

CITY OF SOUTHPORT

Financial Statements

Southport, North Carolina

For the Year Ended June 30, 2024

City of Southport, North Carolina
Financial Statements
June 30, 2024

Mayor

Rich Alt

Board of Aldermen

Rebecca Kelley

Karen Mosteller

Robert Carroll

Marc Spencer

Frank Lai

Lowe Davis

City Manager

Stuart Turille, Jr.

Finance Director

Lance Flint

City Clerk

Noah Saldo

City of Southport, North Carolina
Table of Contents
June 30, 2024

<u>Exhibit</u>		<u>Page(s)</u>
	Financial Section:	
	Independent Auditors' Report	1-3
	Management's Discussion and Analysis	5-10
	Basic Financial Statements:	
	Government-wide Financial Statements:	
1	Statement of Net Position	11
2	Statement of Activities	12
	Fund Financial Statements:	
3	Balance Sheet – Governmental Funds	13
3	Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	14
4	Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	15
5	Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
6	Statement of Revenues, Expenditures, and Changes in Fund Balances – Annual Budget and Actual – General Fund	17
7	Statement of Fund Net Position– Proprietary Funds	18
8	Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds	19
9	Statement of Cash Flows – Proprietary Funds	20-21
10	Statement of Fund Net Position - Fiduciary Fund	22
11	Statement of Changes in Fiduciary Net Position-Fiduciary Funds	23
	Notes to the Financial Statements	24-57

City of Southport, North Carolina
Table of Contents
June 30, 2024

<u>Exhibit</u>		<u>Page(s)</u>
	Required Supplementary Information	
A-1	Schedule of Proportionate Share of the Net Pension Asset - Local Government Employees' Retirement System	58
A-2	Schedule of Contributions - Local Government Employees' Retirement System	59
A-3	Schedule of Changes in Total Pension Liability - Law Enforcement Officers' Special Separation Allowance	60
A-4	Schedule of Total Pension Liability as a Percentage of Covered Payroll - Law Enforcement Officers' Special Separation Allowance	61
A-5	Schedule of Changes in the Total Pension Liability - Firefighters' Supplemental Retirement Plan	62
A-6	Schedule of Changes in the Total OPEB Liability and Related Ratios	63
	Individual Fund Statements and Schedules:	
B-1	Schedule of Revenues, Expenditures, and Changes in Fund Balances - Annual Budget and Actual - General Fund	64-68
B-2	Schedule of Revenues and Expenditures-Budget and Actual American Rescue	69
B-3	Schedule of Revenues and Expenditures-Budget and Actual Water Stabilization Fund	70
C-1	Combining Balance Sheet- Nonmajor Governmental Funds	71
C-2	Combining Statement of Revenues, Expenditures, and Changes in Fund Nonmajor Governmental Funds	72
C-3	Schedule of Revenues and Expenditures - Budget and Actual - Capital Projects	73
C-4	Schedule of Revenues and Expenditures - Budget and Actual - Taylor Field Part F Grant Phase 1 Capital Project	74
D-5	Schedule of Revenues and Expenditures - Budget and Actual - Stormwater Mapping Project	75
D-1	Schedule of Revenues and Expenditures - Budget and Actual - Electric Fund	76-77
D-2	Schedule of Revenues and Expenditures - Budget and Actual - Water and Sewer Fund	78-79

City of Southport, North Carolina
Table of Contents
June 30, 2024

<u>Exhibit</u>		<u>Page(s)</u>
D-3	Schedule of Revenues and Expenditures - Budget and Actual - System Development Capital Reserve	80
D-4	Schedule of Revenues and Expenditures - Budget and Actual - Howe St. Sewer Repair Project	81
Other Schedules		
E-1	Schedule of Ad Valorem Taxes Receivable	82
E-2	Analysis of Current Tax Levy (City - Wide Levy)	83
Compliance Section:		
	Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and other matters based on an Audit of Financial Statements performed in accordance with <i>Governmental Auditing Standards</i>	84-85
	Schedule of Findings and Questioned Cost	86-88
	Corrective Action Plan	89-91
	Summary Schedule of Prior Year Audit Findings	92

FINANCIAL SECTION



**SHARPE
PATEL**CPA

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, 2024, 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, 2024, 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, 2024, 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 February 18, 2025, 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

February 18, 2025

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, 2024. 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

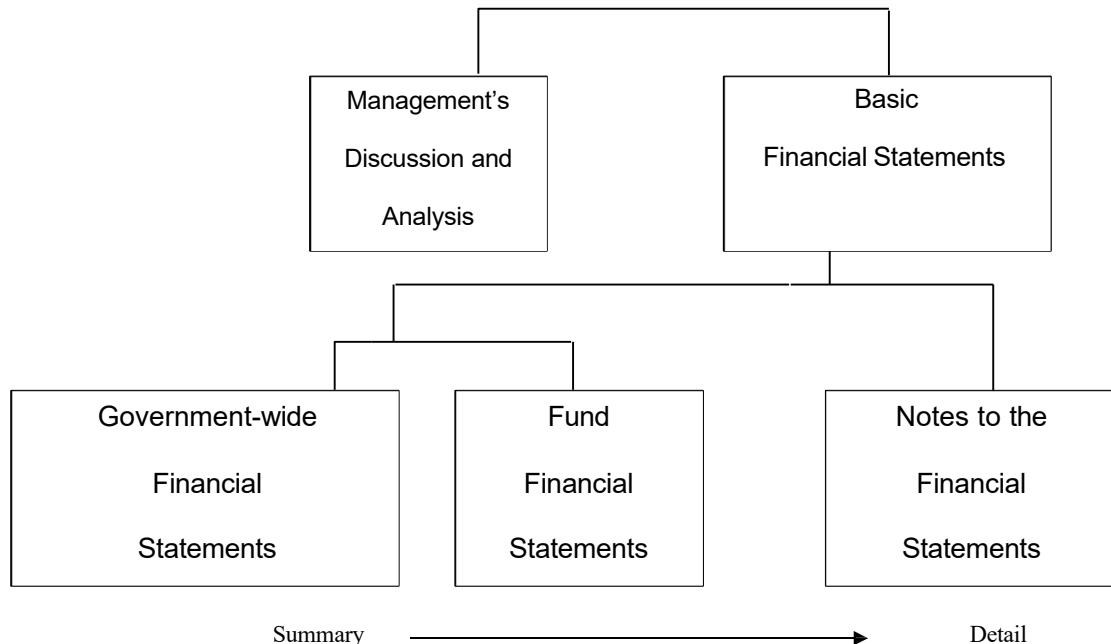
- The assets and deferred outflows of the City of Southport exceeded its liabilities and deferred inflows at the close of the fiscal year by \$40,517,917 (net position).
- Total government's total net position decreased by \$17,698,753 which consisted of an increase in governmental activities of \$6,834,736 and a decrease in business-type activities of \$24,533,489, related to the disposition of the Water-Sewer system.
- As of the close of the current fiscal year, the City of Southport's governmental funds reported combined ending fund balances of \$16,067,680, an increase of \$6,317,514 in comparison with the prior year. Approximately \$7,302,994 (44.83 percent) is unavailable (nonspendable or restricted). Approximately 55.17 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 \$9,018,945 or 81.10 percent of total general fund expenditures for the fiscal year; compared to \$6,979,137 or 72.60 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 \$860,314 (7.55 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

	Governmental Activities		Business-Type Activities		Total	
	2024	2023	2024	2023	2024	2023
Current and other assets	\$21,841,181	\$ 17,100,899	\$ 14,862,740	\$18,708,323	\$ 36,703,921	\$35,809,222
Capital assets	14,884,167	14,361,008	12,408,512	27,556,530	27,292,679	41,917,538
Deferred outflows of resources	2,524,598	2,282,456	503,618	451,121	3,028,216	2,733,577
Total assets and deferred outflows of resources	39,249,946	33,744,363	27,774,870	46,715,974	67,024,816	80,460,337
Other liabilities	5,856,573	7,534,595	8,299,754	1,777,612	14,156,327	9,312,207
Long-term liabilities	8,543,753	8,832,705	1,260,882	1,790,570	9,804,635	10,623,275
Deferred inflows of resources	2,347,113	1,709,292	423,024	263,251	2,770,137	1,972,543
Total liabilities and deferred inflows of resources	16,747,439	18,076,592	9,983,660	3,831,433	26,731,099	21,908,025
Net position:						
Invested in capital assets, net of related debt	13,212,852	12,344,814	12,408,467	27,071,853	25,621,319	39,416,667
Restricted	5,628,627	1,545,094	-	3,575,590	5,628,627	5,120,684
Unrestricted	3,661,028	1,777,863	5,382,743	12,237,098	9,043,771	14,014,961
Total net position	\$22,502,507	\$ 15,667,771	\$ 17,791,210	\$42,884,541	\$ 40,293,717	\$58,552,312

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 \$40,517,917 as of June 30, 20. The City's net position decreased by \$17,474,553 for the fiscal year ended June 30, 2024. The largest portion of net position \$25,621,319 (63.23%) 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 \$9,204,217 (22.72%) represents resources that are subject to external restriction on how they may be used. The remaining balance of \$5,692,381 (14.05%) 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

	Governmental Activities		Business-type Activities		Total	
	2024	2023	2024	2023	2024	2023
Revenues						
Program revenues:						
Charges for services	\$ 3,734,944	\$ 3,566,242	\$ 13,504,861	\$ 14,176,692	\$ 17,239,805	\$ 17,742,934
Operating grants and contributions	1,877,473	168,456	-	-	1,877,473	168,456
Capital grants and contributions	674,094	72,865	806,298	678,669	1,480,392	751,534
General revenues:						
Property taxes	4,483,458	4,566,413	-	-	4,483,458	4,566,413
Other taxes and licenses	210,216	223,526	-	-	210,216	223,526
Unrestricted intergovernmental	3,014,655	2,833,846	-	-	3,014,655	2,833,846
Investment earnings, unrestricted	772,989	540,453	810,688	120,058	1,583,677	660,511
Other	150,450	225,671	-	-	150,450	225,671
Gain/Loss on disposal of fixed assets	-	25,760	-	-	-	25,760
Total revenues	14,918,279	12,223,232	15,121,847	14,975,419	30,040,126	27,198,651
Expenses						
General government	4,186,544	3,836,176	-	-	3,962,344	3,836,176
Public safety	5,473,748	5,123,117	-	-	5,473,748	5,123,117
Transportation	733,140	632,558	-	-	733,140	632,558
Environmental Protection	351,625	308,232	-	-	351,625	308,232
Cultural and recreation	850,096	1,026,513	-	-	850,096	1,026,513
Interest on long-term debt	75,014	58,226	-	-	75,014	58,226
Electric	-	-	7,384,825	8,007,857	7,384,825	8,007,857
Water and sewer	-	-	4,752,874	4,251,028	4,977,074	4,251,028
Total expenses	11,670,167	10,984,822	12,137,699	12,258,885	23,807,866	23,243,707
Change in net position before Transfers	3,248,112	1,238,410	2,984,148	2,716,534	6,232,260	3,954,944
Transfers	3,586,624	-	(27,517,637)	-	(23,931,013)	-
Change in net position	76,834,736	1,238,410	(24,533,489)	2,716,534	(17,698,753)	3,954,944
Net Position						
Beginning of year - July 1	15,667,771	14,578,835	42,884,541	40,495,365	58,552,312	55,074,200
Restatement	-	(149,474)	(559,842)	(327,358)	(559,842)	(476,832)
Beginning of year, as restated	15,667,771	14,429,361	42,324,699	40,168,007	57,992,470	54,597,368
End of year - June 30	\$ 22,502,507	\$ 15,667,771	\$ 17,791,210	\$ 42,884,541	\$ 40,293,717	\$ 58,552,312

Governmental activities. Governmental activities revenues exceeded expenses by \$2,250,676. Compared to budget, revenues were slightly higher than budget and expenses were lower than budget. Notable variances include:

Revenues exceeded budget by \$714,534 including:

- FEMA Reimbursement of \$139,569 for costs incurred related to Hurricane Isaias in 2020
- “Part F” Grant receipt of \$421,194 for Taylor Field costs incurred in prior years
- Ad Valorem and Motor Vehicle Taxes \$251,612 over budget
- Local Option Sales Taxes \$37,860 over budget
- Interest Income \$521,068 over budget
- Community Building, Tourism Events, and Filming Fees \$63,360 over budget
- Proceeds from Southport ABC Store \$84,442 under budget
- Grants and Miscellaneous Revenue for Fire & EMS \$325,000 under budget
- Rescue Squad and Fire Response Fees \$106,779 under budget

Expenses were \$1,885,996 under budget including:

- Salaries & Benefits were \$848,904 under budget, reflecting periods of vacancy
- Purchase of Fire equipment was \$114,884 under budget due to the shortage in planned grant revenue
- Capital Costs were \$823,144 under budget

Business-type activities. During the fiscal year ending June 30, 2024 Southport operated two business-type enterprises, the Water-Sewer enterprise and the electric enterprise. As discussed below, the City divested of the Water-Sewer enterprise before the end of the fiscal year, resulting in a decrease in City's net position of \$24,533,489.

Water-Sewer System Merger

After several years of evaluation, Southport divested of its Water-Sewer enterprise, and all enterprise assets, in a merger with Brunswick County Public Utilities (BCPU) that was effective June 17, 2024. This merger resulted in significant benefits for Southport citizens, including a large reduction in utility rates and avoidance of tens of millions of dollars in capital costs. BCPU assumed ownership of nearly all of Southport's land and infrastructure relating to the water distribution and wastewater collection utility systems and much of the equipment used in the delivery of utilities. BCPU assumed all funding associated with infrastructure capital improvements that Southport had arranged, absorbed all commercial and residential customer accounts, and hired Southport employees involved in the direct delivery of the utilities. After all pending transactions were finalized, the city had \$7,642,051.21 of cash remaining related to capital improvement funds, operating and debt service reserves, and customer deposits of the Water-Sewer enterprise. This balance remained in the enterprise's fund balance at the end of the fiscal year ending June 30, 2024, and was subsequently remitted to BCPU in August 2024. Any assets that did not convey to BCPU in the merger were reclassified to the City's general government fund balance. These assets consisted primarily of heavy equipment, the City's iconic water tower, and a small parcel of land adjacent to the city dock.

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. During FY2024, the Water-Sewer enterprise merged with Brunswick County Public Utilities and ceased operations. In prior years a fund had been established for managing federal ARPA grant proceeds, which have been fully expended, and that fund was closed.

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 \$9,018,945, while total fund balance reached \$12,263,913. The City currently has an available fund balance of 81.10% of total General Fund expenditures, while total fund balance represents 108.52% of that same amount.

At June 30, 2024, the governmental funds of the City of Southport reported a combined fund balance of \$16,067,680, a 64.79% 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 \$345,169.

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. Because of the merger with Brunswick County Public Utilities, the Water and Sewer Fund had a net position of zero at the end of the fiscal year. The fund had \$7,642,051 of remaining cash, with an offsetting liability for payment to BCPU, which was paid after the conclusion of FY2024. The unrestricted net position of the Electric Fund was \$6,163,553. The total decrease in net position for the Water and Sewer Fund was \$25,921,563, and the Electric Fund had a total increase in net position of \$1,388,074.

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, 2024 totals \$27,292,679 (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:

- Continuation of the migration of the electric power lines from overhead to underground
- Stabilization of a portion of the Cape Fear riverfront and repairs to the adjacent street
- Acquisition of body-worn and in-car camera systems for the Police
- Acquisition of Fire and EMS equipment
- Improvements to the City Pier

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

	Governmental Activities		Business-type Activities		Total	
	2024	2023	2024	2023	2024	2023
Land	\$ 2,946,646	\$ 2,917,452	\$ -	\$ 2,827,985	\$ 2,946,646	\$ 5,745,437
Building and improvements	6,423,870	6,605,919	64,238	66,134	6,488,108	6,672,053
Improvements other than Buildings	255,203	288,067	-	-	255,203	288,067
Utility systems	-	-	12,308,908	24,170,249	12,308,908	24,170,249
Furniture and Equipment	921,899	528,223	35,366	260,356	957,265	788,579
Infrastructure	2,455,917	2,629,213	-	-	2,455,917	2,629,213
Vehicles and motorized equipment	734,582	931,828	-	102,416	734,582	1,034,244
Construction in progress	1,146,050	460,306	-	129,390	1,146,050	589,696
Total	\$ 14,884,167	\$ 14,361,008	\$ 12,408,512	\$ 27,556,530	\$ 27,292,679	\$ 41,917,538

Long-term Debt. As of June 30, 2024, the City of Southport had total debt from financing of assets outstanding of \$1,636,682 as noted in the following table. The City also had \$679,362 in lease liabilities outstanding.

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

Figure 4

	Governmental Activities		Business-type Activities		Total	
	2024	2023	2024	2023	2024	2023
Direct Borrowing / Placement						
Installment Agreements	\$ 1,636,682	\$ 2,014,436	\$ -	\$ 485,787	\$ 1,636,682	\$ 2,500,223
Leases	679,362	468,842	7,801	110,423	687,163	579,265
Compensated absences	411,019	270,660	11,273	23,729	422,292	294,389
Net pension liability (LGRS)	2,645,788	1,953,870	608,731	449,942	3,254,519	2,403,812
Total pension liability (FIRE)	520,803	491,355	-	-	520,803	491,355
Total pension liability (LEOSSA)	588,120	471,276	-	-	588,120	471,276
Total OPEB Liability	2,789,872	3,788,829	641,883	872,499	3,431,755	4,661,328
Total	\$ 9,271,646	\$ 9,459,268	\$ 1,269,688	\$ 1,942,380	\$ 10,541,334	\$ 11,401,648

The City of Southport's total debt decreased by \$860,314 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, 2024.

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 \$88,753,166.

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

Economic Factors Budget Highlights for the Fiscal Year Ending June 30, 2025

The following key economic conditions will impact future City revenue and expenditures:

- In June 2024 the North Carolina General Assembly approved House Bill 911 that removed Southport's extraterritorial planning jurisdiction (ETJ), putting those properties under Brunswick County's control effective July 1.
- Revenue growth largely depends on development and population growth. Despite the loss of the ETJ, the city anticipates continued development in coming years to increase the tax base.
- Growth and development in Brunswick County continues at a fast pace, which will drive increases in Local Option Sales Taxes and Southport's portion of those taxes is anticipated to continue to increase in the foreseeable future.
- Occupancy tax continues to increase with robust tourism to our City
- Revenue from building permits and inspections remains strong, as does rental income from City facilities

Governmental Activities:

While the divestiture of the Water-Sewer enterprise resulted in lower utility rates and avoidance of capital investment costs, it also eliminated funding for shared services that will need to be funded by the General Government fund. The City estimates that the Water-Sewer fund has been supporting about \$1.2 million of shared services such as administration, finance, software and related infrastructure maintenance. While some of these costs can be eliminated, the full \$1.2 million cannot be eliminated. For example, the City cannot eliminate the portion of the City Manager expense that was borne by the Water-Sewer fund. Costs that cannot be eliminated must be absorbed by the General Government fund. To help defray these costs the City transferred \$1.2 million from the Water-Sewer Fund to the General Fund, with the agreement of Brunswick County. The City expects to use these funds over more than one year while operations and budgets continue to be refined and adjusted.

Budgeted expenditures in the Governmental funds are expected to rise approximately 13.6% to \$13,507,575. This increase is driven primarily by the transfer of shared services costs to the General Fund from the Water-Sewer Fund, inflation, and the addition of three full-time firefighters and three full-time EMS personnel to provide critical staffing for emergency services. No other new positions are expected to be added. To fund this increase, the City raised its ad valorem tax rate to 31.0 cents per \$100 of assessed property value, with 30 cents dedicated to the General Fund and 1 cent dedicated to the Capital Fund. Fees charged for rescue transports will be increased to Brunswick County levels, and the City further expects to consume \$495,000 of General Fund reserve to balance the budget in the coming fiscal year. Looking ahead, management expects that revenue growth and careful management of spending will maintain the City's superior financial position.

Business-Type Activities: 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, or send an email to www.SouthportNC.com for more information.

BASIC FINANCIAL STATEMENTS

City of Southport, North Carolina
Statement of Net Position
June 30, 2024

	Primary Government			Component Unit
	Governmental	Business-type		Southport ABC
	Activities	Activities	Total	Board
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 18,654,773	\$ 13,802,581	\$ 32,457,354	\$ 451,600
Taxes receivables (net)	50,275	-	50,275	-
Accounts receivable (net)	97,892	856,371	954,263	-
Accrued interest receivable on taxes	2,675	-	2,675	-
Due from other governments	922,336	-	922,336	-
Inventories	-	-	-	502,471
Prepaid expenses	1,140,583	-	1,140,583	34,348
Restricted cash and cash equivalents	327,918	196,032	523,950	-
Total current assets	21,196,452	14,854,984	36,051,436	988,419
Non-current assets:				
Right to use assets, net	644,729	7,756	652,485	-
Capital assets:				
Land, non-depreciable, improvements, and construction in process	4,092,695	-	4,092,695	333,232
Other capital assets, net of depreciation	10,791,472	12,408,512	23,199,984	992,905
Total capital assets	14,884,167	12,408,512	27,292,679	1,326,137
Total non-current assets	15,528,896	12,416,268	27,945,164	1,326,137
Total assets	36,725,348	27,271,252	63,996,600	2,314,556
DEFERRED OUTFLOWS OF RESOURCES				
Pension related deferrals	2,174,663	423,107	2,597,770	166,298
OPEB related deferrals	349,935	80,511	430,446	31,370
Total deferred outflows of resources	2,524,598	503,618	3,028,216	197,668
LIABILITIES				
Current liabilities:				
Accounts payable and accrued expenses	153,502	452,865	606,367	682,755
Customer deposits	2,003	196,032	198,035	-
Accrued interest payable	63,112	-	63,112	-
Due to other governments	2,873	7,642,051	7,644,924	-
Unspent grant proceeds	4,907,190	-	4,907,190	-
Current portion of long-term liabilities	727,893	8,806	736,699	60,329
Total current liabilities	5,856,573	8,299,754	14,156,327	743,084
Long-term liabilities:				
Net pension liability (LGERS)	2,645,788	608,731	3,254,519	236,047
Total pension liability	1,108,923	-	1,108,923	-
Total OPEB liability	2,789,872	641,883	3,431,755	170,203
Due in more than one year	1,999,170	10,268	2,009,438	1,027,112
Total long-term liabilities	8,543,753	1,260,882	9,804,635	1,433,362
Total liabilities	14,400,326	9,560,636	23,960,962	2,176,446
DEFERRED INFLOWS OF RESOURCES				
Pension deferrals	511,606	3,078	514,684	795
OPEB related deferrals	1,825,252	419,946	2,245,198	32,089
Unearned income	10,255	-	10,255	-
Total deferred inflows of resources	2,347,113	423,024	2,770,137	32,884
NET POSITION				
Net investment in capital assets	13,212,852	12,408,467	25,621,319	252,272
Restricted for:				
Stabilization by State Statute	1,049,188	-	1,049,188	-
Streets - Powell Bill	325,915	-	325,915	-
Other functions	-	-	-	189,598
Capital projects	4,253,524	-	4,253,524	-
Unrestricted	3,661,028	5,382,743	9,043,771	(138,976)
Total net position	\$ 22,502,507	\$ 17,791,210	\$ 40,293,717	\$ 302,894

City of Southport, North Carolina
Statement of Activities
For the Year Ended June 30, 2024

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Unit
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Primary government:								
Governmental activities:								
General government	\$ 4,186,544	\$ -	\$ 1,482,748	\$ 202,602	\$ (2,501,194)	\$ -	\$ (2,501,194)	
Public safety	5,473,748	3,000,839	394,725	471,492	(1,606,692)	-	(1,606,692)	
Transportation	733,140	171,962	-	-	(561,178)	-	(561,178)	
Cultural and recreational	850,096	256,937	-	-	(593,159)	-	(593,159)	
Environmental protection	351,625	305,206	-	-	(46,419)	-	(46,419)	
Interest on long-term debt	75,014	-	-	-	(75,014)	-	(75,014)	
Total governmental activities	11,670,167	3,734,944	1,877,473	674,094	(5,383,656)	-	(5,383,656)	
Business-type activities:								
Electric	7,384,825	8,484,143	-	-	-	1,099,318	1,099,318	
Water and Sewer	4,752,874	5,020,718	-	806,298	-	1,074,142	1,074,142	
Total business-type activities	12,137,699	13,504,861	-	806,298	-	2,173,460	2,173,460	
Total primary government	\$ 23,807,866	\$ 17,239,805	\$ 1,877,473	\$ 1,480,392	(5,383,656)	2,173,460	(3,210,196)	
Component units:								
ABC Board	\$ 6,485,459	\$ 6,471,884	\$ -	\$ -				\$ (13,575)
Total component units	\$ 6,485,459	\$ 6,471,884	\$ -	\$ -				\$ (13,575)
General revenues:								
Taxes:								
Ad valorem taxes					4,483,458	-	4,483,458	-
Unrestricted intergovernmental					3,014,655	-	3,014,655	-
Other taxes and licenses					210,216	-	210,216	-
Unrestricted investment earnings					772,989	810,688	1,583,677	-
Miscellaneous					150,450	-	150,450	-
Transfers					3,586,624	(3,586,624)	-	-
Special item:								
Transfer of operations					-	(23,931,013)	(23,931,013)	-
Total general revenues, special items, and transfers					12,218,392	(26,706,949)	(14,488,557)	-
Change in net position					6,834,736	(24,533,489)	(17,698,753)	(13,575)
Net position, beginning as previously stated					15,667,771	42,884,541	58,552,312	316,469
Restatement					-	(559,842)	(559,842)	-
Net position beginning, as restated					15,667,771	42,324,699	57,992,470	316,469
Net position, ending					\$ 22,502,507	\$ 17,791,210	\$ 40,293,717	\$ 302,894

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

City of Southport, North Carolina
Balance Sheet
Governmental Funds
June 30, 2024

	Major Fund			Non-Major	
	General Fund	ARPA Fund	Waterfront Stabilization Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and investments	\$ 9,695,949	\$ -	\$ 4,907,190	\$ 4,051,634	\$ 18,654,773
Restricted cash and cash equivalents	327,918	-	-	-	327,918
Taxes receivable, net	50,275	-	-	-	50,275
Accounts and other receivable	97,892	-	-	-	97,892
Due from other governments	922,336	-	-	-	922,336
Due from other funds	28,960	-	-	-	28,960
Prepaid expenses	1,140,583	-	-	-	1,140,583
Total assets	<u>\$ 12,263,913</u>	<u>\$ -</u>	<u>\$ 4,907,190</u>	<u>\$ 4,051,634</u>	<u>\$ 21,222,737</u>
LIABILITIES					
Accounts payable and accrued liabilities	\$ 11,227	\$ -	\$ -	\$ 23,409	\$ 34,636
Accrued payroll and payroll liabilities	118,865	-	-	-	118,865
Unspent grant proceeds	-	-	4,907,190	-	4,907,190
Due to other governments	2,873	-	-	-	2,873
Due to other funds	-	-	-	28,960	28,960
Customer deposits	2,003	-	-	-	2,003
Total liabilities	<u>134,968</u>	<u>-</u>	<u>4,907,190</u>	<u>52,369</u>	<u>5,094,527</u>
DEFERRED INFLOWS OF RESOURCES					
Property taxes receivable	50,275	-	-	-	50,275
Prepaid property taxes	10,255	-	-	-	10,255
Total deferred inflows of resources	<u>60,530</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>60,530</u>
Fund balances:					
Nonspendable:					
Prepaid expenses	1,140,583	-	-	-	1,140,583
Restricted:					
Stabilization by State Statute	1,049,188	-	-	-	1,049,188
Streets	325,915	-	-	-	325,915
ARPA	-	-	-	-	-
Capital outlay	-	-	-	4,253,524	4,253,524
Committed:					
Fire protection	38,784	-	-	-	38,784
Assigned:					
Subsequent year's expenditures	495,000	-	-	-	495,000
Unassigned	9,018,945	-	-	(254,259)	8,764,686
Total fund balances	<u>12,068,415</u>	<u>-</u>	<u>-</u>	<u>3,999,265</u>	<u>16,067,680</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 12,263,913</u>	<u>\$ -</u>	<u>\$ 4,907,190</u>	<u>\$ 4,051,634</u>	<u>\$ 21,222,737</u>

(cont)

City of Southport, North Carolina
Reconciliation of the Governmental Funds to the Statement of Net Position
June 30, 2024

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

Total fund balance, governmental funds	\$ 16,067,680
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	14,884,167
Right to use assets used in governmental activities are not financial resources and therefore are not reported in the funds.	644,729
Earned revenues considered deferred inflows of resources in fund statements.	50,275
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	349,935
Deferred outflows of resources related to pensions are not recorded on the fund statements	2,174,663
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	(1,636,683)
Lease liability	(679,362)
Compensated absences	(411,019)
Net pension liability (LGERS)	(2,645,788)
Total pension liability (LEOSSA)	(588,120)
Total pension liability	(520,803)
Total OPEB liability	(2,789,872)
Accrued interest payable	(63,112)
Deferred inflows of resources related to OPEB are not reported in the funds	(1,825,252)
Deferred inflows of resources related to pensions are not recorded on the fund statements	(511,606)
Net position of governmental activities	<u>\$ 22,502,507</u>

City of Southport, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2024

	Major Funds			Total	Total
	General Fund	ARPA Fund	Waterfront Stabilization Fund	Non-Major Governmental Funds	Governmental Funds
REVENUES					
Ad valorem taxes	\$ 4,458,983	\$ -	\$ -	\$ -	\$ 4,458,983
Other taxes and licenses	209,728	-	-	-	209,728
Unrestricted intergovernmental	3,014,655	-	-	-	3,014,655
Restricted intergovernmental	2,940,010	1,263,954	50,298	421,194	4,675,456
Permits and fees	763,612	-	-	-	763,612
Sales and services	848,605	-	-	-	848,605
Investment earnings	772,989	-	-	-	772,989
Miscellaneous	149,779	-	-	-	149,779
Total revenues	13,158,361	1,263,954	50,298	421,194	14,893,807
EXPENDITURES					
Current:					
General government	3,387,526	-	-	-	3,387,526
Public safety	4,738,431	-	-	-	4,738,431
Street and public works	558,092	-	-	-	558,092
Sanitation	351,625	-	-	-	351,625
Cultural and recreation	819,620	-	-	-	819,620
Rescue	813,107	-	-	-	813,107
Debt service:					
Principal	377,754	-	-	-	377,754
Interest and other charges	75,014	-	-	-	75,014
Capital outlay	-	-	50,298	859,646	909,944
Total expenditures	11,121,169	-	50,298	859,646	12,031,113
Excess (deficiency) of revenues over expenditures	2,037,192	1,263,954	-	(438,452)	2,862,694
OTHER FINANCING SOURCES (USES)					
Transfers (to) other funds	-	(1,263,954)	-	-	(1,263,954)
Transfers from other funds	397,144	-	-	4,453,434	4,850,578
Transfer of capital assets from Water and Sewer Fund	(131,804)	-	-	-	(131,804)
Total other financing sources (uses)	265,340	(1,263,954)	-	4,453,434	3,454,820
Net change in fund balance	2,302,532	-	-	4,014,982	6,317,514
Fund balances, beginning	9,765,883	-	-	(15,717)	9,750,166
Fund balances, ending	\$ 12,068,415	\$ -	\$ -	\$ 3,999,265	\$ 16,067,680

City of Southport, North Carolina
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2024

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

Net changes in fund balances - total governmental funds		\$ 6,317,514
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	1,506,630	
Depreciation expense for governmental assets	(837,545)	
Loss on disposal of capital assets	<u>-</u>	669,085
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	511,066	
Accumulated amortization	<u>(333,421)</u>	177,645
Contributions to the pension plan in the current fiscal year are not included on the statement of activities		
		562,854
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		24,475
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	377,754	
Principal payments on leases	<u>237,597</u>	615,351
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		(140,359)
Pension expense		(1,402,973)
Separation allowance		(85,626)
Firefighters' retirement		65,080
OPEB expense		<u>31,690</u>
Total changes in net position of governmental activities		<u><u>\$ 6,834,736</u></u>

City of Southport, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balances -
Annual Budget and Actual
General Fund
For the Year Ended June 30, 2024

	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues:				
Ad valorem taxes	\$ 4,207,371	\$ 4,207,371	\$ 4,458,983	\$ 251,612
Other taxes and licenses	211,630	211,630	209,728	(1,902)
Unrestricted intergovernmental	2,968,900	2,968,900	3,014,655	45,755
Restricted intergovernmental	2,671,497	3,008,722	2,940,010	(68,712)
Permits and fees	951,000	951,000	763,612	(187,388)
Sales and services	969,500	969,500	848,605	(120,895)
Investment earnings	250,210	250,210	772,989	522,779
Miscellaneous	210,519	218,463	149,779	(68,684)
Total revenues	12,440,627	12,785,796	13,158,361	372,565
Expenditures:				
Current:				
General government	4,154,767	4,145,289	3,387,526	757,763
Public safety	4,689,849	5,035,295	4,738,431	296,864
Transportation	892,044	903,694	558,092	345,602
Environmental protection	330,000	330,000	351,625	(21,625)
Cultural and recreation	918,683	918,683	819,620	99,063
Rescue	786,584	786,584	813,107	(26,523)
Debt service:				
Principal retirement	476,367	476,367	452,768	23,599
Total expenditures	12,248,294	12,595,912	11,121,169	1,474,743
Revenues over (under) expenditures	192,333	189,884	2,037,192	1,847,308
Other financing sources (uses):				
Appropriated fund balance	266,681	266,681	-	(266,681)
Transfers from other funds	-	-	397,144	397,144
Transfers from water & sewer fund	-	-	(131,804)	(131,804)
Total other financing sources (uses)	266,681	266,681	265,340	(1,341)
Revenues and other sources over (under) expenditures and other uses	\$ 459,014	\$ 456,565	2,302,532	\$ 1,845,967
Fund balances, beginning			9,765,883	
Fund balances, ending			\$ 12,068,415	

City of Southport, North Carolina
Statement of Net Position
Proprietary Funds
June 30, 2024

	Major Enterprise Funds		
	Electric Fund	Water and Sewer Fund	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 6,160,530	\$ 7,642,051	\$ 13,802,581
Accounts receivable customers, net	461,726	-	461,726
Accounts receivable BEMC	394,645	-	394,645
Restricted assets:			
Cash and cash equivalents	196,032	-	196,032
Total current assets	7,212,933	7,642,051	14,854,984
Non-current assets:			
Right to use asset, net	7,756	-	7,756
Capital assets:			
Land and other non-depreciable assets	-	-	-
Other capital assets, net of depreciation	12,408,512	-	12,408,512
Capital assets (net)	12,408,512	-	12,408,512
Total noncurrent assets	12,416,268	-	12,416,268
Total assets	19,629,201	7,642,051	27,271,252
DEFERRED OUTFLOWS OF RESOURCES			
Pension deferrals	140,747	282,360	423,107
OPEB deferrals	26,782	53,729	80,511
Total deferred outflows of resources	167,529	336,089	503,618
LIABILITIES			
Current liabilities:			
Accounts payable	450,195	-	450,195
Due to other governments	-	7,642,051	7,642,051
Salaries payable	2,670	-	2,670
Customer deposits	196,032	-	196,032
Compensated absences	2,818	-	2,818
Bonds, notes, leases and loans payable	6,684	-	6,684
Total current liabilities	658,399	7,642,051	8,300,450
Noncurrent liabilities:			
Other non-current liabilities:			
Compensated absences	8,455	-	8,455
Net pension liability	202,495	406,236	608,731
Total OPEB liability	213,524	428,359	641,883
Bonds, notes and loans payable	1,117.00	-	1,117
Total non-current liabilities	425,591	834,595	1,260,186
Total liabilities	1,083,990	8,476,646	9,560,636
DEFERRED INFLOWS OF RESOURCES			
Pension deferrals	1,024	2,054	3,078
OPEB deferrals	139,696	280,250	419,946
Total deferred inflows of resources	140,720	282,304	423,024
NET POSITION			
Net investment in capital assets	12,408,467	-	12,408,467
Other restrictions	-	-	-
Unrestricted	6,163,553	(780,810)	5,382,743
Total net position	\$ 18,572,020	\$ (780,810)	\$ 17,791,210

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

City of Southport, North Carolina
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Year Ended June 30, 2024

	Major Enterprise Funds		
	Electric Fund	Water and Sewer Fund	Total
OPERATING REVENUES			
Charges for services	\$ 8,455,054	\$ 4,927,766	\$ 13,382,820
Other operating revenues	29,089	92,952	122,041
Total operating revenues	8,484,143	5,020,718	13,504,861
OPERATING EXPENSES			
Electric operations	2,207,339	-	2,207,339
Power / water purchases	4,726,250	1,292,885	6,019,135
Water and sewer operations	-	2,765,989	2,765,989
Depreciation and amortization	451,236	663,901	1,115,137
Total operating expenses	7,384,825	4,722,775	12,107,600
Operating income (loss)	1,099,318	297,943	1,397,261
NONOPERATING REVENUES (EXPENSES)			
Investment earnings	288,756	521,932	810,688
Interest and other charges	-	(30,099)	(30,099)
Total nonoperating revenues (expenses)	288,756	491,833	780,589
Income (loss) before contributions and transfers	1,388,074	789,776	2,177,850
Capital contributions	-	806,298	806,298
Transfer of operations	-	(23,931,013)	(23,931,013)
Transfer in (out)	-	(3,586,624)	(3,586,624)
Total income (loss) after contributions and transfers	1,388,074	(25,921,563)	(24,533,489)
Change in net position	1,388,074	(25,921,563)	(24,533,489)
Total net position, beginning as previously reported	17,743,788	25,140,753	42,884,541
Restatement	(559,842)	-	(559,842)
Total net position, beginning as restated	17,183,946	25,140,753	42,324,699
Total net position, ending	\$ 18,572,020	\$ (780,810)	\$ 17,791,210

City of Southport, North Carolina
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2024

	Major Enterprise Funds		
	Electric Fund	Water and Sewer Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 7,854,895	\$ 5,471,454	\$ 13,326,349
Cash paid for goods and services	(6,790,284)	(2,521,043)	(9,311,327)
Cash paid to or on behalf of employees for services	(592,436)	(1,973,215)	(2,565,651)
Net customer deposits	25,205	(94,093)	(68,888)
Other operating revenues	29,089	92,952	122,041
Net cash provided (used) by operating activities	526,469	976,055	1,502,524
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfer of operations	-	587,349	587,349
Transfers	-	(3,586,624)	(3,586,624)
Net cash provided (used) by noncapital financing activities	-	(2,999,275)	(2,999,275)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(873,531)	(1,866,630)	(2,740,161)
Availability fees	-	806,298	806,298
Interest paid on bonds and installment purchases	-	(30,099)	(30,099)
Repayment of debt obligations	(6,656)	(581,753)	(588,409)
Net cash provided (used) by capital and related financing activities	(880,187)	(1,672,184)	(2,552,371)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends	288,756	521,932	810,688
Net cash provided (used) by investing activities	288,756	521,932	810,688
Net increase (decrease) in cash and investments	(64,962)	(3,173,472)	(3,238,434)
Balances, beginning	6,421,524	10,815,523	17,237,047
Balances, ending	\$ 6,356,562	\$ 7,642,051	\$ 13,998,613

City of Southport, North Carolina
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2024

	Major Enterprise Funds		Total
	Electric Fund	Water and Sewer Fund	
Reconciliation of operating income to net cash provided (used) by operating activities			
Operating income (loss)	\$ 1,099,318	\$ 297,943	\$ 1,397,261
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities			
Depreciation and amortization	451,236	663,901	1,115,137
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	(600,159)	543,688	(56,471)
(Increase) decrease in due from other governments	-	-	-
(Increase) decrease in inventory	-	-	-
(Increase) decrease in prepaid expenses	-	-	-
(Increase) in deferred outflows of resources - pensions	(25,742)	(65,446)	(91,188)
(Increase) in deferred outflows of resources - OPEB	14,520	24,171	38,691
Increase (decrease) in accounts payable and accrued liabilities	(423,351)	(409,727)	(833,078)
Increase (decrease) in accounts paid in advance	-	-	-
Increase (decrease) in accrued payroll and payroll liabilities	(24,742)	(49,688)	(74,430)
Increase (decrease) in customer deposits	25,205	(94,093)	(68,888)
Increase (decrease) in accrued vacation pay	2,866.00	(15,322)	(12,456)
Increase (decrease) in net pension liability	46,596	112,193	158,789
Increase (decrease) in deferred inflows of resources - pension	(45)	38	(7)
Increase (decrease) in deferred inflows of resources - OPEB	49,552	110,228	159,780
Increase (decrease) in OPEB liability	(88,785)	(141,831)	(230,616)
Total adjustments	\$ (572,849)	\$ 678,112	\$ 105,263
Net cash provided (used) by operating activities	<u>\$ 526,469</u>	<u>\$ 976,055</u>	<u>\$ 1,502,524</u>

City of Southport, North Carolina
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2024

	<u>Custodial Funds</u>
ASSETS	
Cash and investments	\$ 40,015
Total assets	<u>\$ 40,015</u>
 LIABILITIES	
Miscellaneous liabilities	<u>\$ -</u>
Total liabilities	<u>-</u>
 NET POSITION	
Restricted for:	
Fireman's Relief	\$ 40,015
Total fiduciary net position	<u>\$ 40,015</u>

City of Southport, North Carolina
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2024

	<u>Custodial Funds</u>
ADDITIONS	
Insurance income	\$ 10,966
Investment income	2,047
Other income	-
Total additions	<u>\$ 13,013</u>
 DEDUCTIONS	
Firefighter physicals	\$ 9,462
Supplemental insurance premiums	17,337
Total deductions	<u>26,799</u>
 Net increase (decrease) in fiduciary net position	 (13,786)
 Net position - beginning	 53,801
Net position - ending	<u>\$ 40,015</u>

City of Southport, North Carolina
Notes to the Financial Statements
For the Year Ended June 30, 2024

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	325,915
Total governmental activities	<u>\$ 327,918</u>
Business-type activities:	
Electric Fund:	
Customer deposits	\$ 196,032
Water and Sewer Fund:	
Customer deposits	-
System development fees	-
Total business-type activities	<u>\$ 196,032</u>
Total Restricted Cash	<u><u>\$ 523,950</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.

Prepaid expenses - Portion of the fund balance that is not an available recourse because it represents the year-end balance of ending prepaid expenses, which are not spendable resources. At June 30, 2024, the City of Southport had \$1,072,057 fund balance with this classification which represents prepayment for a new fire truck.

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, 2024, the City expended \$21,625 more for general fund environmental protection operations and \$26,523 more for general fund rescue operations than appropriated in the budget. The City also had minor amounts expended over budget in several of the proprietary expense line items. Management and the Board will carefully 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 properly secured. The ABC Board has no formal policy regarding custodial credit risk for deposits.

At June 30, 2024, the City's deposits had a carrying amount of \$32,574,255 and a bank balance of \$34,141,466. 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 \$451,600 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, 2024.

2. Investments

At June 30, 2024, the City had \$406,599 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, 2024.

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, 2024 are net of the following allowances for doubtful accounts.

	Accounts	Taxes	Due from other governments	Total
Governmental activities:				
General	\$ 106,857	\$ 50,275	\$ 922,336	\$ 1,079,468
Other governmental	-	-	-	-
Allowance for doubtful accounts	(8,965)	-	-	(8,965)
Total governmental activities	<u>\$ 97,892</u>	<u>\$ 50,275</u>	<u>\$ 922,336</u>	<u>\$ 1,070,503</u>
Business-type activities:				
Electric	\$ 853,014	\$ -	\$ -	\$ 853,014
Water and Sewer	-	-	-	-
Allowance for doubtful accounts	3,357	-	-	3,357
Total business-type activities	<u>\$ 856,371</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 856,371</u>

Due from other governments consisted of the following:

Local option sales tax	\$ 444,116
Franchise tax	65,905
Sales tax	165,994
Solid waste disposal tax	-
Miscellaneous	2,263
FEMA	202,602
Taxes - due from the county	41,456
	<u>\$ 922,336</u>

4. Capital Assets

Primary Government

Capital asset activity for the Primary Government for the year ended June 30, 2024 was as follows:

	<u>Beginning</u> <u>Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balances</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 2,917,452	\$ 29,194	\$ -	\$ 2,946,646
Construction in progress	460,306	685,744	-	1,146,050
Total capital assets not being depreciated	<u>3,377,758</u>	<u>714,938</u>	<u>-</u>	<u>4,092,696</u>
Capital assets being depreciated:				
Buildings	9,597,348	10,415	-	9,607,763
Other Improvements	993,660	-	-	993,660
Infrastructure	4,468,558	65,984	-	4,534,542
Vehicles and motorized equipment	4,830,403	642,701	-	5,473,104
Furniture and equipment	1,820,654	758,894	-	2,579,548
Total capital assets being depreciated	<u>21,710,623</u>	<u>1,477,994</u>	<u>-</u>	<u>23,188,617</u>
Less accumulated depreciation for:				
Buildings	2,991,429	192,464	-	3,183,893
Other improvements	705,593	32,864	-	738,457
Infrastructure	1,839,345	239,280	-	2,078,625
Vehicle and motorized equipment	3,898,575	839,947	-	4,738,522
Furniture and equipment	1,292,431	365,218	-	1,657,649
Total accumulated depreciation	<u>10,727,373</u>	<u>\$ 1,669,773</u>	<u>\$ -</u>	<u>12,397,146</u>
Total capital assets being depreciated, net	<u>10,983,250</u>			<u>10,791,471</u>
Governmental activity capital assets, net	<u>\$ 14,361,008</u>			<u>\$ 14,884,167</u>

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

General government	\$ 144,225
Public safety	440,480
Transportation	205,462
Cultural and recreational	47,378
	<u>\$ 837,545</u>

Included in increases was \$964,209 and \$832,225 of capital assets and accumulated depreciation transferred from the water & sewer fund.

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Business-type activities:				
Electric Fund				
Capital assets not being depreciated:				
Land	\$ -	\$ -	\$ -	\$ -
Construction in progress	-	-	-	-
Total capital assets not being depreciated	-	-	-	-
Capital assets being depreciated:				
Buildings	94,816	-	-	94,816
Utility systems	17,699,425	867,936	-	18,567,361
Vehicles and motorized equipment	21,156	-	-	21,156
Furniture and equipment	287,391	5,595	-	292,986
Total capital assets being depreciated	18,102,788	873,531	-	18,976,319
Less accumulated depreciation for:				
Buildings	28,682	1,896	-	30,578
Utility systems	5,832,774	425,679	-	6,258,453
Vehicles and motorized equipment	21,156	-	-	21,156
Furniture and equipment	240,606	17,014	-	257,620
Total accumulated depreciation	6,123,218	\$ 444,589	\$ -	6,567,807
Total capital assets being depreciated, net	11,979,570			12,408,512
Electric fund capital assets, net	\$ 11,979,570			\$ 12,408,512
	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Water and Sewer Fund				
Capital assets not being depreciated:				
Land	\$ 2,827,985	\$ -	\$ (2,827,985)	\$ -
Construction in progress	129,390	1,496,674	(1,626,064)	-
Total capital assets not being depreciated	2,957,375	1,496,674	(4,454,049)	-
Capital assets being depreciated:				
Utility systems	20,836,351	310,408	(21,146,759)	-
Vehicles and motorized equipment	759,817	-	(759,817)	-
Furniture and equipment	794,364	59,548	(853,912)	-
Total capital assets being depreciated	22,390,532	369,956	(22,760,488)	-
Less accumulated depreciation for:				
Utility systems	8,532,753	516,807	(9,049,560)	-
Vehicles and motorized equipment	657,401	35,601	(693,002)	-
Furniture and equipment	580,793	74,556	(655,349)	-
Total accumulated depreciation	9,770,947	\$ 626,964	\$ (10,397,911)	-
Total capital assets being depreciated, net	12,619,585			-
Water and Sewer fund capital assets, net	\$ 15,576,960			\$ -
Business-type activities capital assets, net	\$ 27,556,530			\$ 12,408,512

Construction Commitments

The City has active construction projects as of June 30, 2024. At year-end, the government's commitments with contractors are as follows:

<u>Project</u>	<u>Spent-to-date</u>	<u>Remaining Commitment</u>
Renovations - Police Station	\$ -	\$ 9,600
Electric Overhead to Underground	\$ -	\$ 1,845,067
Mapping of Stormwater System	\$ -	\$ 278,500

Discretely presented component unit

Activity for the ABC Board for the year ended June 30, 2024, was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Capital assets not being depreciated:				
Land	\$ 333,232	\$ -	\$ -	\$ 333,232
Total capital assets not being depreciated:	333,232	-	-	333,232
Capital assets being depreciated:				
Buildings	872,212	-	-	872,212
Building improvements	323,459	5,251	-	328,710
Furniture and fixtures	4,620	-	-	4,620
Equipment	101,787	-	-	101,787
Total capital assets being depreciated:	1,302,078	5,251	-	1,307,329
Less accumulated depreciation for:				
Buildings	89,341	20,337	-	109,678
Building improvements	105,524	23,820	-	129,344
Furniture and fixtures	3,246	169	-	3,415
Equipment	61,078	10,909	-	71,987
Total accumulated depreciation	259,189	\$ 55,235	\$ -	314,424
Total capital assets being depreciated, net:	1,042,889			992,905
ABC Board capital assets, net:	<u>\$ 1,376,121</u>			<u>\$ 1,326,137</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, 2024, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Right to use assets:				
Leased vehicles	\$ 795,038	\$ 158,939	\$ -	\$ 953,977
Leased building	-	352,127	-	352,127
Total right to use assets	795,038	511,066	-	1,306,104
Less accumulated amortization for:				
Leased vehicles	327,954	316,195	-	644,149
Leased building	-	17,226	-	17,226
Total accumulated amortization	327,954	333,421	-	661,375
Right to use assets, net	<u>\$ 467,084</u>			<u>\$ 644,729</u>

Business-type activities:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Electric Fund				
Right to use assets:				
Leased vehicles	\$ 27,697	\$ -	\$ -	\$ 27,697
Total right to use assets	27,697	-	-	27,697
Less accumulated amortization for:				
Leased vehicles	13,294	6,647	-	19,941
Total accumulated amortization	13,294	6,647	-	19,941
Right to use assets, net	<u>\$ 14,403</u>			<u>\$ 7,756</u>

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

During the year ended June 30, 2024, all leases and right of use assets were transferred from the Water and Sewer Fund to the General Fund.

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.

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, 2024, was 14.10% of compensation for law enforcement officers and 12.85% 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 \$672,033 for the year ended June 30, 2024.

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, 2024, the City reported a liability of \$3,254,519 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2023. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2022. The total pension liability was then rolled forward to the measurement date of June 30, 2023 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, 2023 (measurement date), the City's proportion was 0.0491% which was an increase of 0.0065% from its proportion measured as of June 30, 2022.

For the year ended June 30, 2024, the City recognized pension expense of \$1,033,895. At June 30, 2024, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 362,650	\$ 7,807
Changes of assumptions	138,298	-
Net difference between projected and actual earnings on pension plan investments	871,052	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	218,065	8,649
Employer contributions subsequent to the measurement date	672,033	-
Total	<u>\$ 2,262,098</u>	<u>\$ 16,456</u>

\$672,033 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, 2025. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2025	\$ 585,522
2026	312,862
2027	638,392
2028	36,833
2029	-
Thereafter	-
	<u>\$ 1,573,609</u>

Actuarial Assumptions. The total pension liability in the December 31, 2022 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, 2022 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, 2024 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
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 2022 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:

	1% Decrease (5.50%)	Discount Rate (6.50%)	1% Increase (7.50%)
City's proportionate share of the net pension liability (asset)	\$ 5,638,326	\$ 3,254,519	\$ 1,291,945

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, 2022, the Separation Allowance’s membership consisted of:

Retirees receiving benefits	1
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	14
Total	<u>15</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, 2022 valuation. The total pension liability in the December 31, 2022 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	3.77 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 \$12,819 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, 2024, the City reported a total pension liability of \$588,120. The total pension liability was measured as of December 31, 2022 based on a December 31, 2021 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, 2024, the City recognized pension expense of \$98,445.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 128,773	\$ 11,521
Changes of assumptions	32,324	45,614
City benefit payments and plan administrative expense made subsequent to the measurement date	-	-
Total	<u>\$ 161,097</u>	<u>\$ 57,135</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, 2025. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2025	\$ (19,073)
2026	(16,862)
2027	(11,793)
2028	(9,407)
2029	-
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 3.77 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 (2.77 percent) and 1-percentage-point higher (4.77 percent) than the current rate.

	1% Decrease (2.77%)	Discount Rate (3.77%)	1% Increase (4.77%)
Total pension liability	\$ 621,145	\$ 588,120	\$ 557,112

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

	2024
Beginning balance	\$ 471,276
Service Cost	19,377
Interest on the total pension liability	18,827
Changes of benefit terms	-
Differences between expected and actual experience in the measurement of the total pension liability	82,945
Changes of assumptions or other inputs	8,514
Benefit payments	(12,819)
Other changes	-
Net Change	<u>116,844</u>
Ending balance of the total pension liability	<u>\$ 588,120</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 June 30, 2023 valuation, the plans membership consisted of:

Retiree receiving benefits	15
Terminated plan members entitled to but not yet receiving benefits	1
Active Plan members	51
Total	<u>67</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 June 30, 2023 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	3.77 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, 2024, the City reported a total pension liability of \$520,803. The total pension liability was measured as of December 31, 2023 based on a June 30, 2023 actuarial valuation. For the year ended June 30, 2024, the City recognized pension expense of \$14,999.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 266,065
Changes of assumptions	174,575	175,028
City benefits payments and plan and plan administrative expense made subsequent to the measurement date	-	-
	<u>\$ 174,575</u>	<u>\$ 441,093</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, 2025. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:		
2025	\$	(48,298)
2026		(48,298)
2027		(48,298)
2028		(48,298)
2029		(48,298)
Thereafter		(199,603)

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 3.77% as well as what the City's total pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.77 percent) or 1 percent point higher (4.77 percent) than the current rate:

	1% Decrease (2.77%)	Discount Rate (3.77%)	1% Increase (4.77%)
Total pension liability	\$ 599,035	\$ 520,803	\$ 457,825

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

	<u>2024</u>
Beginning Balance	\$ 491,355
Service Cost	25,563
Interest on the total pension liability	19,410
Change of benefit terms	-
Differences between expected and actual experience in the measurement of total pension liability	(10,626)
Changes of assumptions and inputs	19,281
Benefit payments	(24,180)
Other Charges	-
Ending balance of the total pension liability	<u>\$ 520,803</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>LGERS</u>	<u>LEOSSA</u>	<u>VFSRP</u>	<u>TOTAL</u>
Pension expense	\$ 1,033,895	\$ 98,445	\$ 14,999	\$ 1,147,339
Pension liability	3,254,519	588,120	520,803	4,363,442
Proportionate share of the net pension liability	0.04914%	n/a	n/a	

Deferred Outflows of Resources

Differences between expected and actual experience	362,650	128,773	-	491,423
Changes of assumptions	138,298	32,324	174,575	345,197
Net difference between projected and actual earnings on plan investments	871,052	-	-	871,052
Changes in proportion and differences between contributions and proportionate share of contributions	218,065	-	-	218,065
Benefit payments and administrative costs paid subsequent to the measurement date	672,033	-	-	672,033
Total	<u>\$ 2,262,098</u>	<u>\$ 161,097</u>	<u>\$ 174,575</u>	<u>\$ 2,597,770</u>

Deferred Inflows of Resources

Differences between expected and actual experience	\$ 7,807	\$ 11,521	\$ 266,065	\$ 285,393
Changes of assumptions	-	45,614	175,028	220,642
Changes in proportion and differences between contributions and proportionate share of contributions	8,649	-	-	8,649
Total	<u>\$ 16,456</u>	<u>\$ 57,135</u>	<u>\$ 441,093</u>	<u>\$ 514,684</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, 2024 were \$205,722 for nonlaw and \$47,654 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, 2023, the date of the last actuarial valuation:

Inactive employees or Beneficiaries Currently Receiving Benefits	21
Inactive Members Entitled to but not Receiving Benefits	0
Active Employees	77
Total	<u>98</u>

Total OPEB Liability

The City's total OPEB liability of \$3,431,753 was measured as of June 30, 2023 and was determined by an actuarial valuation as of that date.

Actuarial assumptions and other inputs. The total OPEB liability in the June 30, 2023 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	3.86 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

	Total OPEB Liability
Balance at July 1, 2023	\$ 4,661,329
Changes for the year	
Service cost	143,309
Interest	169,489
Changes of benefit terms	-
Differences between expected and actual experience	(1,417,340)
Changes in assumptions or other inputs	11,207
Benefit payments	(136,241)
Net changes	<u>(1,229,576)</u>
Balance at June 30, 2024	<u><u>\$ 3,431,753</u></u>

Changes in assumptions and other inputs reflect a change in the discount rate from 3.69% to 3.86%.

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, 2023 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 (2.86 percent) and 1-percentage-point higher (4.86 percent).

	1% Decrease (2.86%)	Discount Rate (3.86%)	1% Increase (4.86%)
Total OPEB liability	\$ 3,989,729	\$ 3,431,753	\$ 2,985,100

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	\$ 2,946,795	\$ 3,431,753	\$ 4,052,629

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

For the year ended June 30, 2024, the City recognized OPEB expense of \$(31,690). At June 30, 2024, 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	\$ 3,896	\$ 1,320,354
Changes of assumptions	426,550	924,844
Benefit payments and administrative costs made subsequent to the measurement date	-	-
Total	\$ 430,446	\$ 2,245,198

\$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, 2025. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Measurement period ended June 30:		
2025	\$	(522,149)
2026		(461,768)
2027		(461,197)
2028		(440,459)
2029		(211,543)
Thereafter		(148,082)

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	\$ 362,650	\$ 7,807
LEOSSA	128,773	11,521
VFSR	-	266,065
OPEB	3,896	1,320,354
Changes of assumptions		
LGERS	138,298	-
LEOSSA	32,324	45,614
VFSR	174,575	175,028
OPEB	426,550	924,844
Difference between projected and actual investment		
LGERS	871,052	-
Change in proportion and difference between employer contributions and proportionate share of contributions		
LGERS	218,065	8,649
Contributions to pension plan in current fiscal year		
LGERS	672,033	-
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>3,028,216</u>	<u>2,770,137</u>
Prepaid property taxes (General)	-	10,255
Taxes receivable, net (General, on General Fund Balance Sheet)	-	50,275
Total	<u>\$ -</u>	<u>\$ 60,530</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 public.

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, 2024.

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 06/30/2024, the value of the lease liability is \$14,801. 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 06/30/2024 of \$29,239 with accumulated amortization of \$14,132 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 06/30/2024, the value of the lease liability is \$14,763. 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 06/30/2024 of \$29,025 with accumulated amortization of \$14,029 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 06/30/2024, the value of the lease liability is \$15,397. 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 06/30/2024 of \$29,350 with accumulated amortization of \$13,705 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 06/30/2024, the value of the lease liability is \$7,729. 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 06/30/2024 of \$26,126 with accumulated amortization of \$18,442 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 06/30/2024, the value of the lease liability is \$6,944. 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 06/30/2024 of \$24,655 with accumulated amortization of \$17,752 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 06/30/2024, the value of the lease liability is \$557. 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 06/30/2024 of \$20,521 with accumulated amortization of \$19,966 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 06/30/2024, the value of the lease liability is \$15,274. 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 06/30/2024 of \$28,460 with accumulated amortization of \$13,290 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 06/30/2024, the value of the lease liability is \$20,476. 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 06/30/2024 of \$39,933 with accumulated amortization of \$19,606 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 06/30/2024, the value of the lease liability is \$18,983. 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 06/30/2024 of \$37,020 with accumulated amortization of \$18,176 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 06/30/2024, the value of the lease liability is \$22,264. 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 06/30/2024 of \$44,555 with accumulated amortization of \$22,461 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 06/30/2024, the value of the lease liability is \$21,686. 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 06/30/2024 of \$41,675 with accumulated amortization of \$20,143 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 06/30/2024, the value of the lease liability is \$10,420. 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 06/30/2024 of \$35,219 with accumulated amortization of \$24,861 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 06/30/2024, the value of the lease liability is \$10,420. 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 06/30/2024 of \$35,219 with accumulated amortization of \$24,861 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 06/30/2024, the value of the lease liability is \$10,449. 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 06/30/2024 of \$35,526 with accumulated amortization of \$25,077 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 06/30/2024, the value of the lease liability is \$10,420. 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 06/30/2024 of \$35,219 with accumulated amortization of \$24,861 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 06/30/2024, the value of the lease liability is \$10,420. 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 06/30/2024 of \$35,219 with accumulated amortization of \$24,861 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 06/30/2024, the value of the lease liability is \$7,919. 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 06/30/2024 of \$33,637 with accumulated amortization of \$25,764 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 06/30/2024, the value of the lease liability is \$10,420. 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 06/30/2024 of \$35,219 with accumulated amortization of \$24,861 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 06/30/2024, the value of the lease liability is \$8,946. 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 06/30/2024 of \$38,000 with accumulated amortization of \$29,106 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 06/30/2024, the value of the lease liability is \$9,041. 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 06/30/2024 of \$38,401 with accumulated amortization of \$29,414 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 06/30/2024, the value of the lease liability is \$6,905. 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 06/30/2024 of \$27,456 with accumulated amortization of \$20,592 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 06/30/2024, the value of the lease liability is \$6,905. 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 06/30/2024 of \$27,456 with accumulated amortization of \$20,592 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 06/30/2024, the value of the lease liability is \$16,463. 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 06/30/2024 of \$32,981 with accumulated amortization of \$16,627 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 06/30/2024, the value of the lease liability is \$15,397. 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 06/30/2024 of \$28,690 with accumulated amortization of \$13,397 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 06/30/2024, the value of the lease liability is \$3,040. 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 06/30/2024 of \$21,157 with accumulated amortization of \$18,135 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 06/30/2024, the value of the lease liability is \$7,801. 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 06/30/2024 of \$27,697 with accumulated amortization of \$19,942 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 \$24,445. As of 06/30/2024, the value of the lease liability is \$12,202. 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 06/30/2024 of \$24,445 with accumulated amortization of \$12,324 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 06/30/2024, the value of the lease liability is \$12,202. 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 06/30/2024 of \$24,445 with accumulated amortization of \$12,324 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 06/30/2024, the value of the lease liability is \$14,485. 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 06/30/2024 of \$28,249 with accumulated amortization of \$13,869 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 06/30/2024, the value of the lease liability is \$3,046. 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 06/30/2024 of \$18,602 with accumulated amortization of \$15,574 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 06/30/2024, the value of the lease liability is \$6,460. 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 06/30/2024 of \$24,208 with accumulated amortization of \$17,785 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 06/30/2024, the value of the lease liability is \$3,456. 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 06/30/2024 of \$24,048 with accumulated amortization of \$20,613 is included with Vehicles on the Lease Class activities table found below.

On 04/01/2024, City of Southport, NC entered into a 60 month lease as Lessee for the use of a building by Administration. An initial lease liability was recorded in the amount of \$352,150. As of 06/30/2024, the value of the lease liability is \$332,142. City of Southport, NC is required to make monthly fixed payments of \$4,479. The lease has an interest rate of 3.00%. The value of the right to use asset as of 06/30/2024 of \$352,127 with accumulated amortization of \$17,226 is included with Buildings 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	\$ 981,674	\$ (664,090)	\$ 317,584
Buildings	352,127	(17,226)	334,901
Total	<u>\$ 1,333,801</u>	<u>\$ (681,316)</u>	<u>\$ 652,485</u>

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

Year Ending June 30	Governmental Activities		Business-Type Activities		Total
	Principal	Interest	Principal	Interest	
2025	\$ 271,129	\$ 1,381	\$ 6,684	\$ 20	\$ 279,214
2026	169,292	587	1,117	1	170,997
2027	118,557	99	-	-	118,656
2028	70,696	-	-	-	70,696
2029	49,688	-	-	-	49,688
	<u>\$ 679,362</u>	<u>\$ 2,067</u>	<u>\$ 7,801</u>	<u>\$ 21</u>	<u>\$ 689,251</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. Balance of the loan was \$1,135,200 at June 30, 2024.

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. This installment note was paid in full during the current fiscal year.

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. The balance at June 30, 2024 was \$501,482.

Annual debt service payments of the installment purchase as of June 30, 2024, including \$127,096 of interest is as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2025	\$ 354,009	\$ 39,474
2026	356,350	31,742
2027	358,723	23,976
2028	189,200	16,177
2029	378,400	15,727
2030-2034	-	-
Total	<u>\$ 1,636,682</u>	<u>\$ 127,096</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. This revolving loan was paid off during the current fiscal year.

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. This revolving loan was paid off during the current fiscal year.

c. Changes in Long-Term Liabilities

A summary of changes in long-term obligations follows:

	Balance June 30, 2023	Increases	Decreases	Balance June 30, 2024	Current Portion of Balance
Governmental activities:					
Direct placement and direct borrowing installment purchases	\$ 2,014,436	\$ -	\$ 377,754	\$ 1,636,682	\$ 354,009
Leases	468,842	448,117	237,597	679,362	271,129
Compensated absences	270,660	140,359	-	411,019	102,755
Net pension liability (LGERS)	1,953,870	691,918	-	2,645,788	-
Total pension liability (FIRE)	491,355	29,448	-	520,803	-
Total pension liability (LEOSSA)	471,276	116,844	-	588,120	-
Total OPEB Liability	3,788,829	-	998,957	2,789,872	-
Total governmental activities	<u>\$ 9,459,268</u>	<u>\$ 1,426,686</u>	<u>\$ 1,614,308</u>	<u>\$ 9,271,646</u>	<u>\$ 727,893</u>

	Balance June 30, 2023			Balance June 30, 2024			Current Portion of Balance
		Increases	Decreases				
Business-type activities:							
Electric Fund							
Leases	\$ 14,457	\$ -	\$ 6,656	\$ 7,801	\$ 6,684		
Compensated absences	8,407	2,866	-	11,273	2,818		
Net pension liability (LGERS)	155,899	46,596	-	202,495	-		
Total OPEB liability	302,309	-	88,785	213,524	-		
Total Electric Fund	\$ 481,072	\$ 49,462	\$ 95,441	\$ 435,093	\$ 8,806		
Water and Sewer Fund							
Revolving loans	\$ 485,787	\$ -	\$ 485,787	\$ -	\$ -		
Leases	95,966	-	95,966	-	-		
Compensated absences	15,322	-	15,322	-	-		
Net pension liability (LGERS)	294,043	112,193	-	406,236	-		
Total OPEB liability	570,190	-	141,831	428,359	-		
Total Water Fund	\$ 1,461,308	\$ 112,193	\$ 738,906	\$ 834,595	\$ -		
Total business-type activities	\$ 1,942,380	\$ 161,655	\$ 834,347	\$ 1,269,688	\$ 8,806		

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, 2024, the City of Southport had a legal debt margin of \$88,753,166.

C. Interfund Balances and Activity

Balances due to/from other funds at June 30, 2024 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.

During the year ended June 30, 2024, the City reported the following transfers:

Transfer from the Water and Sewer fund to the Capital Reserve fund:	\$ 3,392,204
Transfer from the Water and Sewer fund to the NCDEQ Pump Station Rehabilitation Project fund:	95,180
Transfer from the American Rescue Plan Act fund to the Capital Reserve fund:	1,263,954
Transfer from the Water and Sewer fund to the Taylor Field Part F Phase 1 fund:	194,420

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, 2024, the City payments under this contract totaled \$587,019.

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	\$ 14,884,167	\$ -	\$ 12,408,512	\$ 12,408,512
Right to use assets	644,729	-	7,756	7,756
less: long-term debt	(2,316,044)	-	(7,801)	(7,801)
add: unexpended debt proceeds	-	-	-	-
Net investment in capital assets	\$ 13,212,852	\$ -	\$ 12,408,467	\$ 12,408,467

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	\$ 12,068,415
Less restricted for:	
Stabilization by State statute	1,049,188
Streets (Powell Bill)	325,915
Appropriated fund balance in 2025 budget	495,000
Committed for fire protection	38,784
Nonspendable - prepaid items	1,140,583
Remaining fund balance	\$ 9,018,945

Outstanding encumbrances are amounts needed to pay any commitments related to purchase orders and contracts that remain unperformed at year-end. At June 30, 2024 the City had outstanding encumbrances of \$83,780 in the General Fund, \$1,560,883 in the Capital Projects Fund and \$2,016,698 in the Electric 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, 2024 were \$4,726,250.

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 \$2,173 were paid to the Council during the fiscal year ended June 30, 2024.

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, 2024, 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, 2024. 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, 2024, it was discovered receivable balances were not properly stated and net position was restated resulting in a decrease of net position in governmental activities of \$559,842.

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, 2024 were evaluated by management on February 5, 2025 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.

IX. Transfer of Operations

Under an agreement with Brunswick County, the City of Southport transferred its water and sewer fund operations to the County. Upon execution of the agreement, Brunswick County will operate, own and maintain the water and sewer systems within the City limits moving forward. The agreement was completed and effective June 17, 2024. The City recognized all revenues and expenses associated with operation of the water and sewer fund up to that date on that date transferred the following to the County:

Transferred Assets (net)	<u>Carrying Values</u>
Cash	\$ 7,642,051
Land	3,169,498
Water systems	11,784,938
Equipment	104,322
Construction in progress	1,496,674
Total assets	<u>\$ 24,197,483</u>
Transferred Liabilities (net)	
Accounts payable and accrued expenses	\$ 266,470
Total liabilities	<u>\$ 266,470</u>
Net Position of Transferred Water & Sewer Fund Operations	<u>\$ 23,931,013</u>

REQUIRED SUPPLEMENTAL FINANCIAL DATA

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

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, North Carolina
City of Southport's Proportionate Share of Net Pension Liability (Asset)
Required Supplementary Information
Last Ten Fiscal Years

Local Government Employees' Retirement System

	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>
Southport's proportion of the net liability (asset) (%)	0.0491%	0.0426%	0.0405%	0.0370%	0.0320%
Southport's proportion of the net pension liability (asset) (\$)	\$ 3,254,519	\$ 2,403,812	\$ 620,646	\$ 1,322,525	\$ 874,168
Southport's covered payroll	\$ 4,384,160	\$ 3,107,698	\$ 3,103,894	\$ 2,809,085	\$ 2,364,012
Southport's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	74.23%	77.35%	20.00%	47.08%	36.98%
Plan fiduciary net position as a percentage of the total pension liability**	82.49%	84.14%	95.51%	88.61%	90.86%
	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Southport's proportion of the net liability (asset) (%)	0.0365%	0.03576%	0.03179%	0.03025%	0.02832%
Southport's proportion of the net pension liability (asset) (\$)	\$ 866,142	\$ 546,314	\$ 674,690	\$ 135,760	\$ (167,016)
Southport's covered payroll	\$ 2,228,199	\$ 2,000,892	\$ 2,000,892	\$ 1,863,345	\$ 1,773,533
Southport's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	38.87%	27.30%	33.72%	7.29%	-9.42%
Plan fiduciary net position as a percentage of the total pension liability**	91.63%	94.18%	91.47%	98.09%	102.64%

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

Local Government Employees' Retirement System

	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>
Contractually required contribution	\$ 672,033	\$ 534,487	\$ 359,323	\$ 321,389	\$ 256,871
Contributions in relation to the contractually required contribution	<u>672,033</u>	<u>534,487</u>	<u>359,323</u>	<u>321,389</u>	<u>256,871</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Southport's covered payroll	\$ 5,189,646	\$ 4,384,160	\$ 3,107,698	\$ 3,103,894	\$ 2,809,085
Contributions as a percentage of covered payroll	12.95%	12.19%	11.56%	10.35%	9.14%
	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 187,871	\$ 171,008	\$ 160,063	\$ 135,756	\$ 133,568
Contributions in relation to the contractually required contribution	<u>187,871</u>	<u>171,008</u>	<u>160,063</u>	<u>135,756</u>	<u>133,568</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Southport's covered payroll	\$ 2,364,012	\$ 2,228,199	\$ 2,164,697	\$ 2,000,892	\$ 1,863,345
Contributions as a percentage of covered payroll	7.95%	7.67%	7.39%	6.78%	7.17%

City of Southport, North Carolina
Schedule of Changes in Total Pension Liability
Law Enforcement Officers' Special Separation Allowance
Last Seven Fiscal Years

	2024	2023	2022	2021	2020
Beginning balance	\$ 471,276	\$ 507,470	\$ 409,347	\$ 356,652	\$ 200,689
Service Cost	19,377	25,352	24,554	11,962	10,300
Interest on the total pension liability	18,827	11,274	7,777	11,418	7,072
Changes of benefit terms	-	-	-	-	-
Differences between expected and actual experience in the measurement of the total pension liability	82,945	-	89,292	(37,039)	141,477
Changes of assumptions or other inputs	8,514	(59,992)	(10,681)	79,173	9,933
Benefit payments	(12,819)	(12,828)	(12,819)	(12,819)	(12,819)
Other changes	-	-	-	-	-
Ending balance of the total pension liability	<u>\$ 588,120</u>	<u>\$ 471,276</u>	<u>\$ 507,470</u>	<u>\$ 409,347</u>	<u>\$ 356,652</u>

	2019	2018
Beginning balance	\$ 204,305	\$ 127,190
Service Cost	13,484	11,669
Interest on the total pension liability	6,253	4,662
Changes of benefit terms	-	-
Differences between expected and actual experience in the measurement of the total pension liability	(2,276)	61,353
Changes of assumptions or other inputs	(8,258)	12,250
Benefit payments	(12,819)	(12,819)
Other changes	-	-
Ending balance of the total pension liability	<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 Seven Fiscal Years

	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>
Total pension liability	\$ 588,120	\$ 471,276	\$ 507,470	\$ 409,347	\$ 356,652
Covered payroll	840,919	694,651	694,651	510,625	392,499
Total pension liability as a percentage of covered payroll	69.94%	67.84%	73.05%	80.17%	90.87%

	<u>2019</u>	<u>2018</u>
Total pension liability	\$ 200,689	\$ 204,305
Covered payroll	588,718	549,341
Total pension liability as a percentage of covered payroll	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 Seven Fiscal Years

	2024	2023	2022	2021	2020
Beginning balance	\$ 491,355	\$ 817,018	\$ 817,081	\$ 697,962	\$ 625,124
Service cost	25,563	53,504	51,820	38,094	33,124
Interest on the total pension liability	19,410	18,111	15,541	22,382	22,340
Changes in benefit terms	-	-	-	-	-
Difference between expected and actual experience in the measurement of the total pension liability	(10,626)	(250,612)	-	(47,564)	-
Changes of assumptions	19,281	(122,486)	(43,704)	129,007	40,174
Benefit payments	(24,180)	(24,180)	(23,720)	(22,800)	(22,800)
Other charges	-	-	-	-	-
Ending balance of the total pension liability:	<u>\$ 520,803</u>	<u>\$ 491,355</u>	<u>\$ 817,018</u>	<u>\$ 817,081</u>	<u>\$ 697,962</u>

	2019	2018
Beginning balance	\$ 667,767	\$ 573,282
Service cost	36,691	24,438
Interest on the total pension liability	20,736	21,684
Changes in benefit terms	-	-
Difference between expected and actual experience in the measurement of the total pension liability	(28,860)	-
Changes of assumptions	(48,060)	71,418
Benefit payments	(23,150)	(23,055)
Other charges	-	-
Ending balance of the total pension liability:	<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 Seven Fiscal Years

Total OPEB Liability	2024	2023	2022	2021
Service cost	\$ 143,309	\$ 206,926	\$ 202,551	\$ 132,536
Interest	169,489	124,976	127,506	158,028
Changes in benefit terms	-	-	-	-
Differences between expected and actual experience in the measurement of the total pension liability	(1,417,340)	4,778	(124,411)	(4,157)
Changes of assumptions	11,207	(1,373,506)	179,488	1,054,545
Benefit payments	(136,241)	(175,548)	(155,884)	(156,763)
Other changes	-	-	-	-
Net change in total OPEB liability	(1,229,576)	(1,212,374)	229,250	1,184,189
Total OPEB liability - beginning	4,661,329	5,873,703	5,644,453	4,460,264
Total OPEB liability - ending	\$ 3,431,753	\$ 4,661,329	\$ 5,873,703	\$ 5,644,453
Covered payroll	\$ 4,032,093	\$ 2,850,283	\$ 2,850,283	\$ 2,228,360
Total OPEB liability as a percentage of covered payroll	85.11%	163.54%	206.07%	253.30%

	2020	2019	2018
Service cost	\$ 192,535	\$ 97,192	\$ 109,016
Interest	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	(370,197)	21,056	24,508
Changes of assumptions	(15,169)	(209,436)	(381,868)
Benefit payments	(153,229)	(166,608)	(160,683)
Other changes	-	-	-
Net change in total OPEB liability	(168,936)	324,394	(273,617)
Total OPEB liability - beginning	4,629,200	4,304,806	4,578,423
Total OPEB liability - ending	\$ 4,460,264	\$ 4,629,200	\$ 4,304,806
Covered payroll	\$ 2,228,360	\$ 1,920,483	\$ 989,080
Total OPEB liability as a percentage of covered payroll	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:

	Rate
2018	3.56%
2019	3.89%
2020	3.50%
2021	2.21%
2022	2.16%
2023	3.69%
2024	3.86%

INDIVIDUAL FUND STATEMENTS AND SCHEDULES

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

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, 2024

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Ad valorem taxes			
Current year	\$ 3,920,271	\$ 4,186,603	\$ 266,332
Prior years	30,000	30,793	793
Motor vehicles taxes	250,000	230,945	(19,055)
Penalties and interest	7,100	10,642	3,542
Total	<u>4,207,371</u>	<u>4,458,983</u>	<u>251,612</u>
Other taxes and licenses			
Dog taxes	1,000	1,707	707
Privilege licenses	150	1,530	1,380
Itinerant peddler permit	300	50	(250)
Civil penalties	180	155	(25)
Accommodation tax	210,000	206,286	(3,714)
Total	<u>211,630</u>	<u>209,728</u>	<u>(1,902)</u>
Unrestricted intergovernmental			
Local option sales tax	1,900,000	1,937,860	37,860
Beer and wine tax	18,900	21,931	3,031
ABC board profit distribution	650,000	570,000	(80,000)
Utility franchise tax	400,000	484,864	84,864
Total	<u>2,968,900</u>	<u>3,014,655</u>	<u>45,755</u>
Restricted intergovernmental			
Powell Bill allocation	145,000	159,812	14,812
Solid Waste disposal tax	3,500	488	(3,012)
FEMA assistance to firefighters	240,505	140,505	(100,000)
ABC revenue for law enforcement	26,542	22,100	(4,442)
FEMA reimbursement	220,000	421,396	201,396
Fire district fees	1,941,455	1,941,489	34
Other miscellaneous grants	431,720	254,220	(177,500)
Total	<u>3,008,722</u>	<u>2,940,010</u>	<u>(68,712)</u>
Permits and fees			
Building permits	900,000	652,132	(247,868)
Fire inspection fees	20,000	26,949	6,949
Reinspection fees	-	4,400	4,400
Golf cart fees	6,000	12,150	6,150
Planning and zoning fees	25,000	67,981	42,981
Total	<u>951,000</u>	<u>763,612</u>	<u>(187,388)</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, 2024

	Budget	Actual	Variance Positive (Negative)
Sales and Services			
Cemetery lot sales	\$ -	\$ 674	\$ 674
Refuse collection fees	330,000	305,206	(24,794)
Rescue squad fees	411,000	285,788	(125,212)
Community building rent	175,000	219,700	44,700
Payment in lieu - recreation facilities	11,000	8,095	(2,905)
Tourism - visitor center sales	6,500	1,850	(4,650)
Recreation fees	36,000	27,292	(8,708)
Total	969,500	848,605	(120,895)
Investment earnings	250,210	772,989	522,779
Miscellaneous			
Donations - firemen's fund	81,900	52,173	(29,727)
Fire department response fees	30,000	8,432	(21,568)
Homeowners recovery fund	1,000	1,530	530
Police - shop with a cop	16,622	11,938	(4,684)
Miscellaneous	88,941	75,706	(13,235)
Total	218,463	149,779	(68,684)
Total revenues	12,785,796	13,158,361	372,565
Expenditures:			
General government:			
Board expenses			
Salaries and benefits	30,336	35,072	(4,736)
Operating expenditures	170,516	154,481	16,035
Capital outlay	37,440	500	36,940
Total	238,292	190,053	48,239
Administration			
Salaries and benefits	214,530	207,335	7,195
Operating expenditures	466,927	390,927	76,000
Capital outlay	7,000	43,288	(36,288)
Total	688,457	641,550	46,907

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, 2024

	Budget	Actual	Variance Positive (Negative)
Finance			
Salaries and benefits	\$ 252,624	\$ 227,049	\$ 25,575
Operating expenditures	137,539	113,718	23,821
Capital outlay	8,000	9,116	(1,116)
Total	398,163	349,883	48,280
Buildings and grounds			
Salaries and benefits	982,335	775,911	206,424
Operating expenditures	466,420	367,418	99,002
Capital outlay	32,500	31,181	1,319
Total	1,481,255	1,174,510	306,745
Tourism			
Salaries and benefits	226,523	170,294	56,229
Operating expenditures	103,500	91,350	12,150
Total	330,023	261,644	68,379
Community building			
Salaries and benefits	132,559	68,848	63,711
Operating expenditures	28,000	32,200	(4,200)
Total	160,559	101,048	59,511
Human resources			
Salaries and benefits	40,421	38,805	1,616
Operating expenditures	45,000	31,256	13,744
Total	85,421	70,061	15,360
Permitting and Inspections			
Salaries and benefits	435,515	290,400	145,115
Operating expenditures	57,705	52,641	5,064
Capital outlay	20,000	9,277	10,723
Total	513,220	352,318	160,902
City garage			
Salaries and benefits	196,589	200,116	(3,527)
Operating expenditures	41,310	34,364	6,946
Capital outlay	12,000	11,979	21
Total	249,899	246,459	3,440
Total general government	4,145,289	3,387,526	757,763

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, 2024

	Budget	Actual	Variance Positive (Negative)
Public safety:			
Police			
Salaries and benefits	\$ 1,632,709	\$ 1,507,651	\$ 125,058
Operating expenditures	339,260	291,347	47,913
Capital outlay	381,887	415,754	(33,867)
Total	<u>2,353,856</u>	<u>2,214,752</u>	<u>139,104</u>
Fire and rescue department			
Salaries and benefits	1,481,026	1,449,097	31,929
Operating expenditures	409,244	538,926	(129,682)
Capital outlay	271,505	157,141	114,364
Total	<u>2,161,775</u>	<u>2,145,164</u>	<u>16,611</u>
Code enforcement			
Salaries and benefits	266,297	155,827	110,470
Operating expenditures	106,025	97,667	8,358
Capital outlay	13,000	8,747	4,253
Total	<u>385,322</u>	<u>262,241</u>	<u>123,081</u>
Animal code enforcement			
Salaries and benefits	98,116	93,115	5,001
Operating expenditures	30,250	17,159	13,091
Capital outlay	5,976	6,000	(24)
Total	<u>134,342</u>	<u>116,274</u>	<u>18,068</u>
Total public safety	<u>5,035,295</u>	<u>4,738,431</u>	<u>296,864</u>
Transportation:			
Street			
Salaries and benefits	282,848	338,390	(55,542)
Operating expenditures	218,505	147,440	71,065
Capital outlay	40,300	26,838	13,462
Total	<u>541,653</u>	<u>512,668</u>	<u>28,985</u>
Powell Bill			
Capital outlay	362,041	45,424	316,617
Total	<u>362,041</u>	<u>45,424</u>	<u>316,617</u>
Total transportation	<u>903,694</u>	<u>558,092</u>	<u>345,602</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, 2024

	Budget	Actual	Variance Positive (Negative)
Environmental protection:			
Solid waste			
Contract services	\$ 330,000	\$ 351,625	\$ (21,625)
Total environmental protection	<u>330,000</u>	<u>351,625</u>	<u>(21,625)</u>
Cultural and recreational:			
Parks and recreation			
Salaries and benefits	477,302	420,762	56,540
Operating expenditures	196,100	180,906	15,194
Capital outlay	245,281	217,952	27,329
Total cultural and recreational	<u>918,683</u>	<u>819,620</u>	<u>99,063</u>
Rescue:			
Salaries and benefits	544,584	532,174	12,410
Operating expenditures	196,000	222,217	(26,217)
Capital outlay	46,000	58,716	(12,716)
Total rescue	<u>786,584</u>	<u>813,107</u>	<u>(26,523)</u>
Debt service:			
Principal retirement	476,367	452,768	23,599
Interest and other charges	-	-	-
Total debt service	<u>476,367</u>	<u>452,768</u>	<u>23,599</u>
Total expenditures	<u>12,595,912</u>	<u>11,121,169</u>	<u>1,474,743</u>
Revenues over (under) expenditures	<u>189,884</u>	<u>2,037,192</u>	<u>1,847,308</u>
Other financing sources (uses):			
Appropriated fund balance	266,681	-	(266,681)
Transfers from other funds	-	397,144	397,144
Fixed asset additions from Fund 31	-	(131,804)	(131,804)
Total other financing sources (uses)	<u>266,681</u>	<u>265,340</u>	<u>(1,341)</u>
Revenues and other financing sources over expenditures and other financing uses	<u><u>\$ 456,565</u></u>	<u>2,302,532</u>	<u><u>\$ 1,845,967</u></u>
Fund balance, beginning		<u>9,765,883</u>	
Fund balance, ending		<u><u>\$ 12,068,415</u></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, 2024

	Project Authorization	Prior Years	Current Year	Total to Date	Variance Positive (Negative)
Revenues:					
Restricted intergovernmental:					
American Rescue Plan	\$ 1,263,954	\$ -	\$ 1,263,954	\$ 1,263,954	\$ -
Total revenues	1,263,954	-	1,263,954	1,263,954	-
Expenditures:					
Contracted services	1,263,954	-	-	-	1,263,954
Total expenditures	1,263,954	-	-	-	1,263,954
Revenues over (under) expenditures	-	-	1,263,954	1,263,954	1,263,954
Other financing sources (uses):					
Appropriated fund balance	-	-	-	-	-
Transfer (to) from other funds	-	-	(1,263,954)	(1,263,954)	(1,263,954)
Total other financing sources (uses)	-	-	(1,263,954)	(1,263,954)	(1,263,954)
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, 2024

	Project Authorization	Prior Years	Current Year	Total to Date	Variance Positive (Negative)
Revenues:					
Grant revenue	\$ 5,000,000	\$ 42,513	\$ 50,298	\$ 92,811	\$ (4,907,189)
Expenditures:					
Capital outlay	5,000,000	42,513	50,298	92,811	4,907,189
Total expenditures	5,000,000	42,513	50,298	92,811	4,907,189
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, North Carolina
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2024

	Capital Project Fund	Taylor Field Part F Grant Phase 1	Stormwater Mapping Project	Total Non-Major Governmental Funds
ASSETS				
Cash and cash equivalents	\$4,276,933	\$ (1,099)	\$ (224,200)	\$ 4,051,634
Restricted cash	-	-	-	-
Taxes receivable (net)	-	-	-	-
Accounts receivable	-	-	-	-
Due from other governments	-	-	-	-
Due from other funds	-	-	-	-
Prepaid expenses	-	-	-	-
Total assets	<u>\$4,276,933</u>	<u>\$ (1,099)</u>	<u>\$ (224,200)</u>	<u>\$ 4,051,634</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 23,409	\$ -	\$ -	\$ 23,409
Due to other funds	-	28,960	-	28,960
Total liabilities	<u>23,409</u>	<u>28,960</u>	<u>-</u>	<u>52,369</u>
DEFERRED INFLOWS OF RESOURCES				
Taxes receivable	-	-	-	-
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:				
Restricted:				
Capital projects - cultural and recreational	4,253,524	-	-	4,253,524
Committed:				
General government	-	-	-	-
Economic development	-	-	-	-
Public safety	-	-	-	-
Industrial development	-	-	-	-
Unassigned	-	(30,059)	(224,200)	(254,259)
Total fund balances	<u>4,253,524</u>	<u>(30,059)</u>	<u>(224,200)</u>	<u>3,999,265</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$4,276,933</u>	<u>\$ (1,099)</u>	<u>\$ (224,200)</u>	<u>\$ 4,051,634</u>

City of Southport, North Carolina
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2024

	Capital Project Fund	Taylor Field Part F Grant Phase 1	Stormwater Mapping Project	Total Non-Major Governmental Funds
Revenues:				
Restricted intergovernmental	\$ -	\$ 421,194	\$ -	\$ 421,194
Total revenues	-	421,194	-	421,194
Expenditures:				
Capital outlay	588,162	47,284	224,200	859,646
Total expenditures	588,162	47,284	224,200	859,646
Revenues over (under) expenditures	(588,162)	373,910	(224,200)	(438,452)
Other financing sources (uses):				
Appropriated fund balance	-	-	-	-
Transfer from other funds	-	194,420	-	194,420
Transfer from General Fund	4,259,014	-	-	4,259,014
Total other financing sources (uses)	4,259,014	194,420	-	4,453,434
Revenues over expenditures and other financing sources (uses)	<u>\$3,670,852</u>	<u>\$ 568,330</u>	<u>\$ (224,200)</u>	<u>\$ 4,014,982</u>

City of Southport, North Carolina
Capital Project Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP)
For the Year Ended June 30, 2024

	Project Authorization	Prior Years	Current Year	Total to Date	Variance Positive (Negative)
Revenues:					
Total revenues	\$ -	\$ -	\$ -	\$ -	\$ -
Expenditures:					
Capital outlay	1,200,000	617,328	588,162	1,205,490	(5,490)
Total expenditures	1,200,000	617,328	588,162	1,205,490	(5,490)
Revenues over (under) expenditures	(1,200,000)	(617,328)	(588,162)	(1,205,490)	(5,490)
Other financing sources (uses):					
Appropriated fund balance	-	-	-	-	-
Transfer from General Fund	1,200,000	1,200,000	4,259,014	5,459,014	4,259,014
Total other financing sources (uses)	1,200,000	1,200,000	4,259,014	5,459,014	4,259,014
Revenues over expenditures and other financing sources (uses)	\$ -	\$ 582,672	\$ 3,670,852	\$ 4,253,524	\$ 4,253,524

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, 2024

	Project Authorization	Prior Years	Current Year	Total to Date	Variance Positive (Negative)
Revenues:					
Restricted intergovernmental:					
Part F Grant	\$ 421,224	\$ -	\$ 421,194	\$ 421,194	\$ (30)
Total revenues	421,224	-	421,194	421,194	(30)
Expenditures:					
Capital outlay	615,644	598,389	47,284	645,673	(30,029)
Total expenditures	615,644	598,389	47,284	645,673	(30,029)
Revenues over (under) expenditures	(194,420)	(598,389)	373,910	(224,479)	(30,059)
Other financing sources (uses):					
Appropriated fund balance	-	-	-	-	-
Transfer (to) from other funds	194,420	-	194,420	194,420	-
Total other financing sources (uses)	194,420	-	194,420	194,420	-
Revenues over expenditures and other financing sources (uses)	\$ -	\$ (598,389)	\$ 568,330	\$ (30,059)	\$ (30,059)

City of Southport, North Carolina
Stormwater Mapping Project
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP)
For the Year Ended June 30, 2024

	Project Authorization	Prior Years	Current Year	Total to Date	Positive (Negative)
Revenues:					
Grants	\$ 250,000	\$ -	\$ -	\$ -	(250,000)
Total revenues	<u>250,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(250,000)</u>
Expenditures:					
Contract Services	-	-	-	-	-
Capital outlay	500,000	\$ -	\$ 224,200	\$ 224,200	\$ 275,800
Total expenditures	<u>500,000</u>	<u>-</u>	<u>224,200</u>	<u>224,200</u>	<u>275,800</u>
Revenues over (under) expenditures	<u>(250,000)</u>	<u>-</u>	<u>(224,200)</u>	<u>(224,200)</u>	<u>25,800</u>
Other financing sources (uses):					
Transfer from General Fund	250,000	-	-	-	(250,000)
Total other financing sources (uses)	<u>250,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(250,000)</u>
Revenues over expenditures and other financing sources (uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (224,200)</u>	<u>\$ (224,200)</u>	<u>\$ (224,200)</u>

ENTERPRISE FUNDS

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

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

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

City of Southport, North Carolina
Electric Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP)
For the Year Ended June 30, 2024

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Operating revenues			
Electricity sales	\$ 8,239,000	\$ 8,455,054	\$ 216,054
Service charges	29,576	24,011	(5,565)
Total charges for services	<u>8,268,576</u>	<u>8,479,065</u>	<u>210,489</u>
Other operating revenues			
Miscellaneous	-	5,078	5,078
Total operating revenues	<u>-</u>	<u>5,078</u>	<u>5,078</u>
Nonoperating revenues:			
Interest on investments	250,000	288,756	38,756
Total nonoperating revenues	<u>250,000</u>	<u>288,756</u>	<u>38,756</u>
Total revenues	<u>8,518,576</u>	<u>8,772,899</u>	<u>254,323</u>
Expenditures:			
Salaries	459,898	411,465	48,433
Employee overtime	8,174	2,022	6,152
Professional services	13,960	17,485	(3,525)
Social security	35,808	27,970	7,838
Group insurance	74,300	67,860	6,440
Retirement	54,572	40,212	14,360
401(k) retirement supplement	21,152	16,701	4,451
Workers compensation insurance	2,000	1,464	536
Uniforms and protective gear	1,800	817	983
Telephone and postage	4,000	4,025	(25)
Utilities	1,230	36,735	(35,505)
Travel and training	10,000	8,180	1,820
Vehicle maintenance	1,300	19	1,281
Gas, oil and tires	650	381	269
Departmental supplies	22,000	8,739	13,261
Utility sales tax	576,000	507,429	68,571
Power purchased	5,899,956	4,726,250	1,173,706
Billing contract	216,703	255,346	(38,643)
Contract services	78,800	92,902	(14,102)
Operations and maintenance contract	586,100	587,019	(919)
Install load management switches	35,000	14,358	20,642
Insurance and bonding	11,700	7,753	3,947
Depreciation	9,839	-	9,839
Total expenditures	<u>8,124,942</u>	<u>6,835,132</u>	<u>1,289,810</u>

City of Southport, North Carolina
Electric Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP)
For the Year Ended June 30, 2024

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Supplemental budget expenditures:			
Capital outlay	4,766,243	973,026	3,793,217
Total supplemental budget expenditures	<u>4,766,243</u>	<u>973,026</u>	<u>3,793,217</u>
Total expenditures	<u>12,891,185</u>	<u>7,808,158</u>	<u>5,083,027</u>
Excess of revenues over (under) expenditures	<u>(4,372,609)</u>	<u>964,741</u>	<u>5,337,350</u>
Other financing sources (uses):			
Appropriated fund balance	4,372,609	-	(4,372,609)
Total other financing sources (uses)	<u>4,372,609</u>	<u>-</u>	<u>(4,372,609)</u>
Revenues over expenditures and other financing sources (uses)	<u>\$ -</u>	<u>964,741</u>	<u>\$ 964,741</u>

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

Revenues and other sources over expenditures and other uses	964,741
Reconciliation of modified accrual basis to full accrual basis:	
Depreciation	(444,589)
Amortization	(6,647)
Capital outlay	873,531
Increase (decrease) in deferred outflows of resources - pensions	25,742
Increase (decrease) in deferred outflows of resources - OPEB	(14,520)
(Increase) decrease in deferred inflows of resources - pension	45
(Increase) decrease in deferred inflows of resources - OPEB	(49,552)
(Increase) decrease in net pension liability	(46,596)
(Increase) decrease in net OPEB liability	88,785
(Increase) decrease in compensated absences	<u>(2,866.00)</u>
Total reconciling items	<u>423,333</u>
Change in Net Position	<u>\$ 1,388,074</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, 2024

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Water sales	\$ 2,700,000	\$ 1,883,367	\$ (816,633)
Sewer sales	4,000,000	2,897,591	(1,102,409)
Water and sewer tap fees	175,000	93,065	(81,935)
Service charges	50,000	53,743	3,743
Total charges for services	6,925,000	4,927,766	(1,997,234)
Other operating revenues			
Miscellaneous	26,000	92,953	66,953
Total operating revenues	6,951,000	5,020,719	(1,930,281)
Non-operating revenues:			
Availability fees	800,000	806,298	6,298
Interest on investments	250,000	521,932	271,932
Total	1,050,000	1,328,230	278,230
Total revenues	8,001,000	6,348,949	(1,652,051)
Expenditures:			
Salaries	976,661	830,674	145,987
Employee overtime	13,240	16,404	(3,164)
Professional fees	16,800	13,200	3,600
Social security	75,727	60,449	15,278
Group insurance	137,855	141,520	(3,665)
Retirement	65,385	322,199	(256,814)
401(k) retirement supplement	42,735	31,887	10,848
Unemployment expense	13,054	9,728	3,326
Uniforms and protective gear	15,500	9,005	6,495
Telephone and postage	13,200	16,748	(3,548)
Utilities	54,000	48,253	5,747
Travel and training	14,000	4,260	9,740
Equipment repair	19,500	20,952	(1,452)
Vehicle repair	22,050	13,692	8,358
Sewer system repairs	690,000	123,074	566,926
Gas, oil and tires	30,000	28,051	1,949
Water and sewer supplies	251,000	115,087	135,913
Annual permits and fees	4,500	4,250	250
Water purchases	1,590,000	1,292,885	297,115
Contract services	1,259,655	1,093,003	166,652
Neighbors for neighbors	13,650	14,380	(730)
Depreciation	400,000	663,901	(263,901)
Insurance and bonding	65,000	45,016	19,984
Total expenditures	5,783,512	4,918,618	864,894

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, 2024

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Supplemental budget expenditures:			
Capital outlay	\$ 700,500	\$ -	\$ 700,500
Long-term debt payment	766,000	103,401	662,599
Interest expense	-	30,099	(30,099)
Contingency	750,988	-	750,988
Total supplemental expenditures	<u>2,217,488</u>	<u>133,500</u>	<u>2,083,988</u>
 Total expenditures	<u>8,001,000</u>	<u>5,052,118</u>	<u>2,948,882</u>
 Revenues over (under) expenditures	<u>-</u>	<u>1,296,831</u>	<u>1,296,831</u>
Other financing sources (uses):			
Fund balance appropriated	-	-	-
Transfer of operations	-	(23,931,013)	(23,931,013)
Transfer (to) other funds	<u>-</u>	<u>(3,681,804)</u>	<u>(3,681,804)</u>
Total other financing sources (uses)	<u>-</u>	<u>(27,612,817)</u>	<u>(27,612,817)</u>
Revenues over expenditures and other financing sources (uses)	<u>\$ -</u>	<u>(26,315,986)</u>	<u>\$ (26,315,986)</u>

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

Revenues and other sources over expenditures
and other uses

(26,315,986)

Reconciliation of modified accrual basis to full accrual basis:

Principal repayment on long-term debt	103,401
(Increase) decrease in deferred inflows of resources - OPEB	110,228
(Increase) decrease in deferred inflows of resources - pensions	(38)
(Increase) decrease in compensated absences	15,322
(Increase) decrease in interest payable	-
Increase (decrease) in deferred outflows of resources - OPEB	(24,171)
Increase (decrease) in deferred outflows of resources - pensions	65,446
(Increase) decrease in net pension liability	(112,193)
(Increase) decrease in net OPEB liability	141,831
Transfers from Water and Sewer fund capital projects	95,180
Other	<u>(583)</u>
Total reconciling items	<u>394,423</u>
Change in Net Position	<u>\$ (25,921,563)</u>

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, 2024

	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>

City of Southport, North Carolina
Howe St. Sewer Repair Project
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP)
For the Year Ended June 30, 2024

	Project Authorization	Prior Years	Current Year	Total to Date	Variance Positive (Negative)
Expenditures:					
Capital outlay	\$ -	\$ -	\$ -	\$ -	\$ -
Total expenditures	-	-	-	-	-
Revenues over (under) expenditures	-	-	-	-	-
Other financing sources (uses):					
Transfer from Water Sewer Fund	-	-	95,180	95,180	95,180
Total other financing sources (uses)	-	-	95,180	95,180	95,180
Revenues over expenditures and other financing sources (uses)	\$ -	\$ -	\$ 95,180	\$ 95,180	\$ 95,180

OTHER SCHEDULES

This section contains additional information required
on property taxes.

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, 2024

<u>Fiscal Year</u>	<u>Uncollected Balance July 1, 2023</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2024</u>
2024	\$ -	\$ 703	\$ -	\$ 703
2023	5,618	4,446,528	4,426,822	25,324
2022	21,781	-	13,609	8,172
2021	5,892	-	3,455	2,437
2020	2,794	-	1,309	1,485
2019	2,442	-	190	2,252
2018	1,024	-	9	1,015
2017	3,009	-	20	2,989
2016	1,549	-	67	1,482
2015	1,116	-	19	1,097
2014	1,639	-	31	1,608
2013	1,735	-	24	1,711
2012	1,669	-	1,669	-
	<u>\$ 50,268</u>	<u>\$ 4,447,231</u>	<u>\$ 4,447,224</u>	<u>\$ 50,275</u>
Less allowance for uncollectible ad valorem taxes receivable:				\$ -
Ad valorem taxes receivable, net				<u>\$ 50,275</u>
Reconciliation with Revenues:				
Ad valorem taxes:				
General Fund				\$ 4,458,983
Interest collected				10,642
Releases and adjustments				(22,401)
Total adjustments				<u>(11,759)</u>
				<u>\$ 4,447,224</u>

City of Southport, North Carolina
Analysis of Current Tax Levy
City - Wide Levy
For the Year Ended June 30, 2024

	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	\$ 1,124,158,241	0.3956	\$ 4,447,170	\$ 4,222,055	\$ 225,115
Discoveries	5,714,863	0.3956	22,608	22,608	-
Total Property Valuation	<u>\$ 1,129,873,104</u>				
Net levy			4,469,778	4,244,663	225,115
Uncollected taxes at June 30, 2024			26,830	26,028	802
Current year's taxes collected			<u>\$ 4,442,948</u>	<u>\$ 4,218,635</u>	<u>\$ 224,313</u>
Current levy collection percentage			<u>99.40%</u>	<u>99.39%</u>	<u>99.64%</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, 2024, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 18, 2025. 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 2024-001 and 2024-002.

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
February 18, 2025

CITY OF SOUTHPORT, NORTH CAROLINA
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2024

SECTION I - SUMMARY OF AUDITOR'S RESULTS

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, 2024

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding 2024-001

Budget Violation

MATERIAL WEAKNESS

Criteria: G.S. 159-8 states that each local government and public authority shall operate under an annual balanced budget adopted and administered in accordance with this Article. A budget ordinance is balanced when the sum of estimated net revenues and appropriated fund balances is equal to appropriations.

Condition: The City's original budget ordinance was unbalanced with revenues and appropriated fund balance being greater than appropriations by \$459,014. The final budget had revenues and appropriated fund balance \$456,565 more than appropriations.

Effect: The budget was not balanced as required by general statutes.

Cause: The City did properly balance the original budget ordinance. There has been significant turnover at key City positions such as City Manager and Finance Director over the past year.

Recommendation: The City should review the original budget ordinance to determine the budget is in balance and the budget is continually reviewed throughout the year to determine it stays in balance.

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, 2024

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding 2024-002

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.

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

Corrective Action Plan

For the Year Ended June 30, 2024

Finding 2024-001: Budget Violation

Criteria: G.S. 159-8 states that each local government and public authority shall operate under an annual balanced budget adopted and administered in accordance with this Article. A budget ordinance is balanced when the sum or estimated net revenues and appropriated fund balances is equal to appropriations.

Condition: The City's original budget ordinance was unbalanced with revenues and appropriated fund balance being greater than appropriations by \$459,014. The final budget had revenues and appropriated fund balance \$456,565 more than appropriations.

Cause: The City did properly balance the original budget ordinance. There has been significant turnover at key City positions such as City Manager and Finance Director over the past year.

Effect: The budget was not balanced as required by general statutes.

Recommendation: The City should review the original budget ordinance to determine the budget is in balance and the budget is continually reviewed throughout the year to determine it stays in balance.

Management Response: We concur with the Finding. At the time the FY2023-24 budget was adopted, the City did not have a permanent Finance Director in place, and the interim staff wrote a budget ordinance that adopted a budget containing more revenue than expenses. This error has been corrected with the adoption of the FY2024-25 budget.

Corrective Action Plan: This error has been corrected. The ordinance adopted for the FY2024-25 budget was balanced, and subsequent budget amendments have adopted equal changes to revenue and expenditures, keeping the budget in balance.

Finding 2024-002: 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.

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

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

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, with comment. The most significant of the material audit adjustments made were related to the close out of Southport's Water-Sewer Fund after the system was merged with Brunswick County Public Utilities. The merger was finalized on June 17, 2024, two weeks before the end of the fiscal year. The City continued to receive customer payments for outstanding utility bills through the end of July 2024, which delayed final closeout entries. The closeout of an enterprise fund is a complex, one-time event requiring atypical accounting transactions involving the disposal of all of the fund's assets, liabilities, and fund balance amounts by the end of the fiscal year, other than the final cash amounts that depended upon the completion of the customer payments. While the result of the City's entries was generally correct, the City made its entries entirely within the balance sheet rather than routing some transactions through the income statement as required, resulting in audit adjustments. Other audit adjustments included pension related GASB entries for which the City typically relies on the auditor to calculate, and revenue recognition entries for grant funds received in prior years. The City acknowledges that the audit was late because the timing of the Water-Sewer merger and the completion of customer activity delayed the calculation and booking of entries for the fund close out into late summer, creating delays for the auditor. A further complication was the resignation of a key staff member in June 2024 who was previously the point person for audit coordination.

The City would like to note that while this finding is repeated from the FY2022-23 audit report, the circumstances are different. The City worked to correct the issues noted in the prior audit and significant improvements in accounting, financial reporting, and closing were implemented during FY2023-24. Reconciliation procedures of cash and bank accounts were revised, resulting in timely and complete reconciliation of the City's most important accounts. The process for booking biweekly payroll activity was reviewed, process errors corrected, and the payroll activity was booked correctly and timely. Accounts receivable were analyzed and misstatements, some going back a decade, were reconciled and corrected. The end-of-year accrual process was updated to require the full reversal of prior accruals and full booking of current accruals, rather than leaving the accrual in place and making adjusting entries each year. The City booked the entries for asset additions and depreciation, which had previously been left for the auditor to calculate and submit as audit adjustments in previous years. The repeat of a finding with the same title should not be construed as lack of improvement from the prior year.

The City in fact made significant improvements in the Financial Reporting and Closing functions during FY2023-24, but was then presented with the unique challenge of closing an enterprise fund at the very end of the fiscal year, which resulted in the repeat finding. The City is confident that its continuing process improvements will eliminate the delays and findings in future audits.

Corrective Action Plan: Corrective actions were implemented at the conclusion of the FY2022-23 audit and have yielded significant improvements. The City will continue to build upon this improvement. Specific actions include monthly reconciliation of all cash accounts and quarterly reconciliation of all other balance sheet accounts; further improvement of the accrual processes to include documentation and signoff of every accrual and ending the practice of “back-posting” checks written in subsequent periods; and audit preparation that includes the City creating the basic audit financial statements in advance of the audit to help identify and correct potential audit concerns. Management also recognizes that staff needs training in accounting principles to provide context for their daily work, and has implemented weekly all-hands training sessions that focus on accounting fundamentals, helping staff work more accurately.

CITY OF SOUTHPORT, NORTH CAROLINA
Summary Schedule of Prior Year Audit Finding
For the Year Ended June 30, 2024

FINDING 2023-001:	Corrected
FINDING 2023-002:	Not corrected (see finding 2024-002)