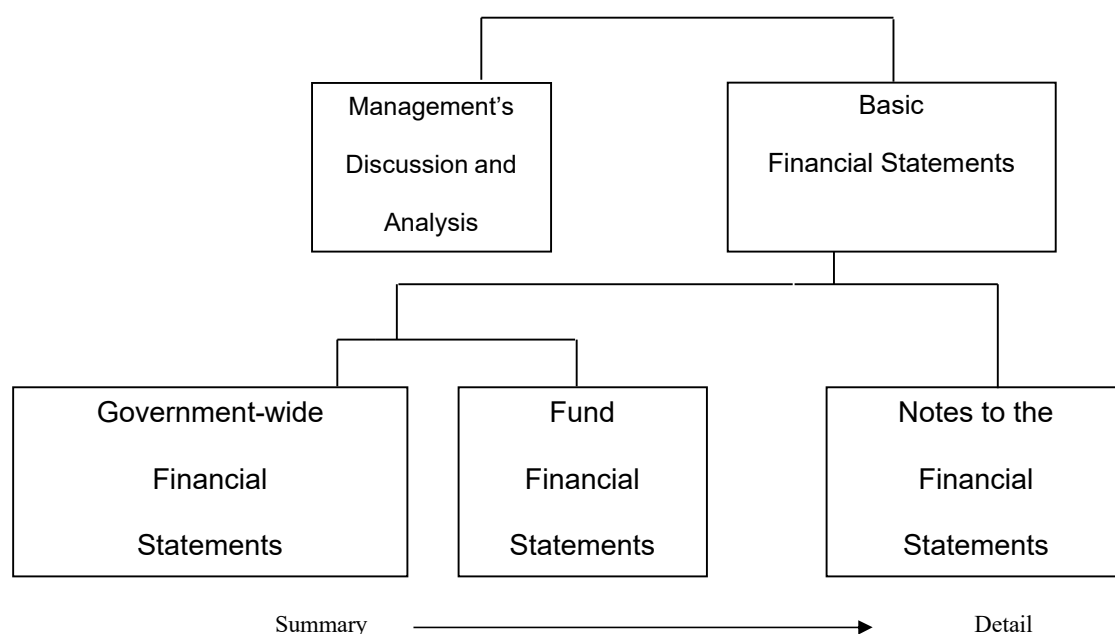
- The assets and deferred outflows of the City of Southport exceeded its liabilities and deferred inflows at the close of the fiscal year by \$58,552,312 (net position).
- Total government's total net position increased by \$3,954,944 which consisted of an increase in governmental activities of \$1,238,410 and an increase in business-type activities of \$2,716,534.
- As of the close of the current fiscal year, the City of Southport's governmental funds reported combined ending fund balances of \$9,750,165, an increase of \$2,142,010 in comparison with the prior year. Approximately \$1,584,155 (16.25 percent) is unavailable (nonspendable or restricted). Approximately 83.75 percent is unassigned or available for spending at the government's discretion.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$9,765,883 or 91.17 percent of total general fund expenditures for the fiscal year; compared to \$6,154,275, or 83.72 percent the prior fiscal year.
- The City of Southport's total debt (excluding compensated absences, net pension liability, total pension liability, and total OPEB liability) decreased by \$820,366 (21.04 percent) during the current fiscal year.

### Overview of the Financial Statements

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

#### 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 10) are Fund Financial Statements. These statements focus on the activities of the individual parts of the City's government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; and 3) the proprietary fund statements.

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

## **Government-Wide Financial Analysis**

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.

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, streets and public works, sanitation, culture 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, 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 on Exhibits 1 and 2 of this report.

## **Fund Financial Statements**

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

An annual budget is adopted for the City of Southport 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. This statement shows four columns: 1) the original budget as adopted by the Board; 2) the final budget as amended by the Board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges.

**Proprietary Funds** – The City of Southport has 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 activities and for its electric operations. These funds are the same as the separate activity shown in the business-type activities in the Statement of Net Position and the Statement of Activities.

**Fiduciary Funds** - Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The City of Southport has one fiduciary fund; the Firemen's Relief Fund.

**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 included in this report after Exhibit 10 of this report.

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

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

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>
Current and other assets	\$ 17,100,899	\$ 8,869,336	\$ 18,708,323	\$ 17,054,038	\$ 35,809,222	\$ 25,923,374
Capital assets	14,361,008	14,829,025	27,556,530	27,447,832	41,917,538	42,276,857
Deferred outflows of resources	2,282,456	1,857,460	451,121	607,428	2,733,577	2,464,888
Total assets and deferred outflows of resources	33,744,363	25,555,821	46,715,974	45,109,298	80,460,337	70,665,119
Other liabilities	7,534,595	2,008,152	1,777,612	1,802,169	9,312,207	3,810,321
Long-term liabilities	8,832,705	8,532,084	1,790,570	2,581,198	10,623,275	11,113,282
Deferred inflows of resources	1,709,292	1,085,049	263,251	384,985	1,972,543	1,470,034
Total liabilities and deferred inflows of resources	18,076,592	11,625,285	3,831,433	4,768,352	21,908,025	16,393,637
Net position:						
Invested in capital assets, net of related debt	12,344,814	12,319,591	27,071,853	26,860,130	39,416,667	39,179,721
Restricted	1,545,094	1,619,558	3,575,590	3,575,590	5,120,684	5,195,148
Unrestricted	1,777,863	639,686	12,237,098	10,059,645	14,014,961	10,699,331
Total net position	\$ 15,667,771	\$ 14,578,835	\$ 42,884,541	\$ 40,495,365	\$ 58,552,312	\$ 55,074,200

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The City's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$58,552,312 as of June 30, 2023. The City's net position increased by \$3,954,944 for the fiscal year ended June 30, 2023. The largest portion of net position \$39,416,667 (67.32%) reflects the City's investment in capital assets (e.g. land, buildings, and equipment) less any related debt still outstanding that was issued to acquire those items. The City of Southport uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. An additional portion of the City's net position \$5,195,148 (9.43%) represents resources that are subject to external restriction on how they may be used. The remaining balance of \$5,120,864 (8.75%) 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 99.40%.

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

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 3,566,242	\$ 2,681,540	\$ 14,176,692	\$ 13,325,143	\$ 17,742,934	\$ 16,006,683
Operating grants and contributions	168,456	454,226	-	1,096,748	168,456	1,550,974
Capital grants and contributions	72,865	-	678,669	1,443,467	751,534	1,443,467
General revenues:						
Property taxes	4,566,413	3,343,675	-	-	4,566,413	3,343,675
Other taxes and licenses	223,526	232,014	-	-	223,526	232,014
Unrestricted intergovernmental	2,833,846	2,604,021	-	-	2,833,846	2,604,021
Investment earnings, unrestricted	540,453	24,995	120,058	97	660,511	25,092
Other	225,671	219,409	-	-	225,671	219,409
Gain/Loss on disposal of fixed assets	25,760	(3,899)	-	-	25,760	(3,899)
Total revenues	12,223,232	9,555,981	14,975,419	15,865,455	27,198,651	25,421,436
<b>Expenses</b>						
General government	3,836,176	2,155,172	-	-	3,836,176	2,155,172
Public safety	5,123,117	4,248,668	-	-	5,123,117	4,248,668
Transportation	632,558	522,917	-	-	632,558	522,917
Environmental Protection	308,232	277,133	-	-	308,232	277,133
Cultural and recreation	1,026,513	498,801	-	-	1,026,513	498,801
Interest on long-term debt	58,226	67,486	-	-	58,226	67,486
Electric	-	-	8,007,857	7,263,825	8,007,857	7,263,825
Water and sewer	-	-	4,251,028	4,186,254	4,251,028	4,186,254
Total expenses	10,984,822	7,770,177	12,258,885	11,450,079	23,243,707	19,220,256
Change in net position before Transfers	1,238,410	1,785,804	2,716,534	4,415,376	3,954,944	6,201,180
Transfers	-	-	-	-	-	-
Change in net position	1,238,410	1,785,804	2,716,534	4,415,376	3,954,944	6,201,180
<b>Net Position</b>						
Beginning of year - July 1	14,578,835	12,793,031	40,495,365	36,079,989	55,074,200	48,873,020
Restatement	(149,474)	-	(327,358)	-	(476,832)	-
Beginning of year, as restated	14,429,361	11,453,096	40,168,007	32,948,669	54,597,368	44,401,765
End of year - June 30	\$ 15,667,771	\$ 14,578,835	\$ 42,884,541	\$ 40,495,365	\$ 58,552,312	\$ 55,074,200

**Governmental activities.** Governmental activities revenues exceeded expenses by \$1,238,410. The city returned to normal but aired on the side of caution after the pandemic. Sales tax continued to soar and ABC store sales continued to exceed expectations from previous fiscal year. Other key elements for the increase are as follows:

- Local options sales tax had approximately \$440,000 in additional revenue compared to the expectation in the budget.
- The Southport ABC store brought in approximately \$180,000 in revenue that exceeded the expected amount in the budget.
- Renting of City facilities had more traction after the pandemic. Increased rentals of most buildings, namely the Community Building for requested special events by citizens.
- FEMA reimbursements continued in 2023, with additional revenues increasing from reimbursement of prior hurricane

**Business-type activities.** Business-type activities increased the City's net position by \$2,716,534. The city continued to see savings from infrastructure improvements prior for prior year(s). Mid-year sewer rate increased revenues, as well as the delaying the purchase of a sewer vacuum truck. Other elements of this increase in net position are as follows:

- The receiving of the \$631,977 of the final funding for the ARPA Grant; A federal grant with the purpose of alleviating the financial impact of COVID-19 and assisting in the betterment of the City.
- Increase in revenues collected in both Electric and Water & Sewer funds.

### **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. Additionally, during the year the City continued with the federal grant fund, ARPA Funding. This fund was created for the receiving of funds for COVID-19 impact. Revenues for this fund totaled \$631,977 for the year, \$1,263,954 combined with previous years funding. The Capital Project fund spent \$10,708 for capital items with \$582,672 available for future projects. The Taylor Field Part F Grant project was completed and fully opened for public use. Capital expenditures for this project totaled \$417,767. This fund was financed partially through PART F grant funding, thus significantly reduced expenditures for the city regarding this project.

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

The general fund is the chief operating fund of the City of Southport. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$8,764,399, while total fund balance reached \$9,765,883. The City currently has an available fund balance of 91.17% of total General Fund expenditures, while total fund balance represents 101.59% of that same amount.

At June 30, 2023, the governmental funds of the City of Southport reported a combined fund balance of \$9,750,165, a 28.15% increase over last year.

**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. Total amendments were made during the year to increase the General Fund budget by \$76,415.

**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 was \$6,472,826 and for the Electric Fund was \$5,764,272. The total increase in net position for the Water and Sewer Fund was \$3,095,670, and the Electric Fund had a total decrease in net position of \$379,136.

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

**Capital Assets.** The City of Southport's capital assets for its governmental and business-type activities as of June 30, 2023 totals \$41,917,538 (net of accumulated depreciation). These assets include buildings, land, improvements, equipment, vehicles, infrastructure, utility systems, and construction in progress.

Major capital asset transactions during the year include:

- Street sweeper
- water and sewer and electric capital projects

**City of Southport's Capital Assets**  
**(Net of depreciation)**  
**Figure 4**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>
Land	\$ 2,917,452	\$ 2,917,452	\$ 2,827,985	\$ 2,827,985	\$ 5,745,437	\$ 5,745,437
Building and improvements	6,605,919	6,748,085	66,134	68,030	6,672,053	6,816,115
Improvements other than Buildings	288,067	322,811	-	-	288,067	322,811
Utility systems	-	-	24,170,249	23,902,911	24,170,249	23,902,911
Furniture and Equipment	528,223	379,219	260,356	450,267	788,579	829,486
Infrastructure	2,629,213	2,824,671	-	-	2,629,213	2,824,671
Vehicles and motorized equipment	931,828	1,218,994	102,416	123,639	1,034,244	1,342,633
Construction in progress	460,306	417,793	129,390	75,000	589,696	492,793
<b>Total</b>	<b>\$ 14,361,008</b>	<b>\$ 14,829,025</b>	<b>\$ 27,556,530</b>	<b>\$ 27,447,832</b>	<b>\$ 41,917,538</b>	<b>\$ 42,276,857</b>

**Long-term Debt.** As of June 30, 2023, the City of Southport had total debt from financing of assets outstanding of \$2,500,223 as noted in the following table. The City also had \$579,265 in lease liabilities outstanding.

**City of Southport's Outstanding Debt**  
**Figure 5**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>
Direct Borrowing / Placement						
Installment Agreements	\$ 2,014,436	\$ 2,508,591	\$ 485,787	\$ 589,188	\$ 2,500,223	\$ 3,097,779
Leases	468,842	649,142	110,423	152,933	579,265	802,075
Compensated absences	270,660	215,137	23,729	23,729	294,389	238,866
Net pension liability (LGERS)	1,953,870	430,106	449,942	190,540	2,403,812	620,646
Total pension liability (FIRE)	491,355	817,018	-	-	491,355	817,018
Total pension liability (LEOSSA)	471,276	507,470	-	-	471,276	507,470
Total OPEB Liability	3,788,829	4,132,858	872,499	1,740,845	4,661,328	5,873,703
<b>Total</b>	<b>\$ 9,459,268</b>	<b>\$ 9,260,322</b>	<b>\$ 1,942,380</b>	<b>\$ 2,697,235</b>	<b>\$ 11,401,648</b>	<b>\$ 11,957,557</b>

The City of Southport's total debt decreased by \$820,366 during the past fiscal year, primarily due to required annual payments on loan agreements and leases. The City took out no new debt during the year ended June 30, 2023.

The state of North Carolina limits the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the City of Southport is approximately \$90,113,629.

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

**Economic Factors and Next Year's Budget Rates**

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

- New residential homes continue to be built at a consistent rate, thus growing the number of residents in the City.
- All city facilities and surrounding business being fully opened, resulted in the ability to receive more revenue. These were from facility rentals and Local Options Sales Tax
- Occupancy tax continues to increase with increased tourism to our city.

## **Budget Highlights for the Fiscal Year Ending June 30, 2024**

**Governmental Activities:** The City was awarded a grant for Waterfront Stabilization Project in the amount of \$5,000,000 to begin stabilizing the erosion of the waterfront. The continuance of FEMA reimbursement, for prior hurricanes, will be disbursed to the City until all eligible projects or repairs have been accounted for.

Budgeted expenditures in the General Fund are expected to rise approximately 14.7% to \$1,570,424. Management believes that increased revenues and continued restrictions on spending will maintain the City's financial position. The city has gone to a neutral tax rate of 27.5 for 2024 fiscal year. The Fire & Rescue Departments will be Paramedic certified within the fire district. This will receive increased revenues to cover expenses.

**Business-Type Activities:** The water and sewer rates did not increase in 2022-2023 fiscal year, but rates will increase by approximately 2%, beginning in July 2023. The City is still working diligently on two grants for water & sewer infrastructure; USDA Grant and Loan in the amount of \$10,500,000 will be used to replace 100-year sewer lines and the grant from the Department of Environmental Quality in the amount \$2,800,000 and will be used for sewer lift station rehabilitation. The City was awarded funds in the amount of \$100,000 for a water & sewer merger feasibility study. This will be used towards the discussions of the City and Brunswick County merging water & sewer services to Brunswick County. The Electric Fund continues to invest in underground infrastructure and improvements to the Electric service.

### **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, 2023**

	<b>Primary Government</b>			<b>Component Unit</b>
	<b>Governmental</b>	<b>Business-type</b>		<b>Southport ABC</b>
	<b>Activities</b>	<b>Activities</b>	<b>Total</b>	<b>Board</b>
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 13,918,666	\$ 13,396,538	\$ 27,315,204	\$ 583,854
Taxes receivables (net)	25,799	-	25,799	-
Accounts receivable (net)	37,220	1,359,742	1,396,962	-
Accrued interest receivable on taxes	2,675	-	2,675	-
Due from other governments	1,171,694	-	1,171,694	-
Inventories	-	-	-	493,360
Prepaid Expenses	277	-	277	36,326
Restricted cash and cash equivalents	1,477,484	3,840,510	5,317,994	-
Total current assets	16,633,815	18,596,790	35,230,605	1,113,540
Non-Current assets:				
Right to use assets, net	467,084	111,533	578,617	-
Capital Assets:				
Land, non-depreciable, improvements, and construction in process	3,377,758	2,957,375	6,335,133	333,232
Other capital assets, net of depreciation	10,983,250	24,599,155	35,582,405	1,042,889
Total capital assets	14,361,008	27,556,530	41,917,538	1,376,121
Total non-current assets	14,828,092	27,668,063	42,496,155	1,376,121
<b>Total assets</b>	<b>31,461,907</b>	<b>46,264,853</b>	<b>77,726,760</b>	<b>2,489,661</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Pension related deferrals	1,764,825	331,919	2,096,744	139,424
OPEB related deferrals	517,631	119,202	636,833	41,581
Total Deferred Outflows of Resources	2,282,456	451,121	2,733,577	181,005
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable and accrued expenses	621,475	1,186,403	1,807,878	850,814.00
Customer deposits	2,003	264,920	266,923	-
Accrued interest payable	63,112	508	63,620	-
Unspent grant proceeds	6,221,442	-	6,221,442	-
Payable from restricted assets	-	173,970	173,970	-
Current portion of long-term liabilities	626,563	151,811	778,374	57,909
Total current liabilities	7,534,595	1,777,612	9,312,207	908,723
Long-term liabilities:				
Net pension liability (LGRS)	1,953,870	449,942	2,403,812	183,911
Total pension liability	962,631	-	962,631	-
Total OPEB liability	3,788,829	872,499	4,661,328	147,168
Due in more than one year	2,127,375	468,129	2,595,504	1,073,070
Total long-term liabilities	8,832,705	1,790,570	10,623,275	1,404,149
<b>Total liabilities</b>	<b>16,367,300</b>	<b>3,568,182</b>	<b>19,935,482</b>	<b>2,312,872</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Pension deferrals	569,264	3,085	572,349	1,235
OPEB related deferrals	1,129,773	260,166	1,389,939	40,090
Unearned income	10,255	-	10,255	-
Total Deferred Inflows of Resources	1,709,292	263,251	1,972,543	41,325
<b>NET POSITION</b>				
Net investment in capital assets	12,344,814	27,071,853	39,416,667	202,616
Restricted for:				
Stabilization by State Statute	1,937,769	-	1,937,769	-
Streets - Powell Bill	211,527	-	211,527	-
Other Functions	-	-	-	183,732
Capital projects	582,671	3,575,590	4,158,261	-
Unrestricted	590,990	12,237,098	12,828,088	(69,879)
Total net position	\$ 15,667,771	\$ 42,884,541	\$ 58,552,312	\$ 316,469

The notes to the financial statement are an integral part of this statement.

City of Southport, North Carolina  
Statement of Activities  
For the Year Ended June 30, 2023

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			Component Unit Southport ABC Board
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
<b>Primary government:</b>								
Governmental Activities:								
General government	\$ 3,836,176	\$ 201,142	\$ -	\$ 42,512	\$ (3,592,522)	\$ -	\$ (3,592,522)	
Public safety	5,123,117	3,026,210	168,456	-	(1,928,451)	-	(1,928,451)	
Transportation	632,558	-	-	-	(632,558)	-	(632,558)	
Cultural and Recreational	1,026,513	338,890	-	30,353	(657,270)	-	(657,270)	
Environmental Protection	308,232	-	-	-	(308,232)	-	(308,232)	
Interest on long-term debt	58,226	-	-	-	(58,226)	-	(58,226)	
Total governmental activities	10,984,822	3,566,242	168,456	72,865	(7,177,259)	-	(7,177,259)	
Business-type activities:								
Electric	8,007,857	7,568,622	-	-	-	(439,235)	(439,235)	
Water and Sewer	4,251,028	6,608,070	-	678,669	-	3,035,711	3,035,711	
Total business-type activities	12,258,885	14,176,692	-	678,669	-	2,596,476	2,596,476	
Total primary government	\$ 23,243,707	\$ 17,742,934	\$ 168,456	\$ 751,534	(7,177,259)	2,596,476	(4,580,783)	
<b>Component units:</b>								
ABC Board	\$ 6,275,242	\$ 6,275,242	\$ -	\$ -				\$ -
Total component units	\$ 6,275,242	\$ 6,275,242	\$ -	\$ -				\$ -
<b>General revenues:</b>								
Taxes:								
Ad valorem taxes					4,566,413	-	4,566,413	-
Unrestricted intergovernmental					2,833,846	-	2,833,846	-
Other taxes and licenses					223,526	-	223,526	-
Unrestricted investment earnings					540,453	120,058	660,511	-
Miscellaneous					225,671	-	225,671	-
Special items:								
Gain (loss) on disposal of fixed assets					25,760	-	25,760	-
Total general revenues, special items, and transfers					8,415,669	120,058	8,535,727	-
Change in net position					1,238,410	2,716,534	3,954,944	-
Net position, beginning as previously stated					14,578,835	40,495,365	55,074,200	316,469
Restatement					(149,474)	(327,358)	(476,832)	-
Net position beginning, as restated					14,429,361	40,168,007	54,597,368	316,469
Net position, ending					\$ 15,667,771	\$ 42,884,541	\$ 58,552,312	\$ 316,469

The notes to the financial statements are an integral part of this statement.

**City of Southport, North Carolina**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2023**

	<b>Major Fund</b>			<b>Non-Major</b>	
			<b>Waterfront</b>	<b>Other</b>	<b>Total</b>
	<b>General Fund</b>	<b>ARPA Fund</b>	<b>Stabilization</b>	<b>Governmental</b>	<b>Governmental</b>
			<b>Fund</b>	<b>Funds</b>	<b>Funds</b>
<b>ASSETS</b>					
Cash and investments	\$ 8,378,506	\$ -	\$ 4,957,488	\$ 582,671	\$ 13,918,665
Restricted Cash and cash equivalents	213,530	1,263,954	-	-	1,477,484
Taxes Receivable, net:	25,799	-	-	-	25,799
Accounts and Other Receivable	37,177	-	-	-	37,177
Due from other governments	1,171,694	-	-	-	1,171,694
Due from other funds	598,432	-	-	-	598,432
Prepaid Expenses	277	-	-	-	277
Total assets	<u>\$ 10,425,415</u>	<u>\$ 1,263,954</u>	<u>\$ 4,957,488</u>	<u>\$ 582,671</u>	<u>\$ 17,229,528</u>
<b>LIABILITIES</b>					
Accounts payable and accrued liabilities	\$ 87,994	\$ -	\$ -	\$ -	\$ 87,994
Accrued payroll and payroll liabilities	533,481	-	-	-	533,481
Unspent grant proceeds	-	1,263,954	4,957,488	-	6,221,442
Due to other funds	-	-	-	598,389	598,389
Customer Deposits	2,003	-	-	-	2,003
Total liabilities	<u>623,478</u>	<u>1,263,954</u>	<u>4,957,488</u>	<u>598,389</u>	<u>7,443,309</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Property taxes receivable	25,799	-	-	-	25,799
Prepaid property taxes	10,255	-	-	-	10,255
Deferred revenues	-	-	-	-	-
Total deferred inflows of resources	<u>36,054</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>36,054</u>
<b>Fund balances:</b>					
Nonspendable:					
Prepaid expenses	277	-	-	-	277
Restricted:					
Stabilization by State Statute	1,937,769	-	-	-	1,937,769
Streets	211,527	-	-	-	211,527
Capital Outlay	-	-	-	582,671	582,671
Committed:					
Fire Protection	38,784	-	-	-	38,784
Assigned:					
Subsequent year's expenditures	-	-	-	-	-
Unassigned	7,577,526	-	-	(598,389)	6,979,137
Total fund balances	<u>9,765,883</u>	<u>-</u>	<u>-</u>	<u>(15,718)</u>	<u>9,750,165</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 10,425,415</u>	<u>\$ 1,263,954</u>	<u>\$ 4,957,488</u>	<u>\$ 582,671</u>	<u>\$ 17,229,528</u>

(cont)

**City of Southport, North Carolina**  
**Reconciliation of the Governmental Funds to the Statement of Net Position**  
**June 30, 2023**

Amounts reported for governmental activities in the statement of net position (Exhibit 1) are different because:

Total Fund Balance, Governmental Funds	\$ 9,750,165
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	14,361,008
Right to use assets used in governmental activities are not financial resources and therefore are not reported in	467,084
Earned revenues considered deferred inflows of resources in fund statements.	25,799
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.	2,675
Deferred outflows of resources related to OPEB are not reported in the funds	517,631
Deferred outflows of resources related to pensions are not recorded on the fund statements	1,764,825
Some liabilities, including bonds payable and accrued interest, are not due and payable in the current period and therefore are not reported in the funds.	
Installment Purchase Agreements	(2,014,435)
Lease liability	(468,842)
Compensated Absences	(270,660)
Net pension liability (LGERS)	(1,953,870)
Total pension liability (LEOSSA)	(471,276)
Total pension liability (Fire)	(491,355)
Total OPEB liability	(3,788,829)
Accrued interest payable	(63,112)
Deferred inflows of resources related to OPEB are not reported in the funds	(1,129,773)
Deferred inflows of resources related to pensions are not recorded on the fund statements	(569,264)
Net position of governmental activities	<u><u>\$ 15,667,771</u></u>

The notes to the financial statements are an integral part of this statement.

**City of Southport**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2023**

	<b>Major Funds</b>			<b>Total</b>	<b>Total</b>
	<b>General Fund</b>	<b>ARPA Fund</b>	<b>Waterfront Stabilization Fund</b>	<b>Non-Major Governmental Funds</b>	<b>Governmental Funds</b>
<b>REVENUES</b>					
Ad valorem taxes	\$ 4,569,573	\$ -	\$ -	\$ -	\$ 4,569,573
Other taxes and licenses	220,258	-	-	-	220,258
Unrestricted intergovernmental	2,833,846	-	-	-	2,833,846
Restricted intergovernmental	2,128,296	-	42,513	-	2,170,809
Permits and fees	855,710	-	-	-	855,710
Sales and services	816,148	-	-	-	816,148
Investment earnings	540,453	-	-	-	540,453
Miscellaneous	219,594	-	-	-	219,594
Total revenues	<u>12,183,878</u>	<u>-</u>	<u>42,513</u>	<u>-</u>	<u>12,226,391</u>
<b>EXPENDITURES</b>					
Current:					
General government	2,645,115	-	-	-	2,645,115
Public safety	4,247,278	-	-	-	4,247,278
Street and Public Works	813,202	-	-	-	813,202
Sanitation	308,232	-	-	-	308,232
Cultural and recreation	561,003	-	-	-	561,003
Rescue	486,182	-	-	-	486,182
Debt service:					
Principal	494,155	-	-	-	494,155
Interest and other charges	58,226	-	-	-	58,226
Capital outlay	-	-	42,513	428,475	470,988
Total expenditures	<u>9,613,393</u>	<u>-</u>	<u>42,513</u>	<u>428,475</u>	<u>10,084,381</u>
Excess (deficiency) of revenues over expenditures	<u>2,570,485</u>	<u>-</u>	<u>-</u>	<u>(428,475)</u>	<u>2,142,010</u>
Net Change in fund balance	2,570,485	-	-	(428,475)	2,142,010
Fund balances, beginning	<u>7,195,398</u>	<u>-</u>	<u>-</u>	<u>412,757</u>	<u>7,608,155</u>
Fund balances, ending	<u>\$ 9,765,883</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (15,718)</u>	<u>\$ 9,750,165</u>

**City of Southport**  
**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, 2023**

Amounts reported for governmental activities in the statement of activities are different because:

Net changes in fund balances - total governmental funds	\$ 2,142,010
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Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Capital outlay expenditures which were capitalized	481,583	
Depreciation expense for governmental assets	(800,125)	
Loss on disposal of capital assets	<u>-</u>	(318,542)

Right to use lease assets used in governmental activities are not financial resources and therefore are not reported in the funds

Right to use assets at historical cost	-	
Accumulated amortization	<u>(181,215)</u>	(181,215)

Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities	432,934
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Change in unavailable revenue for tax revenues	(3,160)
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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 financial 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 payments on debt	494,155	
Principal payments on leases	<u>180,300</u>	674,455

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Compensated absences	(55,523)	
Pension expense	(651,276)	
Separation allowance	(76,683)	
Firefighters' retirement	(44,141)	
OPEB Expense	<u>(680,449)</u>	

Total changes in net position of governmental activities	<u><u>\$ 1,238,410</u></u>
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**City of Southport**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances -**  
**Annual Budget and Actual**  
**General Fund**  
**For the Year Ended June 30, 2023**

	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues:				
Ad valorem taxes	\$ 4,389,272	\$ 4,389,272	\$ 4,569,573	\$ 180,301
Other taxes and licenses	204,035	204,035	220,258	16,223
Unrestricted intergovernmental	2,103,900	2,103,900	2,833,846	729,946
Restricted intergovernmental	2,484,284	2,484,284	2,128,296	(355,988)
Permits and fees	736,275	736,275	855,710	119,435
Sales and services	624,150	624,150	816,148	191,998
Investment earnings	12,074	12,074	540,453	528,379
Miscellaneous	123,880	196,651	219,594	22,943
Total revenues	10,677,870	10,750,641	12,183,878	1,433,237
Expenditures:				
Current:				
General government	3,058,992	3,013,915	2,645,115	368,800
Public safety	4,439,666	4,537,818	4,247,278	290,540
Transportation	937,592	999,312	813,202	186,110
Environmental protection	242,069	310,569	308,232	2,337
Cultural and recreation	957,755	861,516	561,003	300,513
Rescue	478,498	478,498	486,182	(7,684)
Debt service:				
Principal retirement	563,298	552,657	552,381	276
Total expenditures	10,677,870	10,754,285	9,613,393	1,140,892
Revenues over (under) expenditures	-	(3,644)	2,570,485	2,574,129
Other financing sources (uses):				
Appropriated fund balance	-	198,063	-	(198,063)
Transfers to other funds	-	(194,419)	-	194,419
Total other financing sources (uses)	-	3,644	-	(3,644)
Revenues and other sources over (under) expenditures and other uses	\$ -	\$ -	2,570,485	\$ 2,570,485
Fund balances, beginning			7,195,398	
Fund balances, ending			\$ 9,765,883	



**City of Southport**  
**Statement of Net Position**  
**Proprietary Funds**  
**June 30, 2023**

	<b>Major Enterprise Funds</b>		
	<b>Electric Fund</b>	<b>Water and Sewer Fund</b>	<b>Total</b>
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 6,250,697	\$ 7,145,840	\$ 13,396,537
Accounts receivable customers, net	395,184	543,688	938,872
Accounts receivable BEMC	420,870	-	420,870
Due from other governments	-	-	-
Restricted assets			
Cash and cash equivalents	170,827	3,669,683	3,840,510
Total current assets	<u>7,237,578</u>	<u>11,359,211</u>	<u>18,596,789</u>
Non-current assets:			
Right to use asset, net	14,403	97,130	111,533
Capital assets:			
Land and other non-depreciable assets	-	2,957,375	2,957,375
Other capital assets, net of depreciation	11,979,570	12,619,585	24,599,155
Capital assets (net)	<u>11,979,570</u>	<u>15,576,960</u>	<u>27,556,530</u>
Total noncurrent assets	<u>11,993,973</u>	<u>15,674,090</u>	<u>27,668,063</u>
Total assets	<u>19,231,551</u>	<u>27,033,301</u>	<u>46,264,852</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension deferrals	115,005	216,914	331,919
OPEB deferrals	41,302	77,900	119,202
Total Deferred Outflows of Resources	<u>156,307</u>	<u>294,814</u>	<u>451,121</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	873,546	235,757	1,109,303
Salaries payable	27,412	49,688	77,100
Customer deposits	170,827	94,093	264,920
Accounts payable from restricted assets	-	173,970	173,970
Compensated absences	2,102	3,831	5,933
Accrued interest payable	-	508	508
Bonds, notes, leases and loans payable	6,656	139,174	145,830
Total current liabilities	<u>1,080,543</u>	<u>697,021</u>	<u>1,777,564</u>
Noncurrent liabilities:			
Other non-current liabilities:			
Compensated absences	6,305	11,491	17,796
Net pension liability	155,899	294,043	449,942
Total OPEB Liability	302,309	570,190	872,499
Bonds, notes and loans payable	7,801	442,579	450,380
Total non-current liabilities	<u>472,314</u>	<u>1,318,303</u>	<u>1,790,617</u>
Total liabilities	<u>1,552,857</u>	<u>2,015,324</u>	<u>3,568,181</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Pension deferrals	1,069	2,016	3,085
OPEB deferrals	90,144	170,022	260,166
Total Deferred Inflows of Resources	<u>91,213</u>	<u>172,038</u>	<u>263,251</u>
<b>NET POSITION</b>			
Net Investment in capital assets	11,979,516	15,092,337	27,071,853
Other restrictions	-	3,575,590	3,575,590
Unrestricted	5,764,272	6,472,826	12,237,098
Total net position	<u>\$ 17,743,788</u>	<u>\$ 25,140,753</u>	<u>\$ 42,884,541</u>

**City of Southport**  
**Statement of Revenues, Expenses, and Changes in Fund Net Position**  
**Proprietary Funds**  
**For the Year Ended June 30, 2023**

	<b>Major Enterprise Funds</b>		
	<b>Electric Fund</b>	<b>Water and Sewer Fund</b>	<b>Total</b>
<b>OPERATING REVENUES</b>			
Charges for services	\$ 7,465,285	\$ 6,591,000	\$ 14,056,285
Other operating revenues	103,337	17,070	120,407
Total operating revenues	<u>7,568,622</u>	<u>6,608,070</u>	<u>14,176,692</u>
<b>OPERATING EXPENSES</b>			
Electric operations	2,384,468	-	2,384,468
Power / water purchases	5,198,455	778,998	5,977,453
Water and sewer operations	-	2,724,813	2,724,813
Depreciation and amortization	424,934	619,573	1,044,507
Total operating expenses	<u>8,007,857</u>	<u>4,123,384</u>	<u>12,131,241</u>
Operating income (loss)	<u>(439,235)</u>	<u>2,484,686</u>	<u>2,045,451</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Investment earnings	60,099	59,959	120,058
Interest and other charges	-	(127,644)	(127,644)
Total nonoperating revenues (expenses)	<u>60,099</u>	<u>(67,685)</u>	<u>(7,586)</u>
Income (loss) before contributions and transfers	(379,136)	2,417,001	2,037,865
Capital contributions	<u>-</u>	<u>678,669</u>	<u>678,669</u>
Total income (loss) after contributions and transfers	<u>(379,136)</u>	<u>3,095,670</u>	<u>2,716,534</u>
Change in net position	(379,136)	3,095,670	2,716,534
Total net position , beginning as previously reported	18,163,960	22,331,405	40,495,365
Restatement	<u>(41,036)</u>	<u>(286,322)</u>	<u>(327,358)</u>
Total net position , beginning as restated	<u>18,122,924</u>	<u>22,045,083</u>	<u>40,168,007</u>
Total net position, ending	<u>\$ 17,743,788</u>	<u>\$ 25,140,753</u>	<u>\$ 42,884,541</u>

**City of Southport**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended June 30, 2023**

	<b>Major Enterprise Funds</b>		
	<b>Electric Fund</b>	<b>Water and Sewer Fund</b>	<b>Total</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from customers	\$ 7,759,305	\$ 6,691,585	\$ 14,450,890
Cash paid for goods and services	(7,082,288)	(2,692,737)	(9,775,025)
Cash paid to or on behalf of employees for services	(538,949)	(1,436,777)	(1,975,726)
Net customer deposits	28,725	589	29,314
Other operating revenues	103,337	17,070	120,407
Net cash provided (used) by operating activities	270,130	2,579,730	2,849,860
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Increase in due from other funds	-	-	-
Increase in due to other funds	-	-	-
Net cash provided (used) by noncapital financing activities	-	-	-
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Acquisition and construction of capital assets	(1,221,610)	(216,066)	(1,437,676)
FEMA Reimbursements and Other Grants	-	-	-
Availability Fees	-	678,669	678,669
Interest paid on bonds and installment purchases	-	(127,644)	(127,644)
Repayment of debt obligations	(6,629)	(139,282)	(145,911)
Net cash provided (used) by capital and related financing activities	(1,228,239)	195,677	(1,032,562)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest and dividends	60,099	59,959	120,058
Net cash provided (used) by investing activities	60,099	59,959	120,058
Net increase (decrease) in cash and investments	(898,010)	2,835,366	1,937,356
Balances, beginning	7,319,534	7,980,157	15,299,691
Balances, ending	\$ 6,421,524	\$ 10,815,523	\$ 17,237,047

**City of Southport**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended June 30, 2023**

	<b>Major Enterprise Funds</b>		
	<b>Electric Fund</b>	<b>Water and Sewer Fund</b>	<b>Total</b>
Reconciliation of operating income to net cash provided by operating activities			
Operating income	\$ (439,235)	\$ 2,484,686	\$ 2,045,451
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation and amortization	424,934	619,573	1,044,507
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	170,295	9,142	179,437
(Increase) decrease in due from other governments	123,725	91,443	215,168
(Increase) decrease in inventory	-	-	-
(Increase) decrease in prepaid expenses	-	-	-
(Increase) in deferred outflows of resources - pensions	2,991	(4,401)	(1,410)
(Increase) in deferred outflows of resources - OPEB	40,822	116,895	157,717
Increase (decrease) in accounts payable and accrued liabilities	76,322	(184,052)	(107,730)
Increase (decrease) in accrued payroll and payroll	5,822	12,263	18,085
Increase (decrease) in customer deposits	28,725	589	29,314
Increase (decrease) in accrued vacation pay	-	(1)	(1)
Increase (decrease) in net pension liability	87,874	171,528	259,402
Increase (decrease) in deferred inflows of resources - pension	(97,546)	(175,592)	(273,138)
Increase (decrease) in deferred inflows of resources - OPEB	57,976	93,428	151,404
Increase (decrease) in OPEB liability	(212,575)	(655,771)	(868,346)
Total adjustments	\$ 709,365	\$ 95,044	\$ 804,409
Net cash provided by operating activities	\$ 270,130	\$ 2,579,730	\$ 2,849,860

**City of Southport, North Carolina**  
**Statement of Fiduciary Net Position**  
**Fiduciary Funds**  
**June 30, 2023**

	<u><b>Custodial</b></u> <u><b>Funds</b></u>
<b>ASSETS</b>	
Cash and investments	\$ 53,801
Total assets	<u>\$ 53,801</u>
 <b>LIABILITIES</b>	
Miscellaneous liabilities	<u>\$ -</u>
Total liabilities	<u>-</u>
 <b>NET POSITION</b>	
Restricted for:	
Fireman's Relief	\$ 53,801
Total fiduciary net position	<u>\$ 53,801</u>

**City of Southport, North Carolina**  
**Statement of Changes in Fiduciary Net Position**  
**Fiduciary Funds**  
**For the Year Ended June 30, 2023**

	<u><b>Custodial</b></u> <u><b>Funds</b></u>
<b>ADDITIONS</b>	
Insurance Income	\$ 9,422
Investment Income	920
Other Income	-
Total additions	<u>\$ 10,342</u>
 <b>DEDUCTIONS</b>	
Firefighter Physicals	\$ 7,190
Supplemental Insurance Premiums	<u>17,337</u>
Total deductions	<u>24,527</u>
 Net increase (decrease) in fiduciary net position	 (14,185)
 Net position - beginning as previously reported	 <u>67,986</u>
Net position - ending	<u>\$ 53,801</u>

**City of Southport, North Carolina**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2023**

**I. Summary of Significant Accounting Policies**

The accounting policies of the City of Southport (the City) and its discretely presented component unit conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant account policies:

**A. Reporting Entity**

The City is a municipal corporation, which 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 30th 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*, *proprietary*, and *fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise 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. Nonoperating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

The City reports the following major governmental funds:

**General Fund.** The General Fund is the general operating fund of the City. It is used to account 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.

**ARPA Fund.** The ARPA fund is used to account for ARPA funding to be used for COVID recovery efforts.

**Waterfront Stabilization Fund.** The Waterfront Stabilization fund is used to account for controlling the erosion along the City's

The City reports the following non-major governmental funds:

**Capital Project Fund.** The Capital Project Fund is used to account for the construction of various projects including: sidewalk and road repair, erosion control, storm water projects, City Hall building upgrades, a kayak launch, pier construction, and other capital projects.

**Taylor Field Part F Grant Phase 1 Capital Project Fund.** This fund is used to account for the construction of a new city park.

The City reports the following major enterprise funds:

**Electric Fund.** This fund is used to account for the City's electric fund operations. An NCDOT Improvement Program Fund has been consolidated into the Electric Fund for financial reporting purposes. The budgetary comparison for the NCDOT Improvement Program Fund has been included in the supplemental information.

**Water and Sewer Fund.** This fund is used to account for the City's water and sewer operations. A Howe Street Sewer Replacement Project Fund has been consolidated into the Water and Sewer Fund for financial reporting purposes. The budgetary comparison for the Howe Street Sewer Replacement Project Fund has been included in the supplemental information.

The City reports the following fund types:

**Fiduciary Funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The City has one fiduciary fund: the Firemen's Relief Fund, which is a custodial fund.

### **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, services, 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 as 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's 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. Issuance 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 a 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 because the tax is levied by Brunswick County and 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 and the Enterprise Funds. All annual appropriations lapse at the fiscal-year end. Project ordinances are adopted for capital project funds. The enterprise fund projects are consolidated with their respective operating fund for reporting purposes. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the project level for the multi-year funds. The City manager is authorized to reallocate departmental appropriations among the various objects of expenditures as he or she sees necessary; however, the governing board must approve any revisions that alter the total expenditures on 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 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 Super NOW 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 non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances and the North Carolina Capital Management Trust (NCCMT).

The majority of the City's and the ABC Board's investments are generally reported at fair value. Non-participating interest earning investment contracts are accounted for at cost.

The North Carolina Capital Management Trust (NCCMT), which consists of an SEC-registered money market mutual fund, (the Government Portfolio), is authorized by G.S. 159-30(c)(8). The Government Portfolio, which invests in treasuries and government agencies, is a money market fund (2a7) and maintains an AAAm rating from S&P and AAAmf by Moody's Investor Service. It is reported at fair value.

## 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 fees of the Water and Sewer Fund are classified as restricted assets for the enterprise fund because their use is completely restricted to the purposes 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 purposes of maintaining, repairing, constructing, reconstructing, or widening of local streets per G.S. 136-41.1 through 136-41.4. In addition, money received for Coronavirus State and Local Fiscal Recovery Funds received from the U.S. Treasury under the American Rescue Plan Act are restricted by federal law for the intended purposes.

### City of Southport Restricted Cash

Governmental Activities		
General Fund		
Customer deposits	\$	2,003
Streets		211,527
ARPA Fund		1,263,954
Total governmental activities	\$	<u>1,477,484</u>
Business-type Activities		
Electric Fund		
Customer deposits	\$	170,827
Water and Sewer Fund		
Customer deposits		94,093
System Development Fees		3,575,590
Total business-type activities	\$	<u>3,840,510</u>
Total Restricted Cash	\$	<u><u>5,317,994</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, 2021.

## 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 the lower cost (first in, first out) or 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 costs is \$5,000. Purchased or constructed capital assets are reported at cost or estimated historical costs. 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 useful lives to cost of the assets:

<u>Asset Class</u>	<u>Years</u>
Infrastructure	25-30
Utility systems	40
Intangible assets	40
Buildings	50
Improvements	25
Vehicles	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>Years</u>
Buildings	25
Furniture and equipment	10
Building improvements	10-20

## 8. Right to use assets

The City has recorded right to use lease assets as a result of implementing GASB 87. The right to use assets are initially measured at an amount equal to the initial measurement of the related lease liability plus any lease payments made prior to the lease term, less lease incentives, and plus ancillary charges necessary to place the lease into service. The right to use assets are amortized on a straight-line basis over the life of the related lease.

## 9. 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 so will not be recognized as an expense or expenditure until then. The City has two items that meets this criterion; pension related deferrals and OPEB related deferrals. 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 meet the criterion for this category - prepaid taxes, property taxes receivable, deferrals of pension expense, and OPEB related deferrals.

## 10. Long-Term Obligations

In the government-wide financial statements and in the 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 statement of net position.

In the fund financial statements for governmental fund types, the face amount of debt issued is reported as other financing sources.

## 11. 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 accumulate up to thirty days of vacation which is fully vested when earned. The current portion of the accumulated vacation pay is not considered to be material.

Both the City's and the ABC Board's sick leave policy provides 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.

## 12. Net Position/Fund Balances

### Net Position

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

### Fund Balances

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

## Fund Balances (continued)

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 the fund balance that is not an available recourse because it represents the year-end balance of ending inventories, which are not spendable resources. At June 30, 2022, 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 - North Carolina G.S. 159-8 prohibits units of government from budgeting or spending a portion of their fund balance. This is one of several statutes enacted by the North Carolina State Legislature in the 1930's that were designed to improve and maintain the fiscal health of local government units. Restricted by State statute (RSS), is calculated at the end of each fiscal year for all annually budgeted funds. The calculation in G.S. 159-8(a) provides a formula for determining what portion of fund balance is available for appropriation. The amount of fund balance not available for appropriation is what is known as "restricted by State statute". Appropriated fund balance in any fund shall not exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts, as those figures stand at the close of the fiscal year next preceding the budget. Per GASB guidance, RSS is considered a resource upon which a restriction is "imposed by law through constitutional provisions or enabling legislation." RSS is reduced by inventories and prepaids as they are classified as nonspendable. Outstanding Encumbrances are included within RSS. RSS is included as a component of Restricted Net position and Restricted fund balance on the face of the balance sheet.

Restricted for Streets - Powell Bill portion of fund balance that is restricted by revenue source for street construction and maintenance expenditures. The 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.

**Committed Fund Balance** - portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of the 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 the 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 the City of Southport intends to use for specific purposes.

Assigned for 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** - the 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 Director will use resources in the following hierarchy: bond proceeds, federal funds, State funds, local non-City funds, and 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 Director has the authority to deviate from this policy if it is in the best interest of the City.

### 13. Defined Benefit Cost-Sharing Plans

For the 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's employer contributions are recognized when due and the City has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the LGERS. Investments are reported as fair value.

### 14. Use of Estimates

The preparation of financial statements in conformity with general accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant areas where estimates are made are allowance for doubtful accounts and depreciation lives.

## II. Stewardship, Compliance, and Accountability

### A. Excess of Expenditures over Appropriation

For the year ended June 30, 2023, the City expended \$427,199 more for electric fund operating for operations than appropriated in the budget. Finally, the City expended \$47,4109 more water and sewer supplies in the water & sewer fund than appropriated in the budget. Management and the Board will careful monitor the budget in future years.

## III. Detail Notes on All Funds

### A. Assets

#### 1. Deposits

All the deposits of the City and 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 and ABC Board agents in the City's 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 ABC Board, these deposits are considered to be held by the City's and ABC Boards agents in their name. 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 and ABC Board or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the City and ABC Board under the Pooling Method, the potential exists for undercollateralization, 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, 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 property secured. The ABC Board has no formal policy regarding custodial credit risk for deposits.

At June 30, 2023, the City's deposits had a carrying amount of \$32,255,002 and a bank balance of \$32,577,816. Of the bank balance, \$250,000 was covered by federal depository insurance and the remainder was covered under the pooling method. The carrying amount of the deposits of the ABC Board was \$563,714 and the bank balance was \$615,521. \$250,000 of the bank balance was covered by federal depository insurance, and the remainder was covered under the pooling method. The City's cash on hand totaled \$450 at June 30, 2023.

## 2. Investments

At June 30, 2023, the City had \$377,745 invested with the North Carolina Capital Management Trust's Government Portfolio which carried a credit rating of AAAM by Standard and Poor's. The City has no policy regarding credit risk.

All investments are measured using the market approach: using prices and other relevant information generated by market transactions involving identical or comparable assets or a group of assets. Level of fair value hierarchy: Level 1: Debt securities 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 does not have a formal investment policy that specifically limits investment maturities as a means of managing its exposure to fair value losses arising from rising interest rates.

*Credit Risk.* The City has no formal policy regarding credit risk. The City's investment in the NC Capital Management Trust Government Portfolio carried a credit rating of AAAM by Standard & Poor's and AAAM-mf by Moody's Investor Service as of June 30, 2023.

*Concentration of Credit Risk.* The City places no limit on the amount that the City may invest in any one issuer.

## 3. Receivables – Allowance for Doubtful Accounts

The amounts presented in the balance sheet and the statement of net position for the year ended June 30, 2023 are net of the following allowances for doubtful accounts.

	Accounts	Taxes	Due from other governments	Total
Governmental Activities:				
General	\$ 46,185	\$ 45,352	\$ 1,171,694	\$ 1,263,231
Other Governmental	-	-	-	-
Allowance for doubtful accounts	(8,965)	(19,553)	-	(28,518)
Total governmental activities	<u>\$ 37,220</u>	<u>\$ 25,799</u>	<u>\$ 1,171,694</u>	<u>\$ 1,234,713</u>
Business-Type Activities:				
Electric	\$ 1,270,951	\$ -	\$ -	\$ 1,270,951
Water and Sewer	714,078	-	-	714,078
Allowance for doubtful accounts	(625,287)	-	-	(625,287)
Total business-type activities	<u>\$ 1,359,742</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,359,742</u>

Due from other governments consisted of the following:

Local option sales tax	\$ 399,885
Franchise tax	73,792
Sales tax	177,887
Solid waste disposal tax	885
Miscellaneous	1,856
FEMA	-
Taxes - Due from the County	<u>517,389</u>
	<u>\$ 1,171,694</u>

#### 4. Capital Assets

##### **Primary Government**

Capital asset activity for the Primary Government for the year ended June 30, 2023 was as follows:

	<u>Beginning</u> <u>Balances</u> <i>as restated</i>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balances</u>
<b>Governmental activities:</b>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 2,917,452	\$ -	\$ -	\$ 2,917,452
Construction in Progress	417,793	42,513		460,306
Total capital assets not being depreciated	<u>3,335,245</u>	<u>42,513</u>	<u>-</u>	<u>3,377,758</u>
<b>Capital assets being depreciated:</b>				
Buildings	9,547,827	49,521	-	9,597,348
Other Improvements	993,660	-	-	993,660
Infrastructure	4,365,418	103,140	-	4,468,558
Vehicles and motorized equipment	4,892,466	-	(62,063)	4,830,403
Furniture and equipment	1,534,245	286,409	-	1,820,654
Total capital assets being depreciated	<u>21,333,616</u>	<u>439,070</u>	<u>(62,063)</u>	<u>21,710,623</u>
<b>Less accumulated depreciation for:</b>				
Buildings	2,799,742	191,687	-	2,991,429
Other improvements	670,849	34,744	-	705,593
Infrastructure	1,662,224	177,121	-	1,839,345
Vehicle and motorized equipment	3,690,376	270,262	(62,063)	3,898,575
Furniture and equipment	1,166,120	126,311	-	1,292,431
Total accumulated depreciation	<u>9,989,311</u>	<u>\$ 800,125</u>	<u>\$ (62,063)</u>	<u>10,727,373</u>
Total capital assets being depreciated, net	<u>11,344,305</u>			<u>10,983,250</u>
Governmental activity capital assets, net	<u>\$ 14,679,550</u>			<u>\$ 14,361,008</u>

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

General government	\$ 143,920
Public safety	398,159
Transportation	203,822
Cultural and recreational	54,224
	<u>\$ 800,125</u>



	<u>Beginning</u> <u>Balances</u> <i>as restated</i>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balances</u>
<b>Business-type activities:</b>				
<b>Electric Fund</b>				
<b>Capital assets not being depreciated:</b>				
Land	\$ -	\$ -	\$ -	-
Construction in Progress	-	-	-	-
Total capital assets not being depreciated	-	-	-	-
<b>Capital assets being depreciated:</b>				
Buildings	94,816	-	-	94,816
Utility systems	16,477,815	1,221,610	-	17,699,425
Vehicles and motorized equipment	21,156	-	-	21,156
Furniture and equipment	287,391	-	-	287,391
Total capital assets being depreciated	16,881,178	1,221,610	-	18,102,788
<b>Less accumulated depreciation for:</b>				
Buildings	26,786	1,896	-	28,682
Utility systems	5,435,761	397,013	-	5,832,774
Vehicles and motorized equipment	21,156	-	-	21,156
Furniture and equipment	221,228	19,378	-	240,606
Total accumulated depreciation	5,704,931	\$ 418,287	\$ -	6,123,218
Total capital assets being depreciated, net	11,176,247			11,979,570
Electric fund capital assets, net	<u>\$ 11,176,247</u>			<u>\$ 11,979,570</u>

	<u>Beginning</u> <u>Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balances</u>
<b>Water and Sewer Fund</b>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 2,827,985	\$ -	\$ -	\$ 2,827,985
Construction in progress	75,000	74,390	(20,000)	129,390
Total capital assets not being depreciated	2,902,985	74,390	(20,000)	2,957,375
<b>Capital assets being depreciated:</b>				
Utility systems	20,674,676	161,675	-	20,836,351
Vehicles and motorized equipment	759,817	-	-	759,817
Furniture and equipment	794,364	-	-	794,364
Total capital assets being depreciated	22,228,857	161,675	-	22,390,532
<b>Less accumulated depreciation for:</b>				
Utility systems	8,045,289	487,464	-	8,532,753
Vehicles and motorized equipment	607,071	50,330	-	657,401
Furniture and equipment	535,253	45,540	-	580,793
Total accumulated depreciation	9,187,613	\$ 583,334	\$ -	9,770,947
Total capital assets being depreciated, net	13,041,244			12,619,585
Water and Sewer fund capital assets, net	<u>\$ 15,944,229</u>			<u>\$ 15,576,960</u>
Business-type activities capital assets, net	<u>\$ 27,120,476</u>			<u>\$ 27,556,530</u>

#### Construction Commitments

The City has active construction projects as of June 30, 2023. At year-end, the government's commitments with contractors are as follows:

<u>Project</u>	<u>Spent-to-date</u>	<u>Remaining</u> <u>Commitment</u>
Generators	\$ -	\$ 78,050

Discretely presented component unit

Activity for the ABC Board for the year ended June 30, 2023, was as follows:

	<u>Beginning</u> <u>Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balances</u>
<b>Capital assets not being depreciated:</b>				
Land	\$ 333,232	\$ -	\$ -	\$ 333,232
Total Capital assets not being depreciated:	333,232	-	-	333,232
<b>Capital assets being depreciated:</b>				
Buildings	872,212	-	-	872,212
Building improvements	269,506	53,953	-	323,459
Furniture and fixtures	3,512	1,108	-	4,620
Equipment	94,300	7,487	-	101,787
Total Capital assets being depreciated:	1,239,530	62,548	-	1,302,078
<b>Less Accumulated depreciation for:</b>				
Buildings	69,005	20,336	-	89,341
Building improvements	84,823	20,701	-	105,524
Furniture and fixtures	3,123	123	-	3,246
Equipment	50,266	10,812	-	61,078
Total accumulated depreciation:	207,217	\$ 51,972	\$ -	259,189
Total Capital assets being depreciated, net:	1,032,313			1,042,889
ABC Board Capital Assets, net:	<u>\$ 1,365,545</u>			<u>\$ 1,376,121</u>

5. Right to Use Leased Assets

The City has recorded several right to use leased assets. The assets are right to use assets for leased vehicles. The related leases are discussed in the Leases subsection of the Liabilities section of this note. The right to use lease assets are amortized on a straight-line basis over the terms of the related leases.

Right to use asset activity for the City for the year ended June 30, 2023, was as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b><u>Governmental Activities:</u></b>				
<b>Right to use assets:</b>				
Leased vehicles	\$ 795,038	\$ -	\$ -	\$ 795,038
Total right to use assets	795,038	-	-	795,038
<b>Less accumulated amortization for:</b>				
Leased vehicles	146,739	181,215	-	327,954
Total accumulated amortization	146,739	181,215	-	327,954
Right to use assets, net	<u>\$ 648,299</u>			<u>\$ 467,084</u>
<b><u>Electric Fund:</u></b>				
<b>Right to use assets:</b>				
Leased vehicles	\$ 27,697	\$ -	\$ -	\$ 27,697
Total right to use assets	27,697	-	-	27,697
<b>Less accumulated amortization for:</b>				
Leased vehicles	6,647	6,647	-	13,294
Total accumulated amortization	6,647	6,647	-	13,294
Right to use assets, net	<u>\$ 21,050</u>			<u>\$ 14,403</u>

<b><u>Water and Sewer Fund:</u></b>	<u>Beginning</u> <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Right to use assets:</b>				
Leased vehicles	\$ 158,916	\$ -	\$ -	\$ 158,916
Total right to use assets	158,916	-	-	158,916
<b>Less accumulated amortization for:</b>				
Leased vehicles	25,547	36,239	-	61,786
Total accumulated amortization	25,547	36,239	-	61,786
Right to use assets, net	<u>\$ 133,369</u>			<u>\$ 97,130</u>

B. Liabilities

1. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

*Plan Description.* The City of Southport is a participating 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 governmental 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 State Superintendent, who serve as ex-officio members. The Local Governmental Employees' Retirement System is included in the Annual Comprehensive Financial Report for the State of North Carolina. The State's Annual Comprehensive Financial Report 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 of 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 contractually required contribution rate for the year ended June 30, 2023, was 13.10% of compensation for law enforcement officers and 12.10% for general employees and firefighters, 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 \$534,487 for the year ended June 30, 2023.

*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, 2023, the City reported a liability of \$2,403,812 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2021. The total pension liability was then rolled forward to the measurement date of June 30, 2022 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, 2022 (measurement date), the City's proportion was 0.0426% which was an increase of 0.0021% from its proportion measured as of June 30, 2021.

For the year ended June 30, 2023, the City recognized pension expense of \$737,684. At June 30, 2023, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 103,578	\$ 10,155
Changes of assumptions	239,847	-
Net difference between projected and actual earnings on pension plan investments	794,485	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	100,880	6,324
Employer contributions subsequent to the measurement date	534,487	-
Total	<u>\$ 1,773,277</u>	<u>\$ 16,479</u>

\$534,487 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as an increase of the net pension liability in the year ended June 30, 2024. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year ended June 30:</b>	
2024	\$ 409,523
2025	337,008
2026	97,272
2027	378,508
2028	-
Thereafter	-
	<u>\$ 1,222,311</u>

*Actuarial Assumptions.* The total pension liability in the December 31, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods in the measurement:

Inflation	2.5 percent
Salary Increases	3.25 to 8.25 percent, including inflation and productivity factor of 3.25%
Investment rate of return	6.5 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, 2021 valuation were based on the results of an actuarial experience study for the period January 1, 2015 through December 31, 2019.

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 expectations of forward yields projected and interpolated for multiple tenor 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 for each major asset class as of June 30, 2023 are summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
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	100.0%	

The information above is based on 30 year expectations developed with the consulting actuary for the 2021 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 2.50%. All rates of return and inflation are annualized.

*Discount rate.* The discount rate used to measure the total pension liability was 6.50%. 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 6.50 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 (5.50 percent) or one percentage point higher (7.50 percent) than the current rate:

	<b>1% Decrease (5.50%)</b>	<b>Discount Rate (6.50%)</b>	<b>1% Increase (7.50%)</b>
City's proportionate share of the net pension liability (asset)	\$ 4,338,572	\$ 2,403,812	\$ 809,458

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

b. Law Enforcement Officers Special Separation Allowance

1. *Plan Description.*

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

All full time law enforcement officers of the City are covered by the Separation Allowance. At December 31, 2021, the Separation Allowance's membership consisted of:

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

2. *Summary of Significant Accounting Policies:*

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

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

3. *Actuarial Assumptions*

The entry age actuarial cost method was used in the December 31, 2020 valuation. The total pension liability in the December 31, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5 percent
Salary increases	3.25 to 7.75 percent, including inflation and productivity factor
Discount rate	4.05 percent

The discount rate is based on the yield of the S&P Municipal Bond 20 Year High Grade Rate Index as of December 31, 2020.

Mortality Rates are based on the Pub-2010 amount-weighted tables, projected from 2010 using generational improvement with Scale MP-2019.

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 on a pay as you go basis through appropriations made in the General Fund operating budget. The City's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. There were no contributions made by employees. The City paid \$12,828 as benefits came due for the reporting period.

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

At June 30, 2023, the City reported a total pension liability of \$471,276. The total pension liability was measured as of December 31, 2021 based on a December 31, 2020 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2022 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2023, the City recognized pension expense of \$82,330.

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 107,866	\$ 18,293
Changes of assumptions	41,983	58,812
City benefit payments and plan administrative expense made subsequent to the measurement date	-	-
Total	<u>\$ 149,849</u>	<u>\$ 77,105</u>

\$0 reported as deferred outflows of resources related to pensions resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ended June 30, 2024. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**Year ended June 30:**

2024	\$ (19,970)
2025	(19,073)
2026	(16,862)
2027	(11,793)
2028	(9,407)
Thereafter	-

*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 4.05 percent, 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 (3.05 percent) and 1-percentage-point higher (5.05 percent) than the current rate.

	1% Decrease (3.05%)	Discount Rate (4.05%)	1% Increase (5.05%)
Total pension liability	\$ 503,038	\$ 471,276	\$ 441,711

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

	<b>2023</b>
Beginning balance	\$ 507,470
Service Cost	25,352
Interest on the total pension liability	11,274
Changes of benefit terms	-
Differences between expected and actual experience in the measurement of the total pension liability	-
Changes of assumptions or other inputs	(59,992)
Benefit payments	(12,828)
Other changes	-
Net Change	<u>(36,194)</u>
Ending balance of the total pension liability	<u>\$ 471,276</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, 2022 valuation were based on the results of an actuarial experience study completed by the Actuary for the Local Government Employees' Retirement System for the five year period ending December 31, 2019.

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 and 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, 2020 valuation, the plans membership consisted of:

Retiree receiving benefits	14
Terminated plan members entitled to but not yet receiving benefits	1
Active Plan members	51
Total	<u>66</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 meet 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, 2022 valuation. The total pension liability in the December 31, 2022 actuarial valuation was determined using the following actuarial assumption, applied to all periods included in the measurement.

Inflation	2.50 Percent
Salary increases	Not applicable
Discount Rate	4.05 Percent

The discount rate is based on the yield of the bond buyer General Obligation 20-year Municipal Bond Index Rate at December 31, 2022.

Mortality Rates are based on the Pub-2010 amount-weighted tables, projected from 2010 using generational improvement with Scale MP-2019.



#### 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 the 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 \$24,180 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, 2023, the City reported a total pension liability of \$491,355. The total pension liability was measured as of December 31, 2022 based on a December 31, 2022 actuarial valuation. For the year ended June 30, 2023, the City recognized pension expense of \$40,861.

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ -	\$ 284,617
Changes of assumptions	173,618	194,148
City benefits payments and plan and plan administrative expense made subsequent to the measurement date	-	-
	<u>\$ 173,618</u>	<u>\$ 478,765</u>

\$0 was 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, 2024. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

#### Year Ended June 30:

2024	\$ (47,341)
2025	(47,341)
2026	(47,341)
2027	(47,341)
2028	(47,341)
Thereafter:	(242,060)

#### 6. Sensitivity of the City's Total Pension liability to changes in Discount Rate

The following presents the City's total pension liability calculated using the discount rate of 4.05% 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 (3.05 percent) or 1 percent point higher (5.05 percent) than the current rate:

	1% Decrease (3.05%)	Discount Rate (4.05%)	1% Increase (5.05%)
Total Pension Liability	\$ 563,813	\$ 491,355	\$ 432,860

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

	<u><b>2023</b></u>
Beginning Balance	\$ 817,018
Service Cost	53,504
Interest on the total pension liability	18,111
Change of benefit terms	-
Differences between expected and actual experience in the measurement of total pension liability	(250,612)
Changes of assumptions and inputs	(122,486)
Benefit payments	(24,180)
Other Charges	-
Ending balance of the total pension liability	<u>\$ 491,355</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 the 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, 2022 valuation were based on the results of an experience study completed by the Actuary for the Local Government Employees' Retirement System for the five year period ending December 31, 2019.

**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><b>LGERS</b></u>	<u><b>LEOSSA</b></u>	<u><b>VFSRP</b></u>	<u><b>TOTAL</b></u>
Pension Expense	\$ 737,684	\$ 82,330	\$ 40,861	\$ 860,875
Pension Liability	2,403,812	471,276	491,355	3,366,443
Proportionate share of the net Pension Liability	0.04260%	n/a	n/a	

**Deferred Outflows of Resources**

Differences between expected and actual experience	103,578	107,866	-	211,444
Changes of assumptions	239,847	41,983	173,618	455,448
Net difference between projected and actual earnings on plan investments	794,485	-	-	794,485
Changes in proportion and differences between contributions and proportionate share of contributions	100,880	-	-	100,880
Benefit payments and administrative costs paid subsequent to the measurement date	534,487	-	-	534,487
Total	<u>\$ 1,773,277</u>	<u>\$ 149,849</u>	<u>\$ 173,618</u>	<u>\$ 2,096,744</u>

**Deferred Inflows of Resources**

Differences between expected and actual experience	\$ 10,155	\$ 18,293	\$ 284,617	\$ 313,065
Changes of assumptions	-	58,812	194,148	252,960
Changes in proportion and differences between contributions and proportionate share of contributions	6,324	-	-	6,324
Total	<u>\$ 16,479</u>	<u>\$ 77,105</u>	<u>\$ 478,765</u>	<u>\$ 572,349</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 law enforcement officers employed by 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 Annual Comprehensive Financial Report for the State of North Carolina. The State's Annual Comprehensive Financial Report 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 officer's salary, and all amounts contributed are vested immediately. The City has elected to contribute five percent for non-law enforcement employees. Also, the employees may make voluntary contributions to the plan. Contributions for the year ended June 30, 2023 were \$174,667 for nonlaw and \$41,810 for law, with no amounts forfeited.

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

Healthcare Benefits

**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 of the Plan consisted of the following at June 30, 2021, the date of the last actuarial valuation:

Inactive employees or Beneficiaries Currently Receiving Benefits	25
Inactive Members Entitled to but not Receiving Benefits	0
Active Employees	59
Total	<u>84</u>

**Total OPEB Liability**

The City's total OPEB liability of \$4,661,329 was measured as of June 30, 2022 and was determined by an actuarial valuation as of that date.

*Actuarial assumptions and other inputs.* The total OPEB liability in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Inflation	2.50 percent
Real wage growth	0.75 percent
Wage Inflation	3.25 percent
Salary increases	
General employees	3.25% - 8.41%
Law Enforcement employees	3.25% - 7.90%
Discount rate	3.69 percent
Healthcare cost trend rate	
Pre-Medicare	7.00% for 2021 decreasing to an ultimate rate of 4.5% by 2031
Medicare	5.125% for 2021 decreasing to an ultimate rate of 4.5% by 2024
Dental	3.50%

The discount rate is based on the yield of the S&P Municipal Bond 20 Year High Grade Rate Index as of the measurement date.

#### Changes in the Total OPEB Liability

	<b>Total OPEB Liability</b>
<b>Balance at July 1, 2022</b>	\$ 5,873,703
<b>Changes for the year</b>	
Service cost	206,926
Interest	124,976
Changes of benefit terms	-
Differences between expected and actual experience	4,778
Changes in assumptions or other inputs	(1,373,506)
Benefit payments	(175,548)
<b>Net changes</b>	<u>(1,212,374)</u>
<b>Balance at June 30, 2023</b>	<u><u>\$ 4,661,329</u></u>

Changes in assumptions and other inputs reflect a change in the discount rate from 2.21% to 2.16%.

Mortality rates were based on the Pub-2010 mortality tables, with adjustments for LGERS experience and generational mortality improvements using Scale MP-2019.

The actuarial assumptions used in the June 30, 2022 valuation were based on the results of an actuarial experience study for the period January 1, 2015 through December 31, 2019.

*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 a discount rate that is 1-percentage-point lower (2.69 percent) and 1-percentage-point higher (4.69 percent).

	1% Decrease (2.69%)	Discount Rate (3.69%)	1% Increase (4.69%)
Total OPEB liability	\$ 5,552,883	\$ 4,661,329	\$ 3,967,928

*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 cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
Total OPEB liability	\$ 3,927,752	\$ 4,661,329	\$ 5,620,766

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

For the year ended June 30, 2023, the City recognized OPEB expense of \$197,284. At June 30, 2023, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 8,083	\$ 199,836
Changes of assumptions	628,749	1,190,103
Benefit payments and administrative costs made subsequent to the measurement date	-	-
Total	\$ 636,832	\$ 1,389,939

\$0 reported as deferred outflows of resources related to pensions resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ended June 30, 2024. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Measurement period ended June 30:		
2024	\$	350,538
2025		310,606
2026		250,225
2027		249,654
2028		228,916
Thereafter		-

#### **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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience		
LGERS	\$ 103,578	\$ 10,155
LEOSSA	107,866	18,293
VFSR	-	284,617
OPEB	8,083	199,836
Changes of assumptions		
LGERS	239,847	-
LEOSSA	41,983	58,812
VFSR	173,618	194,148
OPEB	628,749	1,190,103
Difference between projected and actual investment		
LGERS	794,485	-
Change in proportion and difference between employer contributions and proportionate share of contributions		
LGERS	100,880	6,324
Contributions to pension plan in current fiscal year		
LGERS	534,487	-
Benefit payments/administration costs paid subsequent to the measurement date (LEOSSA)	-	-
Benefit payments/administration costs paid subsequent to the measurement date (VFSR)	-	-
Benefit payments/administration costs paid subsequent to the measurement date (OPEB)	-	-
Prepaid Property Taxes (General)	-	10,255
Total Government-wide statements	<u>2,733,577</u>	<u>1,972,543</u>
Prepaid Property Taxes (General)	-	10,255
Taxes receivable, net (General, on General Fund Balance Sheet)	-	25,799
Total	<u>\$ -</u>	<u>\$ 36,054</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 insured values of the property policy, worker's compensation coverage up to 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 contracting 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 given 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 for \$25,000.

## **5. Claims and Judgements**

The City believes there are no material claims of judgements to be reported for the year ended June 30, 2023.

## **6. Long-Term Obligations**

### **a. Leases**

The City has adopted GASB Statement No. 87, Leases. The primary objective of this statement is to enhance the relevance and consistency of information about governments' leasing activities. This statement establishes a single model for lease accounting based on the principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. For additional information, refer to the disclosures below.

On 02/01/2022, City of Southport, NC entered into a 60 month lease as Lessee for the use of Water & Sewer vehicles. An initial lease liability was recorded in the amount of \$28,444.31. As of 06/30/2023, the value of the lease liability is \$20,457. City of Southport, NC is required to make monthly fixed payments of \$482. The lease has an interest rate of 0.6360%. The value of the right to use asset as of 06/30/2023 of \$29,239 with accumulated amortization of \$8,285 is included with Vehicles on the Lease Class activities table found below. The lease has a guaranteed residual value payment of \$5,259.

On 02/01/2022, City of Southport, NC entered into a 60 month lease as Lessee for the use of Water & Sewer vehicles. An initial lease liability was recorded in the amount of \$28,372. As of 06/30/2023, the value of the lease liability is \$20,390. City of Southport, NC is required to make monthly fixed payments of \$480. The lease has an interest rate of 0.6360%. The value of the right to use asset as of 06/30/2023 of \$29,025 with accumulated amortization of \$8,224 is included with Vehicles on the Lease Class activities table found below. The lease has a guaranteed residual value payment of \$5,238.

On 02/28/2022, City of Southport, NC entered into a 60 month lease as Lessee for the use of Water & Sewer trucks. An initial lease liability was recorded in the amount of \$28,690. As of 06/30/2023, the value of the lease liability is \$21,137. City of Southport, NC is required to make monthly fixed payments of \$485.39. The lease has an interest rate of 0.6360%. The value of the right to use asset as of 06/30/2023 of \$29,350 with accumulated amortization of \$7,842 is included with Vehicles on the Lease Class activities table found below. The lease has a guaranteed residual value payment of \$5,238.

On 07/01/2021, City of Southport, NC entered into a 51 month lease as Lessee for the use of Water & Sewer vehicles. An initial lease liability was recorded in the amount of \$26,126. As of 06/30/2023, the value of the lease liability is \$13,884. City of Southport, NC is required to make monthly fixed payments of \$517. The lease has an interest rate of 0.4170%. The value of the right to use asset as of 06/30/2023 of \$26,126 with accumulated amortization of \$12,295 is included with Vehicles on the Lease Class activities table found below. The lease has a guaranteed residual value payment of \$6,018.

On 07/01/2021, City of Southport, NC entered into a 50 month lease as Lessee for the use of Water & Sewer vehicles. An initial lease liability was recorded in the amount of \$24,655. As of 06/30/2023, the value of the lease liability is \$12,869. City of Southport, NC is required to make monthly fixed payments of \$497. The lease has an interest rate of 0.4170%. The value of the right to use asset as of 06/30/2023 of \$24,655 with accumulated amortization of \$11,835 is included with Vehicles on the Lease Class activities table found below. The lease has a guaranteed residual value payment of \$5,595.

On 07/01/2021, City of Southport, NC entered into a 37 month lease as Lessee for the use of Water & Sewer vehicles. An initial lease liability was recorded in the amount of \$20,521. As of 06/30/2023, the value of the lease liability is \$7,228. City of Southport, NC is required to make monthly fixed payments of \$557. The lease has an interest rate of 0.2850%. The value of the right to use asset as of 06/30/2023 of \$20,521 with accumulated amortization of \$13,311 is included with Vehicles on the Lease Class activities table found below. The lease has a guaranteed residual value payment of \$6,065.

On 02/28/2022, City of Southport, NC entered into a 60 month lease as Lessee for the use of Streets vehicles. An initial lease liability was recorded in the amount of \$28,460. As of 06/30/2023, the value of the lease liability is \$20,935. City of Southport, NC is required to make monthly fixed payments of \$482. The lease has an interest rate of 0.6360%. The value of the right to use asset as of 06/30/2023 of \$28,460 with accumulated amortization of \$7,601 is included with Vehicles on the Lease Class activities table found below. The lease has a guaranteed residual value payment of \$5,202.

On 01/04/2022, City of Southport, NC entered into a 60 month lease as Lessee for the use of Police vehicles. An initial lease liability was recorded in the amount of \$39,933. As of 06/30/2023, the value of the lease liability is \$28,312. City of Southport, NC is required to make monthly fixed payments of \$666. The lease has an interest rate of 0.6360%. The value of the right to use asset as of 06/30/2023 of \$39,933 with accumulated amortization of \$11,738 is included with Vehicles on the Lease Class activities table found below. The lease has a guaranteed residual value payment of \$3,158.

On 01/04/2022, City of Southport, NC entered into a 60 month lease as Lessee for the use of Police vehicles. An initial lease liability was recorded in the amount of \$37,020. As of 06/30/2023, the value of the lease liability is \$26,247. City of Southport, NC is required to make monthly fixed payments of \$618. The lease has an interest rate of 0.6360%. The value of the right to use asset as of 06/30/2023 of \$37,020 with accumulated amortization of \$10,881 is included with Vehicles on the Lease Class activities table found below. The lease has a guaranteed residual value payment of \$6,484.

On 12/16/2021, City of Southport, NC entered into a 60 month lease as Lessee for the use of Police vehicles. An initial lease liability was recorded in the amount of \$44,555. As of 06/30/2023, the value of the lease liability is \$44,555. City of Southport, NC is required to make monthly fixed payments of \$748. The lease has an interest rate of 0.5820%. The value of the right to use asset as of 06/30/2023 of \$44,555 with accumulated amortization of \$13,625 is included with Vehicles on the Lease Class activities table found below. The lease has a guaranteed residual value payment of \$4,022.

On 02/01/2022, City of Southport, NC entered into a 60 month lease as Lessee for the use of Police vehicles. An initial lease liability was recorded in the amount of \$41,675. As of 06/30/2023, the value of the lease liability is \$29,985. City of Southport, NC is required to make monthly fixed payments of \$706. The lease has an interest rate of 0.6360%. The value of the right to use asset as of 06/30/2023 of \$41,675 with accumulated amortization of \$11,808 is included with Vehicles on the Lease Class activities table found below. The lease has a guaranteed residual value payment of \$8,041.

On 07/01/2021, City of Southport, NC entered into a 51 month lease as Lessee for the use of Police vehicles. An initial lease liability was recorded in the amount of \$35,219. As of 06/30/2023, the value of the lease liability is \$18,716. City of Southport, NC is required to make monthly fixed payments of \$697. The lease has an interest rate of 0.4170%. The value of the right to use asset as of 06/30/2023 of \$35,219 with accumulated amortization of \$16,574 is included with Vehicles on the Lease Class activities table found below. The lease has a guaranteed residual value payment of \$7,953.

On 07/01/2021, City of Southport, NC entered into a 51 month lease as Lessee for the use of Police vehicles. An initial lease liability was recorded in the amount of \$35,219. As of 06/30/2023, the value of the lease liability is \$16,574. City of Southport, NC is required to make monthly fixed payments of \$697. The lease has an interest rate of 0.4170%. The value of the right to use asset as of 06/30/2022 of \$35,219 with accumulated amortization of \$8,287 is included with Vehicles on the Lease Class activities table found below. The lease has a guaranteed residual value payment of \$7,953.

On 07/01/2021, City of Southport, NC entered into a 51 month lease as Lessee for the use of Police vehicles. An initial lease liability was recorded in the amount of \$35,526. As of 06/30/2023, the value of the lease liability is \$18,807. City of Southport, NC is required to make monthly fixed payments of \$697. The lease has an interest rate of 0.4170%. The value of the right to use asset as of 06/30/2023 of \$35,526 with accumulated amortization of \$16,719 is included with Vehicles on the Lease Class activities table found below. The lease has a guaranteed residual value payment of \$8,061.



On 07/01/2021, City of Southport, NC entered into a 51 month lease as Lessee for the use of Police vehicles. An initial lease liability was recorded in the amount of \$35,219. As of 06/30/2023, the value of the lease liability is \$18,716. City of Southport, NC is required to make monthly fixed payments of \$697. The lease has an interest rate of 0.4170%. The value of the right to use asset as of 06/30/2023 of \$35,219 with accumulated amortization of \$16,574 is included with Vehicles on the Lease Class activities table found below. The lease has a guaranteed residual value payment of \$8,061.

On 07/01/2021, City of Southport, NC entered into a 51 month lease as Lessee for the use of Police vehicles. An initial lease liability was recorded in the amount of \$35,219. As of 06/30/2023, the value of the lease liability is \$218,716. City of Southport, NC is required to make monthly fixed payments of \$697. The lease has an interest rate of 0.4170%. The value of the right to use asset as of 06/30/2023 of \$35,219 with accumulated amortization of \$16,574 is included with Vehicles on the Lease Class activities table found below. The lease has a guaranteed residual value payment of \$7,953.

On 07/01/2021, City of Southport, NC entered into a 47 month lease as Lessee for the use of Police vehicles. An initial lease liability was recorded in the amount of \$33,637. As of 06/30/2023, the value of the lease liability is \$16,523. City of Southport, NC is required to make monthly fixed payments of \$721. The lease has an interest rate of 0.4170%. The value of the right to use asset as of 06/30/2023 of \$33,637 with accumulated amortization of \$17,177 is included with Vehicles on the Lease Class activities table found below. The lease has a guaranteed residual value payment of \$8,061.

On 07/01/2021, City of Southport, NC entered into a 51 month lease as Lessee for the use of Police vehicles. An initial lease liability was recorded in the amount of \$35,219. As of 06/30/2023, the value of the lease liability is \$18,716. City of Southport, NC is required to make monthly fixed payments of \$697. The lease has an interest rate of 0.4170%. The value of the right to use asset as of 06/30/2023 of \$35,219 with accumulated amortization of \$16,574 is included with Vehicles on the Lease Class activities table found below. The lease has a guaranteed residual value payment of \$7,953.

On 07/01/2021, City of Southport, NC entered into a 47 month lease as Lessee for the use of Police vehicles. An initial lease liability was recorded in the amount of \$38,000. As of 06/30/2023, the value of the lease liability is \$18,666. City of Southport, NC is required to make monthly fixed payments of \$814.98. The lease has an interest rate of 0.4170%. The value of the right to use asset as of 06/30/2023 of \$38,000 with accumulated amortization of \$19,405 is included with Vehicles on the Lease Class activities table found below. The lease has a guaranteed residual value payment of \$1,675.

On 07/01/2021, City of Southport, NC entered into a 47 month lease as Lessee for the use of Police vehicles. An initial lease liability was recorded in the amount of \$38,401. As of 06/30/2023, the value of the lease liability is \$18,863. City of Southport, NC is required to make monthly fixed payments of \$824. The lease has an interest rate of 0.4170%. The value of the right to use asset as of 06/30/2023 of \$38,401 with accumulated amortization of \$19,610 is included with Vehicles on the Lease Class activities table found below. The lease has a guaranteed residual value payment of \$1,695.

On 07/01/2021, City of Southport, NC entered into a 48 month lease as Lessee for the use of Planning/Inspection vehicle. An initial lease liability was recorded in the amount of \$27,456. As of 06/30/2023, the value of the lease liability is \$13,780. City of Southport, NC is required to make monthly fixed payments of \$577. The lease has an interest rate of 0.4170%. The value of the right to use asset as of 06/30/2023 of \$27,456 with accumulated amortization of \$13,729 is included with Vehicles on the Lease Class activities table found below. The lease has a guaranteed residual value payment of \$6,140.

On 07/01/2021, City of Southport, NC entered into a 48 month lease as Lessee for the use of Planning/Inspection vehicle. An initial lease liability was recorded in the amount of \$27,455.87. As of 06/30/2023, the value of the lease liability is \$13,780. City of Southport, NC is required to make monthly fixed payments of \$576.68. The lease has an interest rate of 0.4170%. The value of the right to use asset as of 06/30/2023 of \$27,456 with accumulated amortization of \$13,729 is included with Vehicles on the Lease Class activities table found below. The lease has a guaranteed residual value payment of \$6,140.16.

On 12/16/2021, City of Southport, NC entered into a 60 month lease as Lessee for the use of a vehicle by Parks & Rec. An initial lease liability was recorded in the amount of \$32,981. As of 06/30/2023, the value of the lease liability is \$22,981. City of Southport, NC is required to make monthly fixed payments of \$553. The lease has an interest rate of 0.5820%. The value of the right to use asset as of 06/30/2022 of \$32,981 with accumulated amortization of \$3,543 is included with Vehicles on the Lease Class activities table found below. The lease has a guaranteed residual value payment of \$6,021.

On 02/28/2022, City of Southport, NC entered into a 60 month lease as Lessee for the use of a vehicle by the Garage. An initial lease liability was recorded in the amount of \$28,690. As of 06/30/2023, the value of the lease liability is \$21,104. City of Southport, NC is required to make monthly fixed payments of \$485. The lease has an interest rate of 0.6360%. The value of the right to use asset as of 06/30/2023 of \$28,690 with accumulated amortization of \$7,663 is included with Vehicles on the Lease Class activities table found below. The lease has a guaranteed residual value payment of \$5,238.

On 07/01/2021, City of Southport, NC entered into a 42 month lease as Lessee for the use of a vehicle by the Garage. An initial lease liability was recorded in the amount of \$21,157. As of 06/30/2023, the value of the lease liability is \$9,101. City of Southport, NC is required to make monthly fixed payments of \$507. The lease has an interest rate of 0.4170%. The value of the right to use asset as of 06/30/2023 of \$21,157 with accumulated amortization of \$12,090 is included with Vehicles on the Lease Class activities table found below. The lease has a guaranteed residual value payment of \$5,315.

On 07/01/2021, City of Southport, NC entered into a 50 month lease as Lessee for the use of a vehicle by the Electric department. An initial lease liability was recorded in the amount of \$27,697. As of 06/30/2023, the value of the lease liability is \$14,402. City of Southport, NC is required to make monthly fixed payments of \$559. The lease has an interest rate of 0.4170%. The value of the right to use asset as of 06/30/2023 of \$27,697 with accumulated amortization of \$13,295 is included with Vehicles on the Lease Class activities table found below. The lease has a guaranteed residual value payment of \$5,243.

On 12/16/2021, City of Southport, NC entered into a 60 month lease as Lessee for the use of Building & Grounds. An initial lease liability was recorded in the amount of \$24,444.68. As of 06/30/2023, the value of the lease liability is \$17,032. City of Southport, NC is required to make monthly fixed payments of \$409.79. The lease has an interest rate of 0.5820%. The value of the right to use asset as of 06/30/2023 of \$24,445 with accumulated amortization of \$7,475 is included with Vehicles on the Lease Class activities table found below.

On 12/16/2021, City of Southport, NC entered into a 60 month lease as Lessee for the use of a Building & Grounds vehicle. An initial lease liability was recorded in the amount of \$24,445. As of 06/30/2023, the value of the lease liability is \$17,032. City of Southport, NC is required to make monthly fixed payments of \$410. The lease has an interest rate of 0.5820%. The value of the right to use asset as of 06/30/2023 of \$24,445 with accumulated amortization of \$7,475 is included with Vehicles on the Lease Class activities table found below. The lease has a guaranteed residual value payment of \$4,404.

On 01/04/2022, City of Southport, NC entered into a 60 month lease as Lessee for the use of Building & Grounds. An initial lease liability was recorded in the amount of \$28,249. As of 06/30/2023, the value of the lease liability is \$20,028. City of Southport, NC is required to make monthly fixed payments of \$471. The lease has an interest rate of 0.6360%. The value of the right to use asset as of 06/30/2023 of \$28,249 with accumulated amortization of \$8,303 is included with Vehicles on the Lease Class activities table found below. The lease has a guaranteed residual value payment of \$4,878.

On 07/01/2021, City of Southport, NC entered into a 43 month lease as Lessee for the use of a Building & Grounds vehicle. An initial lease liability was recorded in the amount of \$18,602. As of 06/30/2023, the value of the lease liability is \$8,250. City of Southport, NC is required to make monthly fixed payments of \$436. The lease has an interest rate of 0.4170%. The value of the right to use asset as of 06/30/2023 of \$18,602 with accumulated amortization of \$10,383 is included with Vehicles on the Lease Class activities table found below. The lease has a guaranteed residual value payment of \$4,575.

On 07/01/2021, City of Southport, NC entered into a 49 month lease as Lessee for the use of an Animal Control vehicle. An initial lease liability was recorded in the amount of \$24,208. As of 06/30/2023, the value of the lease liability is \$12,398. City of Southport, NC is required to make monthly fixed payments of \$498. The lease has an interest rate of 0.4170%. The value of the right to use asset as of 06/30/2023 of \$24,208 with accumulated amortization of \$11,858 is included with Vehicles on the Lease Class activities table found below. The lease has a guaranteed residual value payment of \$5,564.

On 07/01/2021, City of Southport, NC entered into a 42 month lease as Lessee for the use of a vehicle by Administration. An initial lease liability was recorded in the amount of \$24,048. As of 06/30/2023, the value of the lease liability is \$10,345. City of Southport, NC is required to make monthly fixed payments of \$577. The lease has an interest rate of 0.4170%. The value of the right to use asset as of 06/30/2023 of \$24,048 with accumulated amortization of \$13,742 is included with Vehicles on the Lease Class activities table found below.

<u>Asset Class</u>	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Vehicles	\$ 981,651	\$ (403,034)	\$ 578,617
Total	\$ 981,651	\$ (403,034)	\$ 578,617

Annual debt service requirements to maturity for the City's leases are as follows:

Year Ending June 30	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		Total
	Principal	Interest	Principal	Interest	
2024	\$ 181,146	\$ 1,954	\$ 42,430	\$ 493	\$ 226,023
2025	170,948	1,109	36,502	294	208,853
2026	79,147	460	20,900	129	100,636
2027	37,601	78	10,591	24	48,294
2028	-	-	-	-	-
	<u>\$ 468,842</u>	<u>\$ 3,601</u>	<u>\$ 110,423</u>	<u>\$ 940</u>	<u>\$ 583,806</u>

a. Installment Purchases

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 payments remain the same. In the event of default BB&T may a) declare the unpaid principal components of the installment payments immediately due and payable; b) proceed by appropriate court action to enforce the Borrower's performance of the applicable covenants of this agreement or to recover for the breach thereof; c) as provided in the Project Fund Agreements, require BB&T to pay over any balance remaining in the Project Fund to be applied against outstanding Required Payments in any manner BB&T may reasonably deem appropriate; and d) avail itself of all available remedies under this Agreement, including execution as provided, and recovery of attorneys' fees and other expenses. The property is held as collateral while the debt is outstanding.

On October 10, 2017, the City entered into a financing agreement of \$450,000 for the purchases of a Rosenbauer fire truck. The agreement required principal payments of \$95,388 annually for five years with an interest rate of 1.97%. In the event of default BB&T may a) declare the unpaid principal components of the installment payments immediately due and payable; b) proceed by appropriate court action to enforce the Borrower's performance of the applicable covenants of this agreement or to recover for the breach thereof; c) as provided in the Project Fund Agreements, require BB&T to pay over any balance remaining in the Project Fund to be applied against outstanding Required Payments in any manner BB&T may reasonably deem appropriate; and d) avail itself of all available remedies under this Agreement, including execution as provided, and recovery of attorneys' fees and other expenses. The truck is held as collateral while the debt is outstanding.

On November 14, 2019, the City entered into a financing agreement of \$200,000 for the purchases of two ambulances. The agreement required principal and interest payments of \$26,363 semi annually for five years with an interest rate of 2.39%. In the event of default BB&T may a) declare the unpaid principal components of the installment payments immediately due and payable; b) proceed by appropriate court action to enforce the Borrower's performance of the applicable covenants of this agreement or to recover for the breach thereof; c) as provided in the Project Fund Agreements, require BB&T to pay over any balance remaining in the Project Fund to be applied against outstanding Required Payments in any manner BB&T may reasonably deem appropriate; and d) avail itself of all available remedies under this Agreement, including execution as provided, and recovery of attorneys' fees and other expenses. The ambulances are held as collateral while the debt is outstanding.

On October 15, 2021, the City entered into a financing agreement of \$824,210 for the purchases of two fire trucks. The agreement required principal and interest payments of \$171,930 annually for five years with an interest rate of 1.42%. In the event of default Truist Bank may a) declare the unpaid principal components of the installment payments immediately due and payable; b) proceed by appropriate court action to enforce the Borrower's performance of the applicable covenants of this agreement or to recover for the breach thereof; c) as provided in the Project Fund Agreements, require Truist Bank to pay over any balance remaining in the Project Fund to be applied against outstanding Required Payments in any manner Truist Bank may reasonably deem appropriate; and d) avail itself of all available remedies under this Agreement, including execution as provided, and recovery of attorneys' fees and other expenses. The fire trucks are held as collateral while the debt is outstanding.

Annual debt service payments of the installment purchase as of June 30, 2023, including \$239,028 of interest is as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2024	\$ 377,753	\$ 47,485
2025	354,009	39,474
2026	356,350	31,742
2027	358,723	23,976
2028	189,200	16,177
2029-2033	378,401	15,727
Total	<u>\$ 2,014,436</u>	<u>\$ 174,581</u>

b. 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%. In the event of default the unit may be required to prepay the note in whole and any further commitment of funds may be withdrawn. The loan is secured by the revenues of the Project or benefited system.

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 a principal forgiveness of fifty percent of this loan totaling \$702,347. Equal payments of \$35,117 were made on the balance annually starting on May 1, 2012. There is no interest on this loan. In the event of default the unit may be required to prepare the whole note. The loan is secured by the revenues of the Project or benefited system.

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

Year Ending June 30	Business-type Activities	
	Principal	Interest
2024	\$ 103,401	\$ 4,517
2025	103,401	3,011
2026	103,401	1,506
2027	35,117	-
2028	35,117	-
2029-2033	105,350	-
	<u>\$ 485,787</u>	<u>\$ 9,034</u>

c. Changes in Long-Term Liabilities

A summary of changes in long-term obligations follows:

	Balance June 30, 2022	Increases	Decreases	Balance June 30, 2023	Current Portion of Balance
<b>Governmental activities:</b>					
Direct Placement and Direct					
Borrowing Installment purchases	\$ 2,508,591	\$ -	\$ 494,155	\$ 2,014,436	\$ 377,753
Leases	649,142	-	180,300	468,842	181,145
Compensated absences	215,137	55,523	-	270,660	67,665
Net pension liability (LGERS)	430,106	1,523,764	-	1,953,870	-
Total pension liability (FIRE)	817,018	-	325,663	491,355	-
Total pension liability (LEOSSA)	507,470	-	36,194	471,276	-
Total OPEB Liability	4,132,858	-	344,029	3,788,829	-
Total Governmental	<u>\$ 9,260,322</u>	<u>\$ 1,579,287</u>	<u>\$ 1,380,341</u>	<u>\$ 9,459,268</u>	<u>\$ 626,563</u>

	Balance June 30, 2022	Increases	Decreases	Balance June 30, 2023	Current Portion of Balance
<b>Business-type activities:</b>					
<b>Electric Fund</b>					
Leases	\$ 21,086	\$ -	\$ 6,629	\$ 14,457	\$ 6,656
Compensated absences	8,407	-	-	8,407	2,102
Net pension liability (LGERS)	68,025	87,874	-	155,899	-
Total OPEB Liability	514,884	-	212,575	302,309	-
Total Electric Fund	\$ 612,402	\$ 87,874	\$ 219,204	\$ 481,072	\$ 8,806
<b>Water and Sewer Fund</b>					
Revolving Loans	\$ 589,188	\$ -	\$ 103,401	\$ 485,787	\$ 103,401
Leases	131,847	-	35,881	95,966	35,773
Compensated absences	15,322	-	-	15,322	3,831
Net pension liability (LGERS)	122,515	171,528	-	294,043	-
Total OPEB Liability	1,225,961	-	655,771	570,190	-
Total Water Fund	\$ 2,084,833	\$ 171,528	\$ 795,053	\$ 1,461,308	\$ 143,005
Total Business-type	\$ 2,697,235	\$ 259,402	\$ 1,014,257	\$ 1,942,380	\$ 151,811

Compensated absences and OPEB liability have typically been liquidated in the General Fund. Compensated absences are accounted for on a LIFO basis.

At June 30, 2023, the City of Southport had a legal debt margin of \$90,113,629.

### **C. Interfund Balances and Activity**

Balances due to/from other funds at June 30, 2023 consist of the following:

Due to the General Fund for capital expenditures paid for:

Taylor Field Park Part F- Phase 1	<u>\$ 28,960</u>
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The interfund balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

The City reported no interfund transfers during the year ended June 30, 2023.

#### **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, 2022 and ending June 30, 2027. The initial cost to the City under the contract was \$13.640642 per meter per month for the operation and maintenance and \$6.247788 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, 2023, the City payments under this contract totaled \$1,047,427.

#### **E. Net Investment in Capital Assets**

	<u>Business-Type</u>			<u>Total Business</u>
	<u>Governmental</u>	<u>Water/Sewer</u>	<u>Electric</u>	<u>Type</u>
Capital Assets	\$ 14,361,008	\$ 15,576,960	\$ 11,979,570	\$ 27,556,530
Right to Use Assets	467,084	97,130	14,403	111,533
less: long-term debt	(2,483,278)	(581,753)	(14,457)	(596,210)
add: unexpended debt proceeds	-	-	-	-
Net Investment in Capital Assets	\$ 12,344,814	\$ 15,092,337	\$ 11,979,516	\$ 27,071,853

#### **F. Fund Balance**

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

Total Fund Balance - General Fund	\$ 9,765,883
Less restricted for:	
Stabilization by State statute	1,937,769
Streets (Powell Bill)	211,527
Appropriated Fund Balance in 2024 Budget	-
Committed for fire protection	38,784
Nonspendable - Prepaid items	277
Remaining Fund Balance	\$ 7,577,526

Outstanding encumbrances are amounts needed to pay any commitments related to purchase orders and contracts that remain unperformed at year-end. At June 30, 2023 the City had outstanding encumbrances of \$130,466 in the General Fund.

#### **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, 2023 were \$5,198,455.

#### **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. Dues in the amount of \$0 were paid to the Council during the fiscal year ended June 30, 2023.

#### **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, 2023, 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, 2023. 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 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. Restatement**

During the year ended June 30, 2023, it was discovered capital asset balances were not properly stated and net position was restated resulting in a decrease of net position in governmental activities of \$149,474 and business-type activities of \$327,358.

### **VIII. Significant Effects of Subsequent Events**

Every year since 2018, there have been major hurricanes to strike the coast of Southeastern North Carolina. The infrastructure of the City suffered severe damage. Claims for damages have been filed with FEMA for damages of around three 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.

Events occurring after June 30, 2023 were evaluated by management on January 12, 2024 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 subsequent events needing disclosure.

## **REQUIRED SUPPLEMENTAL FINANCIAL DATA**

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This section contains additional information required by generally accepted accounting principles. Presentation conforms to requirements of the Local Government Commission in North Carolina.

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Schedule of Proportionate Share of the Net Pension Asset - Local Government Employee's Retirement System

Schedule of Contributions - Local Government Employees' Retirement System

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

Schedule of Total Pension Liability as a Percentage of Covered Payroll - 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**  
**City of Southport's Proportionate Share of Net Pension Liability (Asset)**  
**Required Supplementary Information**  
**Last Ten Fiscal Years**

**Local Government Employees' Retirement System**

	<b>2023</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>
Southport's proportion of the net liability (asset) (%)	0.0426%	0.0405%	0.0370%	0.0320%	0.0365%
Southport's proportion of the net pension liability (asset) (\$)	\$ 2,403,812	\$ 620,646	\$ 1,322,525	\$ 874,168	\$ 866,142
Southport's covered payroll	\$ 3,107,698	\$ 3,103,894	\$ 2,809,085	\$ 2,364,012	\$ 2,228,199
Southport's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	77.35%	20.00%	47.08%	36.98%	38.87%
Plan fiduciary net position as a percentage of the total pension liability**	84.14%	95.51%	88.61%	90.86%	91.63%
	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Southport's proportion of the net liability (asset) (%)	0.03576%	0.03179%	0.03025%	0.02832%	0.02880%
Southport's proportion of the net pension liability (asset) (\$)	\$ 546,314	\$ 674,690	\$ 135,760	\$ (167,016)	\$ 347,151
Southport's covered payroll	\$ 2,000,892	\$ 2,000,892	\$ 1,863,345	\$ 1,773,533	\$ 1,752,169
Southport's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	27.30%	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%

\* The amounts presented for each fiscal year were determined as of the prior fiscal year ending June 30.

\*\* This will be the same percentage for all participant employers in the LGERS plan.

**City of Southport**  
**City of Southport's Contributions**  
**Required Supplementary Information**  
**Last Ten Fiscal Years**

**Local Government Employees' Retirement System**

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Contractually required contribution	\$ 534,487	\$ 359,323	\$ 321,389	\$ 256,871	\$ 187,871
Contributions in relation to the contractually required contribution	<u>534,487</u>	<u>359,323</u>	<u>321,389</u>	<u>256,871</u>	<u>187,871</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Southport's covered payroll	\$ 4,384,160	\$ 3,107,698	\$ 3,103,894	\$ 2,809,085	\$ 2,364,012
Contributions as a percentage of covered payroll	12.19%	11.56%	10.35%	9.14%	7.95%
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</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>
Southport's covered payroll	\$ 2,228,199	\$ 2,164,697	\$ 2,000,892	\$ 1,863,345	\$ 1,773,533
Contributions as a percentage of covered 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 Officers' Special Separation Allowance**  
**Last Six Fiscal Years**

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Beginning balance	\$ 507,470	\$ 409,347	\$ 356,652	\$ 200,689	\$ 204,305	\$ 127,190
Service Cost	25,352	24,554	11,962	10,300	13,484	11,669
Interest on the total pension liability	11,274	7,777	11,418	7,072	6,253	4,662
Changes of benefit terms	-	-	-	-	-	-
Differences between expected and actual experience in the measurement of the total pension liability	-	89,292	(37,039)	141,477	(2,276)	61,353
Changes of assumptions or other inputs	(59,992)	(10,681)	79,173	9,933	(8,258)	12,250
Benefit payments	(12,828)	(12,819)	(12,819)	(12,819)	(12,819)	(12,819)
Other changes	-	-	-	-	-	-
Ending balance of the total pension liability	<u>\$ 471,276</u>	<u>\$ 507,470</u>	<u>\$ 409,347</u>	<u>\$ 356,652</u>	<u>\$ 200,689</u>	<u>\$ 204,305</u>

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

**City of Southport, North Carolina**  
**Schedule of Total Pension Liability as a Percentage of Covered Payroll**  
**Law Enforcement Officers' Special Separation Allowance**  
**Last Six Fiscal Years**

	<b>2023</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
Total pension liability	\$ 471,276	\$ 507,470	\$ 409,347	\$ 356,652	\$ 200,689	\$ 204,305
Covered Payroll	694,651	694,651	510,625	392,499	588,718	549,341
Total pension liability as a percentage of covered payroll	67.84%	73.05%	80.17%	90.87%	34.09%	37.19%

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 the Total Pension Liability**  
**Firefighters' Supplemental Retirement Plan**  
**Last Six Fiscal Years**

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Beginning balance	\$ 817,018	\$ 817,081	\$ 697,962	\$ 625,124	\$ 667,767	\$ 573,282
Service cost	53,504	51,820	38,094	33,124	36,691	24,438
Interest on the total pension liability	18,111	15,541	22,382	22,340	20,736	21,684
Changes on benefit terms	-	-	-	-	-	-
Difference between expected and actual experience in the measurement of the total pension liability	(250,612)	-	(47,564)	-	(28,860)	-
Changes of assumptions	(122,486)	(43,704)	129,007	40,174	(48,060)	71,418
Benefit payments	(24,180)	(23,720)	(22,800)	(22,800)	(23,150)	(23,055)
Other charges	-	-	-	-	-	-
Ending Balance of the total pension liability:	<u>\$ 491,355</u>	<u>\$ 817,018</u>	<u>\$ 817,081</u>	<u>\$ 697,962</u>	<u>\$ 625,124</u>	<u>\$ 667,767</u>

Notes to the statements:

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

**City of Southport, North Carolina**  
**Schedule of Changes in the Total OPEB Liability and Related Ratios**  
**Last Six Fiscal Years**

<b>Total OPEB Liability</b>	<b>2023</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
Service cost	\$ 206,926	\$ 202,551	\$ 132,536	\$ 192,535	\$ 97,192	\$ 109,016
Interest	124,976	127,506	158,028	177,124	150,311	135,410
Changes in benefit terms	-	-	-	-	431,879	-
Differences between expected and actual experience in the measurement of the total pension liability	4,778	(124,411)	(4,157)	(370,197)	21,056	24,508
Changes of assumptions	(1,373,506)	179,488	1,054,545	(15,169)	(209,436)	(381,868)
Benefit payments	(175,548)	(155,884)	(156,763)	(153,229)	(166,608)	(160,683)
Other changes	-	-	-	-	-	-
<b>Net change in total OPEB liability</b>	<b>(1,212,374)</b>	<b>229,250</b>	<b>1,184,189</b>	<b>(168,936)</b>	<b>324,394</b>	<b>(273,617)</b>
<b>Total OPEB liability - beginning</b>	<b>5,873,703</b>	<b>5,644,453</b>	<b>4,460,264</b>	<b>4,629,200</b>	<b>4,304,806</b>	<b>4,578,423</b>
<b>Total OPEB liability - ending</b>	<b>\$ 4,661,329</b>	<b>\$ 5,873,703</b>	<b>\$ 5,644,453</b>	<b>\$ 4,460,264</b>	<b>\$ 4,629,200</b>	<b>\$ 4,304,806</b>
 <b>Covered payroll</b>	 \$ 2,850,283	 \$ 2,850,283	 \$ 2,228,360	 \$ 2,228,360	 \$ 1,920,483	 \$ 989,080
 <b>Total OPEB liability as a percentage of covered payroll</b>	 163.54%	 206.07%	 253.30%	 200.16%	 241.04%	 435.23%

**Notes to Schedule**

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

	<b>Rate</b>
2018	3.56%
2019	3.89%
2020	3.50%
2021	2.21%
2022	2.16%
2023	3.69%

## INDIVIDUAL FUND STATEMENTS AND SCHEDULES

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This section contains additional information required by the  
Local Government Commission in North Carolina

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**City of Southport, North Carolina**  
**General Fund**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances - Annual Budget and Actual**  
**For the Year Ended June 30, 2023**

	Budget	Actual	Variance Positive (Negative)
<b>Revenues:</b>			
<b>Ad valorem taxes</b>			
Current year	\$ 4,148,498	\$ 4,291,472	\$ 142,974
Prior years	35,000	26,057	(8,943)
Motor vehicles taxes	193,800	241,293	47,493
Penalties and interest	11,974	10,751	(1,223)
Total	<u>4,389,272</u>	<u>4,569,573</u>	<u>180,301</u>
<b>Other taxes and licenses</b>			
Dog taxes	1,000	810	(190)
Privilege licenses	1,050	1,390	340
Itinerant peddler permit	11,880	200	(11,680)
Civil Penalties	105	320	215
Accommodation tax	190,000	217,538	27,538
Total	<u>204,035</u>	<u>220,258</u>	<u>16,223</u>
<b>Unrestricted intergovernmental</b>			
Local option sales tax	1,365,000	1,807,493	442,493
Beer and wine tax	18,900	19,154	254
ABC board profit distribution	420,000	601,990	181,990
Utility franchise tax	300,000	405,209	105,209
Total	<u>2,103,900</u>	<u>2,833,846</u>	<u>729,946</u>
<b>Restricted intergovernmental</b>			
Powell Bill allocation	136,000	139,129	3,129
Solid Waste disposal tax	2,100	3,267	1,167
FEMA assistance to firefighters	150,000	-	(150,000)
ABC revenue for law enforcement	25,000	29,327	4,327
FEMA reimbursement	221,000	38,050	(182,950)
Fire district fees	1,875,184	1,888,170	12,986
Other miscellaneous grants	75,000	30,353	(44,647)
Total	<u>2,484,284</u>	<u>2,128,296</u>	<u>(355,988)</u>
<b>Permits and fees</b>			
Building permits	700,525	807,240	106,715
Fire inspection fees	10,000	10,256	256
Reinspection fees	500	-	(500)
Golf cart fees	5,250	15,595	10,345
Planning and zoning fees	20,000	22,619	2,619
Total	<u>736,275</u>	<u>855,710</u>	<u>119,435</u>



**City of Southport, North Carolina**  
**General Fund**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances - Annual Budget and Actual**  
**For the Year Ended June 30, 2023**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>Sales and Services</b>			
Cemetery lot sales	-	1,800	1,800
Refuse collection fees	286,650	291,809	5,159
Rescue squad fees	180,000	276,116	96,116
Community building rent	125,000	201,142	76,142
Payment in lieu - recreation facilities	7,500	11,291	3,791
Tourism - visitor center sales	-	-	-
Recreation fees	25,000	33,990	8,990
Duke Energy Progress for fire department	-	-	-
<b>Total</b>	<u>624,150</u>	<u>816,148</u>	<u>191,998</u>
<b>Investment earnings</b>	<u>12,074</u>	<u>540,453</u>	<u>528,379</u>
<b>Miscellaneous</b>			
Donations - firemen's fund	86,795	98,871	12,076
Fire department response fees	20,000	6,214	(13,786)
Homeowners recovery fund	1,000	133	(867)
Police - shop with a cop	10,000	17,150	7,150
Sales - fixed assets	-	25,760	25,760
Miscellaneous	78,856	71,466	(7,390)
<b>Total</b>	<u>196,651</u>	<u>219,594</u>	<u>22,943</u>
<b>Total Revenues</b>	<u>10,750,641</u>	<u>12,183,878</u>	<u>1,433,237</u>
<b>Expenditures:</b>			
<b>General Government:</b>			
<b>Board Expenses</b>			
Salaries and benefits	30,476	29,512	964
Operating expenditures	187,707	158,820	28,887
Capital outlay	19,740	22,950	(3,210)
<b>Total</b>	<u>237,923</u>	<u>211,282</u>	<u>26,641</u>
<b>Administration</b>			
Salaries and benefits	168,174	165,024	3,150
Operating expenditures	114,173	103,519	10,654
Capital outlay	8,000	6,951	1,049
<b>Total</b>	<u>290,347</u>	<u>275,494</u>	<u>14,853</u>

**City of Southport, North Carolina**  
**General Fund**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances - Annual Budget and Actual**  
**For the Year Ended June 30, 2023**

	Budget	Actual	Variance Positive (Negative)
<b>Finance</b>			
Salaries and benefits	251,188	242,479	8,709
Operating expenditures	136,675	152,381	(15,706)
Capital outlay	30,000	2,172	27,828
Total	417,863	397,032	20,831
<b>Buildings and Grounds</b>			
Salaries and benefits	834,975	733,152	101,823
Operating expenditures	363,898	305,787	58,111
Capital outlay	26,307	20,745	5,562
Total	1,225,180	1,059,684	165,496
<b>Tourism</b>			
Salaries and benefits	268,839	268,155	684
Operating expenditures	108,356	80,986	27,370
Capital outlay	6,500	-	6,500
Total	383,695	349,141	34,554
<b>Community Building</b>			
Salaries and benefits	44,695	40,291	4,404
Operating expenditures	27,944	16,963	10,981
Capital outlay	49,521	49,521	-
Total	122,160	106,775	15,385
<b>City Garage</b>			
Salaries and benefits	270,294	196,138	74,156
Operating expenditures	45,331	37,641	7,690
Capital outlay	21,122	11,928	9,194
Total	336,747	245,707	91,040
<b>Total general government</b>	3,013,915	2,645,115	368,800
<b>Public Safety:</b>			
<b>Police</b>			
Salaries and benefits	1,565,552	1,365,841	199,711
Operating expenditures	358,189	333,295	24,894
Capital outlay	182,171	118,735	63,436
Total	2,105,912	1,817,871	288,041

**City of Southport, North Carolina**  
**General Fund**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances - Annual Budget and Actual**  
**For the Year Ended June 30, 2023**

	Budget	Actual	Variance Positive (Negative)
<b>Fire and Rescue Department</b>			
Salaries and benefits	1,312,235	1,366,636	(54,401)
Operating expenditures	390,758	383,757	7,001
Capital outlay	12,000	-	12,000
Total	1,714,993	1,750,393	(35,400)
<b>Code Enforcement</b>			
Salaries and benefits	439,402	418,699	20,703
Operating expenditures	143,325	129,784	13,541
Capital outlay	14,595	13,880	715
Total	597,322	562,363	34,959
<b>Animal Code Enforcement</b>			
Salaries and benefits	86,344	87,438	(1,094)
Operating expenditures	26,422	23,228	3,194
Capital outlay	6,825	5,985	840
Total	119,591	116,651	2,940
<b>Total public safety</b>	4,537,818	4,247,278	290,540
<b>Transportation</b>			
<b>Street</b>			
Salaries and benefits	235,669	220,242	15,427
Operating expenditures	230,790	208,335	22,455
Capital outlay	354,041	281,485	72,556
Total	820,500	710,062	110,438
<b>Powell Bill</b>			
Capital outlay	178,812	103,140	75,672
Total	178,812	103,140	75,672
<b>Total transportation</b>	999,312	813,202	186,110
<b>Environmental Protection</b>			
<b>Solid waste</b>			
Contract services	310,569	308,232	2,337
<b>Total environmental protection</b>	310,569	308,232	2,337

**City of Southport, North Carolina**  
**General Fund**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances - Annual Budget and Actual**  
**For the Year Ended June 30, 2023**

	Budget	Actual	Variance Positive (Negative)
<b>Cultural and recreational:</b>			
<b>Parks and recreation</b>			
Salaries and benefits	381,564	378,285	3,279
Operating expenditures	197,787	175,875	21,912
Capital outlay	282,165	6,843	275,322
<b>Total Cultural and Recreational</b>	<u>861,516</u>	<u>561,003</u>	<u>300,513</u>
<b>Rescue:</b>			
Salaries and benefits	293,126	304,449	(11,323)
Operating expenditures	175,372	181,733	(6,361)
Capital outlay	10,000	-	10,000
<b>Total debt service</b>	<u>478,498</u>	<u>486,182</u>	<u>(7,684)</u>
<b>Debt service:</b>			
Principal retirement	552,657	552,381	276
Interest and other charges	-	-	-
<b>Total debt service</b>	<u>552,657</u>	<u>552,381</u>	<u>276</u>
<b>Total expenditures</b>	<u>10,754,285</u>	<u>9,613,393</u>	<u>1,140,892</u>
<b>Revenues over (under) expenditures</b>	<u>(3,644)</u>	<u>2,570,485</u>	<u>2,574,129</u>
<b>Other financing sources (uses):</b>			
Appropriated fund balance	198,063	-	(198,063)
Transfers to other funds	(194,419)	-	194,419
<b>Total other financing sources (uses)</b>	<u>3,644</u>	<u>-</u>	<u>(3,644)</u>
<b>Revenues and other financing sources over expenditures and other financing uses</b>	<u>\$ -</u>	<u>2,570,485</u>	<u>\$ 2,570,485</u>
<b>Fund balance, beginning</b>		<u>7,195,398</u>	
<b>Fund balance, ending</b>		<u>\$ 9,765,883</u>	

**City of Southport, North Carolina**  
**American Rescue Plan Act Fund**  
**Schedule of Revenues and Expenditures**  
**Budget and Actual (Non-GAAP)**  
**For the Year Ended June 30, 2023**

	Project Authorization	Prior Years	Current Year	Total to Date	Variance Positive (Negative)
Revenues:					
Restricted Intergovernmental:					
American Rescue Plan	\$ 1,263,954	\$ -	\$ -	\$ -	\$ -
Total revenues	1,263,954	-	-	-	-
Expenditures:					
Contracted Services	1,263,954	-	-	-	-
Total expenditures	1,263,954	-	-	-	-
Revenues over (under) expenditures	-	-	-	-	-
Other financing sources (uses):					
Appropriated fund balance	-	-	-	-	-
Transfer (to) from other funds	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Revenues over expenditures and other financing sources (uses)	\$ -	\$ -	\$ -	\$ -	\$ -

**City of Southport, North Carolina**  
**Water Stabilization Fund**  
**Schedule of Revenues and Expenditures**  
**Budget and Actual (Non-GAAP)**  
**For the Year Ended June 30, 2023**

	Project Authorization	Prior Years	Current Year	Total to Date	Variance Positive (Negative)
Revenues:					
Grant revenue	\$ 5,000,000	\$ -	\$ 42,513	\$ 42,513	\$ (4,957,487)
Expenditures:					
Capital Outlay	5,000,000	-	42,513	42,513	4,957,487
Total expenditures	5,000,000	-	42,513	42,513	4,957,487
Revenues over (under) expenditures	-	-	-	-	-
Other financing sources (uses):					
Appropriated fund balance	-	-	-	-	-
Transfer from General Fund	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Revenues over expenditures and other financing sources (uses)	\$ -	\$ -	\$ -	\$ -	\$ -

## NON-MAJOR GOVERNMENTAL FUNDS

**City of Southport, NC**  
**Non-Major Governmental Funds**  
**Combining Balance Sheet**  
**June 30, 2023**

	Capital Project Fund	Taylor Field Part F Grant Phase 1	Total Non-Major Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$ 582,671	\$ -	\$ 582,671
Restricted cash	-	-	-
Taxes receivable (net)	-	-	-
Accounts receivable	-	-	-
Due from other governments	-	-	-
Due from other funds	-	-	-
Prepaid expenses	-	-	-
Total assets	<u>\$ 582,671</u>	<u>\$ -</u>	<u>\$ 582,671</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable and accrued liabilities	\$ -		\$ -
Payroll withholdings	-	-	-
Due to other funds	-	598,389	598,389
Total liabilities	<u>-</u>	<u>598,389</u>	<u>598,389</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Taxes Receivable	-	-	-
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:			
Restricted:			
Capital Projects - Cultural and Recreational	582,671	-	582,671
Committed:			
General Government	-	-	-
Economic Development	-	-	-
Public Safety	-	-	-
Industrial Development	-	-	-
Unassigned	-	(598,389)	(598,389)
Total fund balances	<u>582,671</u>	<u>(598,389)</u>	<u>(15,718)</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 582,671</u>	<u>\$ -</u>	<u>\$ 582,671</u>



**City of Southport, NC**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2023**

	Capital Project Fund	Taylor Field Part F Grant Phase 1	Total Non-Major Governmental Funds
Revenues:			
Restricted Intergovernmental	\$ -	\$ -	\$ -
Total revenues	-	-	-
Expenditures:			
Capital Outlay	10,709	417,766	428,475
Total expenditures	10,709	417,766	428,475
Revenues over (under) expenditures	(10,709)	(417,766)	(428,475)
Other financing sources (uses):			
Appropriated fund balance	-	-	-
Transfer from General Fund	-	-	-
Revenues over expenditures and other financing sources (uses)	\$ (10,709)	\$ (417,766)	\$ (428,475)

**City of Southport, North Carolina**  
**Capital Project Fund**  
**Schedule of Revenues and Expenditures**  
**Budget and Actual (Non-GAAP)**  
**For the Year Ended June 30, 2023**

	Project Authorization	Prior Years	Current Year	Total to Date	Variance Positive (Negative)
Revenues:					
Total revenues	\$ -	\$ -	\$ -	\$ -	\$ -
Expenditures:					
Capital Outlay	1,200,000	606,620	10,709	617,329	582,671
Total expenditures	1,200,000	606,620	10,709	617,329	582,671
Revenues over (under) expenditures	(1,200,000)	(606,620)	(10,709)	(617,329)	(582,671)
Other financing sources (uses):					
Appropriated fund balance	-	-	-	-	-
Transfer from General Fund	1,200,000	1,200,000	-	1,200,000	-
Total other financing sources (uses)	1,200,000	1,200,000	-	1,200,000	-
Revenues over expenditures and other financing sources (uses)	\$ -	\$ 593,380	\$ (10,709)	\$ 582,671	\$ (582,671)

**City of Southport, North Carolina**  
**Capital Project Fund- Taylor Field Part F Grant Phase 1**  
**Schedule of Revenues and Expenditures**  
**Budget and Actual (Non-GAAP)**  
**For the Year Ended June 30, 2023**

	Project Authorization	Prior Years	Current Year	Total to Date	Variance Positive (Negative)
Revenues:					
Restricted Intergovernmental:					
Part F Grant	\$ 421,224	\$ -	\$ -	\$ -	\$ (421,224)
Total revenues	<u>421,224</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(421,224)</u>
Expenditures:					
Capital Outlay	<u>615,644</u>	<u>180,623</u>	<u>417,766</u>	<u>598,389</u>	<u>17,255</u>
Total expenditures	<u>615,644</u>	<u>180,623</u>	<u>417,766</u>	<u>598,389</u>	<u>17,255</u>
Revenues over (under) expenditures	<u>(194,420)</u>	<u>(180,623)</u>	<u>(417,766)</u>	<u>(598,389)</u>	<u>(403,969)</u>
Other financing sources (uses):					
Appropriated fund balance	-	-	-	-	-
Transfer (to) from other funds	<u>194,420</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(421,224)</u>
Total other financing sources (uses)	<u>194,420</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(421,224)</u>
Revenues over expenditures and other financing sources (uses)	<u>\$ -</u>	<u>\$ (180,623)</u>	<u>\$ (417,766)</u>	<u>\$ (598,389)</u>	<u>\$ (825,193)</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 and Expenditures**  
**Budget and Actual (Non-GAAP)**  
**For the Year Ended June 30, 2023**

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Operating revenues			
Electricity sales	7,883,867	7,465,285	\$ (418,582)
Service Charges	26,460	26,653	193
Total charges for services	7,910,327	7,491,938	(418,389)
Other operating revenues			
Miscellaneous	5,250	76,683	71,433
Total operating revenues	5,250	76,683	71,433
Nonoperating revenues:			
FEMA Reimbursement	-	-	-
Interest on investments	315	60,098	59,783
Total nonoperating revenues	315	60,098	59,783
Total revenues	7,915,892	7,628,719	(287,173)
Expenditures:			
Salaries	373,110	392,416	(19,306)
Employee overtime	4,392	3,935	457
Professional services	32,235	13,196	19,039
Social security	28,879	27,489	1,390
Group insurance	56,880	66,182	(9,302)
Retirement	45,904	37,450	8,454
401(k) retirement supplement	18,875	15,369	3,506
Workers compensation insurance	5,602	1,929	3,673
Uniforms and protective gear	2,223	521	1,702
Telephone and postage	25,612	3,385	22,227
Utilities	1,760	1,358	402
Travel and training	15,750	3,777	11,973
Equipment maintenance	3,150	-	3,150
Vehicle maintenance	593	137	456
Gas, oil and tires	1,050	633	417
Departmental supplies	13,230	12,736	494
Utility sales tax	446,619	512,545	(65,926)
Power purchased	5,251,434	5,198,455	52,979
Billing contract	208,950	235,866	(26,916)
Contract services	71,228	65,169	6,059
Operations and maintenance contract	574,400	1,047,427	(473,027)
Install load management switches	85,821	55,895	29,926
Insurance and bonding	8,400	7,426	974
Contingency	-	-	-
Total expenditures	7,276,097	7,703,296	(427,199)

**City of Southport, North Carolina**  
**Electric Fund**  
**Schedule of Revenues and Expenditures**  
**Budget and Actual (Non-GAAP)**  
**For the Year Ended June 30, 2023**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Supplemental budget expenditures			
Capital outlay	2,969,414	1,221,693	1,747,721
Total supplemental expenditures	<u>2,969,414</u>	<u>1,221,693</u>	<u>1,747,721</u>
 Total expenditures	 <u>10,245,511</u>	 <u>8,924,989</u>	 <u>1,320,522</u>
 Excess of revenues over (under) expenditures	 <u>(2,329,619)</u>	 <u>(1,296,270)</u>	 <u>1,033,349</u>
 Other financing sources (uses):			
Appropriated fund balance	2,329,619	-	(2,329,619)
Lease liabilities issued	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>2,329,619</u>	<u>-</u>	<u>(2,329,619)</u>
 Revenues over expenditures and other financing sources (uses)	 <u>\$ -</u>	 <u>(1,296,270)</u>	 <u>\$ (1,296,270)</u>

**Reconciliation from budgetary basis (modified accrual to full accrual:**

Revenues and other sources over expenditures and other uses (1,296,270)

Reconciliation of modified accrual basis to full accrual basis:

Depreciation	(418,287)
Amortization	(6,647)
Capital outlay	1,221,610
Increase (Decrease) in deferred outflows of resources - pensions	(2,991)
Increase (Decrease) in deferred outflows of resources - OPEB	(40,822)
(Increase) Decrease in deferred inflows of resources - pension	97,546
(Increase) Decrease in deferred inflows of resources - OPEB	(57,976)
(Increase) Decrease in net pension liability	(87,874)
(Increase) Decrease in net OPEB liability	212,575
(Increase) Decrease in compensated absences	<u>-</u>
Total reconciling items	<u>917,134</u>
 Change in Net Position	 <u>\$ (379,136)</u>

**City of Southport, North Carolina**  
**Water and Sewer Fund**  
**Schedule of Revenues and Expenditures**  
**Budget and Actual (Non-GAAP)**  
**For the Year Ended June 30, 2023**

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Water sales	2,055,672	2,529,548	\$ 473,876
Sewer sales	3,850,000	3,859,498	9,498
Water and sewer tap fees	75,885	144,235	68,350
Service charges	26,095	57,719	31,624
Total charges for services	6,007,652	6,591,000	583,348
Other operating revenues			
Miscellaneous	22,925	17,070	(5,855)
Total operating revenues	6,030,577	6,608,070	577,493
Non-operating revenues:			
Availability fees	-	678,669	678,669
Interest on investments	-	59,959	59,959
Other Grants	-	-	-
Total	-	738,628	738,628
Total revenues	6,030,577	7,346,698	1,316,121
Expenditures:			
Salaries	781,737	709,514	72,223
Employee overtime	20,561	14,797	5,764
Professional fees	58,036	12,696	45,340
Social security	61,376	50,985	10,391
Group insurance	140,321	120,100	20,221
Retirement	97,559	70,636	26,923
401(k) retirement supplement	40,115	29,094	11,021
Unemployment expense	24,067	8,288	15,779
Uniforms and protective gear	13,500	9,149	4,351
Telephone and postage	20,893	13,394	7,499
Utilities	54,238	53,502	736
Travel and training	14,438	9,405	5,033
Equipment repair	16,994	15,896	
Vehicle repair	21,000	18,431	2,569
Sewer system repairs	676,389	255,786	420,603
Gas, oil and tires	25,000	32,423	(7,423)
Water and Sewer supplies	248,595	296,005	(47,410)
Annual permits and fees	6,294	901	5,393
Water purchases	1,073,982	778,998	294,984
Sewer capital charge	-	-	-
Contract services	1,600,887	1,342,756	258,131
Neighbors for neighbors	13,650	11,544	2,106
Depreciation	315,000	619,573	(304,573)
Insurance and bonding	46,413	41,003	5,410
Total expenditures other than depreciation	5,371,045	4,514,876	855,071

**City of Southport, North Carolina**  
**Water and Sewer Fund**  
**Schedule of Revenues and Expenditures**  
**Budget and Actual (Non-GAAP)**  
**For the Year Ended June 30, 2023**

	Budget	Actual	Variance Positive (Negative)
Supplemental budget expenditures			
Capital outlay	1,024,543	164,045	860,498
Long-term debt payment	765,309	103,401	661,908
Interest expense	-	127,644	(127,644)
Contingency	452,044	60,053	391,991
Total supplemental expenditures	2,241,896	455,143	1,786,753
Total expenditures	7,612,941	4,970,019	2,641,824
Revenues over (under) expenditures	(1,582,364)	2,376,679	3,957,945
Other financing sources (uses):			
Fund balance appropriated	169,403	-	(169,403)
Proceeds from financing	631,977	-	(631,977)
Transfer from other funds	780,984	-	(780,984)
Transfer (to) other funds	-	-	-
Total other financing sources (uses)	1,582,364	-	(1,582,364)
Revenues over expenditures and other financing sources (uses)	\$ -	2,376,679	\$ 2,375,581

**Reconciliation from budgetary basis (modified  
accrual) to full accrual:**

Revenues and other sources over expenditures  
and other uses 2,376,679

Reconciling items:

Principal repayment on long-term debt	103,401
Capital outlay	164,045
(Increase) Decrease in deferred inflows of resources - OPEB	(93,428)
(Increase) Decrease in deferred inflows of resources - pensions	175,592
(Increase) Decrease in compensated absences	1
(Increase) Decrease in interest payable	-
Increase (Decrease) in deferred outflows of resources - OPEB	(116,895)
Increase (Decrease) in deferred outflows of resources - pensions	4,401
(Increase) Decrease in net pension liability	(171,528)
(Increase) Decrease in net OPEB liability	655,771
Other	(2,369)
Total reconciling items	718,991
Change in Net Position	\$ 3,095,670



**City of Southport, North Carolina**  
**NCDEQ Pump Station Rehabilitation Project**  
**Schedule of Revenues and Expenditures**  
**Budget and Actual (Non-GAAP)**  
**For the Year Ended June 30, 2023**

	Project Authorization	Prior Years	Current Year	Total to Date	Variance Positive (Negative)
Revenues:					
Grant Revenues	\$ -	\$ -	\$ -	\$ -	-
Total charges for services	-	-	-	-	-
Expenditures:					
Contract Services	-	-	74,390	74,390	(74,390)
Capital Outlay	-	-	-	-	-
Total expenditures	-	-	74,390	74,390	(74,390)
Revenues over (under) expenditures	-	-	(74,390)	(74,390)	(74,390)
Other financing sources (uses):					
Transfer from Water Sewer Fund	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Revenues over expenditures and other financing sources (uses)	\$ -	\$ -	\$ (74,390)	\$ (74,390)	\$ (74,390)

**City of Southport, North Carolina**  
**System Development Capital Reserve**  
**Schedule of Revenues and Expenditures**  
**Budget and Actual (Non-GAAP)**  
**For the Year Ended June 30, 2023**

	Project Authorization	Prior Years	Current Year	Total to Date	Variance Positive (Negative)
Expenditures:					
Capital Outlay	\$ 743,794	\$ -	\$ -	\$ -	\$ 743,794
Total expenditures	<u>743,794</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>743,794</u>
Revenues over (under) expenditures	<u>(743,794)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>743,794</u>
Other financing sources (uses):					
Transfer from Water Sewer Fund	<u>743,794</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(743,794)</u>
Total other financing sources (uses)	<u>743,794</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(743,794)</u>
Revenues over expenditures and other financing sources (uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

## OTHER SCHEDULES

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This section contains additional information required  
on property taxes.

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

**City of Southport, North Carolina**  
**General Fund**  
**Schedule of Ad Valorem Taxes Receivable**  
**For the Year Ended June 30, 2023**

<u>Fiscal Year</u>	<u>Uncollected Balance July 1, 2022</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2023</u>
2023	\$ -	\$ 10,520	\$ 4,902	\$ 5,618
2022	-	4,569,235	4,547,454	21,781
2021	25,203	-	19,311	5,892
2020	5,015	-	2,221	2,794
2019	3,598	-	1,156	2,442
2018	1,825	-	801	1,024
2017	3,450	-	441	3,009
2016	1,600	-	51	1,549
2015	1,448	-	332	1,116
2014	1,836	-	197	1,639
2013	2,540	-	805	1,735
2012	1,997	-	328	1,669
	<u>\$ 48,512</u>	<u>\$ 4,579,755</u>	<u>\$ 4,577,999</u>	<u>\$ 50,268</u>

Less allowance for uncollectible ad valorem taxes receivable: \$ (24,469)

Ad valorem taxes receivable, net \$ 25,799

Reconciliation with Revenues:

Ad valorem taxes:

General Fund

\$ 4,569,573

Interest Collected

10,751

Releases and adjustments

(2,325)

Total adjustments

8,426

\$ 4,577,999

**City of Southport, North Carolina**  
**Analysis of Current Tax Levy**  
**City - Wide Levy**  
**For the Year Ended June 30, 2023**

	City-Wide Levy			Total Levy	
	Property Valuation	Rate	Total Levy	Property excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed at current Real and personal property	\$ 1,143,743,680	0.3956	\$ 4,524,650	\$ 4,273,717	\$ 250,933
Discoveries	13,929,474	0.3956	55,105	55,105	-
Total Property Valuation	<u>\$ 1,157,673,154</u>				
Net levy			4,579,755	4,328,822	250,933
Uncollected taxes at June 30, 2023			<u>27,399</u>	<u>27,104</u>	<u>295</u>
Current year's taxes collected			<u>\$ 4,552,356</u>	<u>\$ 4,301,718</u>	<u>\$ 250,638</u>
Current levy collection percentage			<u>99.40%</u>	<u>99.37%</u>	<u>99.88%</u>



**Independent Auditors' Report On Internal Controls Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of Financial Statements Performed  
In Accordance With *Government Auditing Standards***

To the Honorable Mayor  
And Members of the Board of Commissioners  
City of Southport  
Southport, North Carolina

We have audited, in accordance with the 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 discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Southport (the "City") as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 12, 2024. Our report includes a reference to other auditors who audited the financial statements of the City of Southport ABC Board, as described in our report on the City of Southport's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported separately by those auditors. The financial statements of the City of Southport ABC Board were not audited in accordance with *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

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

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 a 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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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 have not been identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2023-001 and 2023-002 that we consider to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2023-001 and 2023-002.

### **City of Southport's Response to Findings**

The City of Southport's response to the findings identified in our audit is described in the accompanying corrective action plan. The City's response was not subject 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 results of that testing, and not to provide an opinion on the effectiveness of the entity's internal controls or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Sharpe Patel PLLC*

Raleigh, North Carolina  
January 12, 2024

**CITY OF SOUTHPORT, NORTH CAROLINA**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2023**

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**SECTION I - SUMMARY OF AUDITOR'S RESULTS**

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**Financial Statements**

Type of report the auditor issued on whether the financial statements were prepared in accordance to GAAP:  
Unmodified

Internal control over financial reporting:

Material weaknesses identified?	<u>  x  </u>	yes	<u>      </u>	no
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Significant deficiency(s) identified that are not considered to be material weaknesses?	<u>      </u>	yes	<u>  x  </u>	none reported
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Noncompliance material to financial statements noted	<u>      </u>	yes	<u>  x  </u>	no
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**Federal Awards**

Identification of major Federal programs:

There are no major Federal awards.

**State Awards**

Identification of major State programs:

There are no major State awards.



**CITY OF SOUTHPORT, NORTH CAROLINA**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2023**

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**SECTION II - FINANCIAL STATEMENT FINDINGS**

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**Finding 2023-001**                      Budget Violation

**MATERIAL WEAKNESS**

Criteria: G.S. 159-28(a) states that no obligation may be incurred in a function accounted for in a fund included in the budget ordinance unless the budget ordinance includes an appropriation authorizing the obligation and an unencumbered balance remains in the appropriation sufficient to pay in the current fiscal year the sums obligated by the transaction for the current fiscal year.

Condition: The City expended \$427,199 more for electric fund operating for operations than appropriated in the budget. Finally, the City expended \$47,4109 more water and sewer supplies in the water & sewer fund than appropriated in the budget.

**Effect:** Moneys were spent that had not been obligated and appropriated.

Cause: The City did not amend the budget throughout the year to account for additional expenditures incurred.

**Recommendation:** Before an obligation is to incur that will exceed the amount that was previously approved in the budget ordinance, an amendment to the budget should be adopted.

**Name of Contact Person:** Lance Flint, Finance Officer

**CITY OF SOUTHPORT, NORTH CAROLINA**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2023**

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**SECTION II - FINANCIAL STATEMENT FINDINGS**

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**Finding 2023-002**                      Financial Reporting and Closing Process

**MATERIAL WEAKNESS**

**Criteria:** The City is required to maintain a sound financial management system and internal controls regarding the financial close and reporting process.

**Condition:** As a result of audit procedures, material adjustments were proposed in order for the financial statements to be materially corrected. In one instance, certificates of deposits had not been adjusted for several years and were material incorrect. Other adjustments included improper accruals, double booking of revenues and fund balances not following from the previous year.

**Effect:** The unadjusted financial statements were materially incorrect and also caused the audit to be completed and submitted late.

**Cause:** The City did not have a system in place to properly close the books.

**Recommendation:** Internal controls and the financial close process be updated to ensure all accounts properly stated at year-end.

**Name of Contact Person:** Lance Flint, Finance Officer



# City of Southport

January 31, 2024

## Management Response to FY2023 Audit Findings

Sharpe Patel PLLC, in its audit report of the City of Southport's FY2023 Financial Statements, noted two Material Weaknesses:

### **Finding 2023-001: Budget Violation**

**Criteria:** G.S. 159-28(a) states that no obligation may be incurred in a function accounted for in a fund included in the budget ordinance unless the budget ordinance includes an appropriation authorizing the obligation and an unencumbered balance remains in the appropriation sufficient to pay in the current fiscal year the sums obligated by the transaction for the current fiscal year.

**Condition:** The City expended \$427,199 more for electric fund operating for operations than appropriated in the budget. Finally, the City expended \$47,410 more water and sewer supplies in the water & sewer fund than appropriated in the budget.

**Cause:** The City did not amend the budget throughout the year to account for additional expenditures incurred.

**Effect:** Moneys were spent that had not been obligated and appropriated.

**Recommendation:** Before an obligation is to incur that will exceed the amount that was previously approved in the budget ordinance, an amendment to the budget should be adopted.

**Management Response:** We concur with the Finding. The City has properly prioritized and executed amendments to budget to add new revenue or expense, but has not prioritized routine examination and revision of approved budget. This circumstance was exacerbated by the lack of a permanent Finance Director between April and September 2023.

**Corrective Action Plan:** All revenue and expenditure accounts will be analyzed and forecasted once per quarter to identify the potential of exceeding budget, and budget adjustments and amendments will be executed quarterly to ensure compliance with G.S. 159-28(a). Staff performance objectives and reviews will be tied to adhering to this schedule. This schedule will be developed and in effect for March 1, 2024.

## **Finding 2023-002: Financial Reporting and Closing Process**

**Criteria:** The City is required to maintain a sound financial management system and internal controls regarding the financial close and reporting process.

**Condition:** As a result of audit procedures, material adjustments were proposed in order for the financial statements to be materially corrected. In one instance, certificates of deposits had not been adjusted for several years and were materially incorrect. Other adjustments included improper accruals, double booking of revenues and fund balances not following from the previous year.

**Effect:** The unadjusted financial statements were materially incorrect and also caused the audit to be completed and submitted late.

**Cause:** The City did not have a system in place to properly close the books.

**Recommendation:** Internal controls and the financial close process be updated to ensure all accounts properly stated at year-end.

**Management Response:** We concur with the finding. The City has failed to prioritize completing routine accounting transactions on a regular, scheduled basis which causes financial statements to be inaccurate and incomplete. This circumstance was exacerbated by the lack of a permanent Finance Director between April and September 2023. Furthermore, the City has, in recent years, relied upon its financial auditor to identify and present adjusting financial entries that City staff should be completing proactively. This practice places an unreasonable and conflicting demand on the audit firm and is a direct contributor to the City's history of late audits.

**Corrective Action Plan:** Management will develop, deploy and enforce a month-end closing calendar that establishes deadlines for monthly, quarterly, and annual entries to be made to General Ledger. Each period will be closed to further entries in the financial system when the monthly activity is concluded. Year-end adjusting entries, to the degree possible, will be entered by staff upon the conclusion of the fiscal year and will be available for audit review upon the start of the audit. Staff performance objectives and reviews will be tied to meeting this calendar. This calendar will be developed and in effect for March 1, 2024. In addition, the City has applied to participate in the NCLM "Catch-up Clean-up" program in which NCLM provides professional accounting resources to assist municipalities with reconciling accounts and establishing an appropriate control environment and practices. Management anticipates entry into this program in March 2024.

**In addition to the audit Findings, the Auditor, in its Management Letter, notes the following deficiencies and recommended corrective actions:**

**Deficiency 1 - Payroll Contracts:** During our test of controls over payroll, we noted the City does not keep up to date contracts for employees. Contracts are signed upon employment and on occasion employees are giving annual COLA raises and merit raises when promoted. We recommend all employees pay rates be substantiated in their personnel files on an annual basis.

**Management Response:** In municipal government, it is very unusual for the employees to have written contracts except for the City Manager and maybe the City Clerk who are appointed by the Board of Aldermen.

**Deficiency 2 - Subsidiary reports:** We noted during our audit procedures that various subsidiary reports did not agree to the accounting software and trial balance. These included accounts receivable, payable and customer deposits report. We recommend that all subsidiary ledgers and reports be reconciled with the accounting software and trial balance / general ledger on a timely basis throughout the year.

**Management Response:** We concur with the recommendation. The causes of this deficiency include a financial system that is difficult to use, lack of staff trained in proper reconciliation methods and a lack of prioritization of this function.

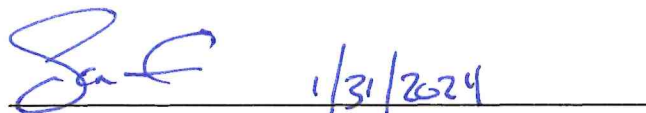
**Corrective Action Plan:** There are currently 139 general ledger balance sheet accounts that require routine reconciliation. To begin, each of these accounts must be analyzed, reconciled, and corrective entries made as necessary. Management has applied to participate in the NCLM "Catch-up Clean-up" program in which NCLM provides professional accounting resources to assist municipalities with reconciling accounts and establishing an appropriate control environment and practices. Management anticipates entry into this program in March 2024. Management will further develop a reconciliation calendar that designates accounts to be reconciled on a monthly or quarterly basis, and staff performance objectives and reviews will be tied to meeting this calendar. This calendar will be developed and in effect for June 30, 2024.

**Deficiency 3 - Certificates of Deposit:** We noted during our audit procedures that the certificates of deposit purchased by the City several years ago have never been reconciled and remained at their original balance. An adjustment was made during the audit to correct, but we recommend that the certificates of deposit be reconciled and balances be updated on an annual basis.

**Management Response:** We concur with the recommendation. The basic deficiency is that interest earned on CD's was not recorded as revenue or as cash in bank on the City's books. This deficiency has existed since 2021 when the original CD's were purchased. The CD's were never added to the online banking dashboard, and paper statements were not mailed. As a result, staff did not have any information about the CD's unless it was specifically requested from First National Bank, and ignored these funds in the bank reconciliation process.

**Corrective Action Plan:** Cumulative interest earned on the CD's has now been booked to revenue and cash, and First National Bank submitted a request on January 22<sup>nd</sup> to have reporting on the CD's added to our banking dashboard, which is expected to be completed in early February. Going forward, interest earned will be booked monthly.

Signed:



Lance Flint  
Finance Director  
City of Southport

**CITY OF SOUTHPORT, NORTH CAROLINA**  
**Summary Schedule of Prior Year Audit Finding**  
**For the Year Ended June 30, 2023**

**FINDING 2022-001:** Not corrected (see finding 2023-001)

**FINDING 2022-002:** Not corrected (see finding 2023-002)