

CITY OF SOUTHPORT

Southport, North Carolina

AUDITED FINANCIAL STATEMENTS

June 30, 2014

BOARD OF ALDERMEN

Robert D. Howard, Mayor
Mary Ellen Poole, Mayor Pro Tem
Nelson E. Adams
Buddy Barnes
Mary "Meezie" Childs
Todd Coring
James F. Powell, III

ADMINISTRATIVE AND FINANCIAL STAFF

Kerry N. McDuffie, City Manager
Bonita L. Bray, Finance Director
Michele Windham, City Clerk

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FINANCIAL SECTION

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Southport, North Carolina, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Southport, North Carolina as of June 30, 2014, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 14, 2015 on our consideration of City of Southport's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Southport's internal control over financial reporting and compliance.

Berry Padgett & Chandler, PLLC
Certified Public Accountants

Southport, North Carolina
January 14, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of the City of Southport, we offer readers of the City of Southport's financial statements this narrative overview and analysis of the financial activities of the City of Southport for the fiscal year ended June 30, 2014

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

Financial Highlights

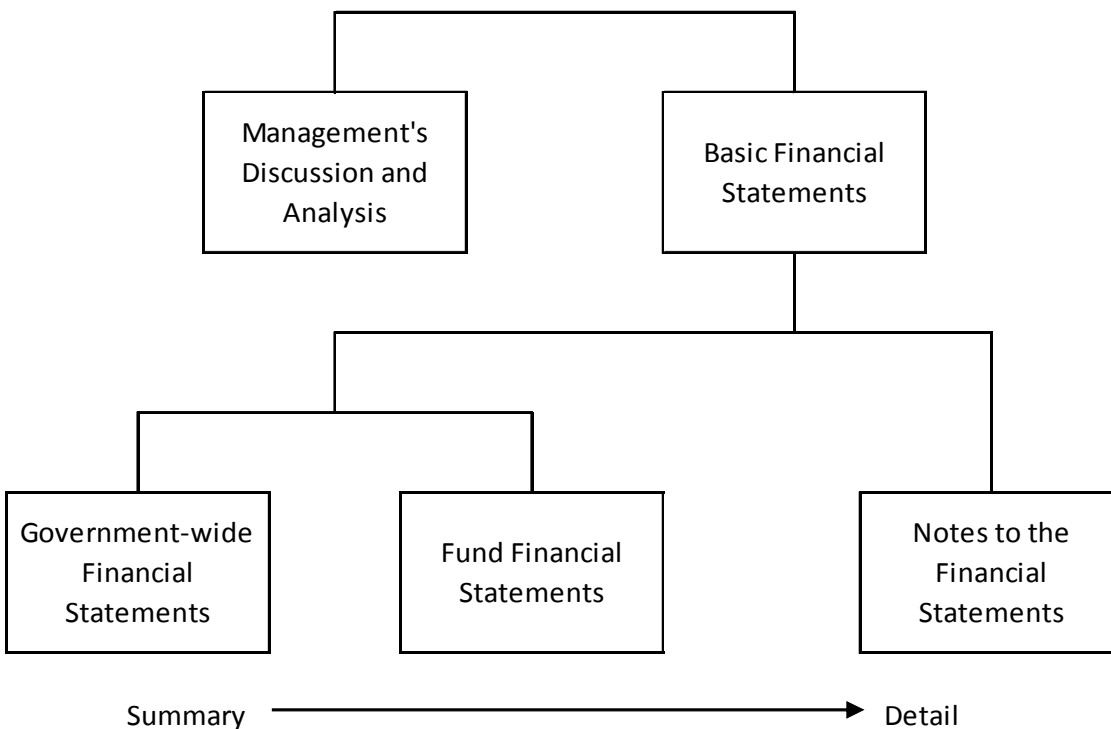
- The assets and deferred outflows of resources of the City of Southport exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$35,368,771 (*net position*).
- The government's total net position increased by \$756,312 as the result of a increase in business-type activities net position of \$792,898 and an decrease in governmental activities net position of \$36,586.
- As of the close of the current fiscal year, the City of Southport's governmental funds reported combined ending fund balances of \$2,146,213, a net decrease of \$58,718 from the prior year. Approximately 40.89% of this total amount, or \$877,631, is restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,182,563, or 24.64 % of total general fund expenditures for the fiscal year.
- The City of Southport's total debt decreased by \$313,750 (6.02%) during the current fiscal year.

Overview of the Financial Statements

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

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

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

The next statements (Exhibits 3 through 8) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the City's government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; 3) and the proprietary fund statements.

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

Government-Wide Financial Statements

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

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

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

Management Discussion and Analysis City of Southport

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

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

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

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are presented as Exhibit 9 in 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 and retiree health insurance 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 government and other holders of publicly held U.S. Treasury Securities.

Management Discussion and Analysis
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Government-Wide Financial Analysis

THE CITY OF SOUTHPORT'S NET POSITION
FIGURE 2

	Government Activities		Business-Type Activities		Totals	
	2014	2013	2014	2013	2014	2013
Current and other assets	2,601,415	2,813,626	6,313,122	5,764,623	8,914,537	8,578,249
Capital assets	14,010,395	14,089,113	19,757,277	19,630,123	33,767,672	33,719,236
Deferred outflows of resources	-	-	-	-	-	-
Total assets and deferred outflows of resources	<u>16,611,810</u>	<u>16,902,739</u>	<u>26,070,399</u>	<u>25,394,746</u>	<u>42,682,209</u>	<u>42,297,485</u>
Long-term liabilities outstanding	4,026,853	4,106,541	1,654,328	1,696,261	5,681,181	5,802,802
Other liabilities	717,660	908,616	898,296	973,608	1,615,956	1,882,224
Deferred inflows of resources	<u>16,301</u>	-	-	-	<u>16,301</u>	-
Total liabilities and deferred inflows of resources	<u>4,760,814</u>	<u>5,015,157</u>	<u>2,552,624</u>	<u>2,669,869</u>	<u>7,313,438</u>	<u>7,685,026</u>
Net position:						
Net investment in capital assets	10,649,741	10,598,494	18,462,015	18,220,626	29,111,756	28,819,120
Restricted	877,631	967,678	1,943,643	1,611,376	2,821,274	2,579,054
Unrestricted	<u>323,624</u>	<u>321,410</u>	<u>3,112,117</u>	<u>2,892,875</u>	<u>3,435,741</u>	<u>3,214,285</u>
Total net position	<u>11,850,996</u>	<u>11,887,582</u>	<u>23,517,775</u>	<u>22,724,877</u>	<u>35,368,771</u>	<u>34,612,459</u>

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of the City of Southport exceeded liabilities and deferred inflows by \$35,368,771 as of June 30, 2014. The City's net position increased by \$756,312 for the fiscal year ended June 30, 2014. However, the largest portion \$29,111,756 (82.31%) reflects the City's net investment in capital assets (e.g. land, buildings, machinery, and equipment). The City of Southport uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Southport's net investment in capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the City of Southport's net position, \$2,821,274 (7.98%), represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$3,435,741 (9.71%) is unrestricted.

Management Discussion and Analysis
City of Southport

THE CITY OF SOUTHPORT'S CHANGES IN NET POSITION

FIGURE 3

	Government Activities		Business-Type Activities		Totals	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program revenues:						
Charges for services	1,415,251	1,327,641	9,509,280	9,399,507	10,924,531	10,727,148
Operating grants and contributions	191,292	289,894	3,822	18,014	195,114	307,908
Capital grants and contributions	48,266	361,743	666,179	157,450	714,445	519,193
General Revenues:						
Property taxes	1,797,132	1,753,674	-	-	1,797,132	1,753,674
Other taxes	756,654	712,213	-	-	756,654	712,213
Grants and contributions not restricted to specific programs	583,458	524,173	-	-	583,458	524,173
Other	<u>34,977</u>	<u>12,635</u>	<u>8,344</u>	<u>10,878</u>	<u>43,321</u>	<u>23,513</u>
Total revenues	<u>4,827,030</u>	<u>4,981,973</u>	<u>10,187,625</u>	<u>9,585,849</u>	<u>15,014,655</u>	<u>14,567,822</u>
Expenses:						
General government	1,438,541	1,163,473	-	-	1,438,541	1,163,473
Public Safety	2,099,886	2,098,301	-	-	2,099,886	2,098,301
Transportation	512,549	501,876	-	-	512,549	501,876
Culture and recreation	478,814	513,159	-	-	478,814	513,159
Environmental Protection	220,829	190,776	-	-	220,829	190,776
Interest on long-term debt	152,997	153,469	-	-	152,997	153,469
Water and sewer	-	-	2,428,650	2,451,489	2,428,650	2,451,489
Electric	<u>-</u>	<u>-</u>	<u>6,926,077</u>	<u>6,771,924</u>	<u>6,926,077</u>	<u>6,771,924</u>
Total expenses	<u>4,903,616</u>	<u>4,621,054</u>	<u>9,354,727</u>	<u>9,223,413</u>	<u>14,258,343</u>	<u>13,844,467</u>
Increase (decrease) in net position before transfers	(76,586)	360,919	832,898	362,436	756,312	723,355
Transfers from (to) other funds	<u>40,000</u>	<u>940,000</u>	<u>(40,000)</u>	<u>(940,000)</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net position	<u>(36,586)</u>	<u>1,300,919</u>	<u>792,898</u>	<u>(577,564)</u>	<u>756,312</u>	<u>723,355</u>
Net position, July 1 (before adjustment)	<u>11,887,582</u>	<u>10,586,663</u>	<u>22,724,877</u>	<u>23,244,579</u>	<u>34,612,459</u>	<u>33,831,242</u>
Prior period adjustment	<u>-</u>	<u>-</u>	<u>-</u>	<u>57,862</u>	<u>-</u>	<u>57,862</u>
Net position July 1 as restated	<u>11,887,582</u>	<u>10,586,663</u>	<u>22,724,877</u>	<u>23,302,441</u>	<u>34,612,459</u>	<u>33,889,104</u>
Net position, June 30	<u>11,850,996</u>	<u>11,887,582</u>	<u>23,517,775</u>	<u>22,724,877</u>	<u>35,368,771</u>	<u>34,612,459</u>

Management Discussion and Analysis
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Governmental activities. Governmental activities decreased the City's net position by \$36,586. Key elements of this decrease are as follows:

- A decrease in operating and capital grants and an increase in operating expenditures.

Business-type activities. Business-type activities increased the City of Southport's net position by \$792,898. Key elements of this increase are as follows:

- An increase in service revenue and capital grants revenue.

Financial Analysis of the City's Funds

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

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

The general fund is the chief operating fund of the City of Southport. At the end of the current fiscal year, the City of Southport's fund balance available in the General Fund was \$1,228,009, while total fund balance increased to \$1,941,913. The City currently has an available fund balance of 25.59% of general fund expenditures, while total fund balance represents 40.46% of the same amount.

At June 30, 2014, the governmental funds of City of Southport reported a combined fund balance of \$2,146,213. This combination includes \$1,941,913 for the General Fund, and \$204,300 for Other Governmental (Non-Major) Funds.

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. Revenues were more than the budgeted amounts primarily because the City's property tax collection rate improved and more building permits were issued than anticipated. Expenditures were controlled to comply with budgetary requirements, with significant efficiencies realized in the general government and public safety departments.

Management Discussion and Analysis
City of Southport

Proprietary Funds. The City of Southport's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the water and sewer fund at the end of the fiscal year amounted to \$42,512 and those for the electric fund amounted to \$3,069,605. The total change in net position for both funds was an increase of \$792,898. \$386,747 of the increase came from the water and sewer fund. The remaining \$406,151 increase was from the electric fund.

Capital Asset and Debt Administration

Capital Assets. The City of Southport's investment in capital assets for its governmental and business-type activities as of June 30, 2014, totals \$29,111,756 (net of accumulated depreciation). These assets include buildings, roads, land, machinery and equipment, park facilities, and vehicles.

Major capital asset transactions during the year include the following:

- Capital improvements to the electricity distribution system at a cost of \$241,033
- Purchase of a Taylor Made ambulances for \$123,591
- Purchase of a Admin Chrysler for \$23,546
- Capital improvements to the Sewer plant system at a cost of \$502,792
- Purchase of fire department equipment and furniture \$133,056
- Purchase of rescue department equipment \$7,130
- Improvements to city hall and furniture purchases of \$158,520

Management Discussion and Analysis
City of Southport

THE CITY OF SOUTHPORT'S CAPITAL ASSETS

FIGURE 4

	Government Activities		Business-Type Activities		Totals	
	2014	2013	2014	2013	2014	2013
Land	2,504,952	2,504,952	2,762,465	2,762,465	5,267,417	5,267,417
Buildings and systems	8,723,777	8,601,149	54,388	54,388	8,778,165	8,655,537
Improvements other than buildings	932,570	932,570	-	-	932,570	932,570
Utility systems	-	-	24,533,790	23,789,966	24,533,790	23,789,966
Furniture and equipment	901,656	736,704	494,972	494,972	1,396,628	1,231,676
Infrastructure	2,585,831	2,567,245	-	-	2,585,831	2,567,245
Vehicles and motorized equipment	3,329,085	3,384,748	401,839	396,793	3,730,924	3,781,541
Construction in progress	<u>34,720</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>34,720</u>	<u>-</u>
Total	19,012,591	18,727,368	28,247,454	27,498,584	47,260,045	46,225,952
Less accumulated depreciation	<u>5,002,196</u>	<u>4,638,255</u>	<u>8,490,177</u>	<u>7,868,461</u>	<u>13,492,373</u>	<u>12,506,716</u>
Net capital assets	<u>14,010,395</u>	<u>14,089,113</u>	<u>19,757,277</u>	<u>19,630,123</u>	<u>33,767,672</u>	<u>33,719,236</u>

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

Long-term Debt. As of June 30, 2014, the City of Southport had no General Obligation Bonded Debt outstanding; Revolving Loan Debt of \$1,416,396; and Installment Notes Payable for \$3,027,200. The general obligation debt is backed by the full faith and credit of the City.

THE CITY OF SOUTHPORT'S OUTSTANDING LONG-TERM LIABILITIES

FIGURE 5

	Government Activities		Business-Type Activities		Totals	
	2014	2013	2014	2013	2014	2013
General obligation bonds	-	2,595	-	10,905	-	13,500
Revolving loan debt	-	-	1,416,396	1,519,797	1,416,396	1,519,797
Installment notes payable	3,027,200	3,216,400	-	-	3,027,200	3,216,400
Capitalized leases	<u>454,418</u>	<u>462,067</u>	<u>-</u>	<u>-</u>	<u>454,418</u>	<u>462,067</u>
Total	<u>3,481,618</u>	<u>3,681,062</u>	<u>1,416,396</u>	<u>1,530,702</u>	<u>4,898,014</u>	<u>5,211,764</u>

Management Discussion and Analysis City of Southport

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to eight (8) percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for City of Southport is \$58,520,749.

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

Economic Factors and Next Year's Budgets and Rates

Significant factors considered in preparing the City of Southport's budget for Fiscal Year 2013-2014 were:

- As noted last year, the state of the national, state and local economy were major considerations in the development of the City of Southport's FY2013-2014 budget. Revenues and expenditures were very closely scrutinized and a conservative approach was taken in the formulation of revenue projections, in particular, due to a variety of tax distribution changes approved during the spring 2013 state legislative session. Expenditures were limited to what was deemed necessary to continue to maintain a high standard of public service delivery. No appropriation of the General Fund fund balance was expected.
- Lease revenues from the existing long-term tenant at 1029 N. Howe Street were expected to fund renovations to the newly acquired building.
- Current and anticipated debt was carefully considered in the preparation of the FY2013-2014 fiscal year budget. Staff and the Board of Aldermen have placed a priority upon maintaining public debt at manageable levels.
- The five-year Capital Improvement Plan continues to be a useful tool in planning capital projects and their funding. This will continue to be updated on an annual basis and as the needs of the City changes.

All of these factors were considered in preparing the City of Southport's budget for the 2013-2014 fiscal year.

Request for Information

This financial report is designed to provide a general overview of the City of Southport's finances for all those with an interest in the City's finances. Questions concerning any of the information found in this report or requests for additional information should be directed to the City of Southport, Office of Finance Director, 1029 N. Howe Street, Southport, NC 28461.

BASIC FINANCIAL STATEMENTS

CITY OF SOUTHPORT, NORTH CAROLINA
STATEMENT OF NET POSITION
June 30, 2014

EXHIBIT 1

	<u>Primary Government</u>			<u>Component Unit</u>
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	<u>Southport ABC Board</u>
ASSETS				
Current assets				
Cash and cash equivalents	1,506,869	3,667,908	5,174,777	370,599
Taxes receivable (net)	199,723	-	199,723	
Accounts receivable	16,367	600,831	617,198	-
Accrued interest receivable on taxes	43,487		43,487	
Due from other governments	317,588	11,886	329,474	
Due from component unit	123,768		123,768	
Inventories				172,763
Prepaid expenses				8,771
Restricted cash and cash equivalent:	393,613	2,032,497	2,426,110	
Total current assets	<u>2,601,415</u>	<u>6,313,122</u>	<u>8,914,537</u>	<u>552,133</u>
Capital assets				
Land, non-depreciable improvements, and construction in progress	2,539,672	2,762,465	5,302,137	4,600
Other capital assets, net of depreciation	11,470,723	16,994,812	28,465,535	41,881
Total capital assets	<u>14,010,395</u>	<u>19,757,277</u>	<u>33,767,672</u>	<u>46,481</u>
Total Assets	<u>16,611,810</u>	<u>26,070,399</u>	<u>42,682,209</u>	<u>598,614</u>
LIABILITIES				
Current liabilities				
Accounts payable and accrued expenses	193,216	689,423	882,639	173,161
Customer deposits	-	88,854	88,854	
Accrued interest	139,210	3,011	142,221	-
Due to primary government				123,768
Payable from restricted asset:	2,475	-	2,475	
Current portion of long-term liabilities	382,759	117,008	499,767	-
Total current liabilities	717,660	898,296	1,615,956	296,929
Long-term liabilities				
Due in more than one year	4,026,853	1,654,328	5,681,181	171,685
Total liabilities	<u>4,744,513</u>	<u>2,552,624</u>	<u>7,297,137</u>	<u>468,614</u>
DEFERRED INFLOWS OF RESOURCES				
Prepaid privilege licenses	16,301	-	16,301	-
Total deferred inflows of resources	<u>16,301</u>	<u>-</u>	<u>16,301</u>	<u>-</u>
NET POSITION				
Net investment in capital assets	10,649,741	18,462,015	29,111,756	46,481
Restricted for:				
Stabilization by State Statut	487,723		487,723	
Streets-Powell Bil	62,181	-	62,181	-
Fire protector	163,727	-	163,727	-
Capital outlay	164,000	1,943,643	2,107,643	-
Unrestricted	323,624	3,112,117	3,435,741	83,519
Total net position	<u>11,850,996</u>	<u>23,517,775</u>	<u>35,368,771</u>	<u>130,000</u>

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

CITY OF SOUTHPORT, NORTH CAROLINA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2014

EXHIBIT 2

Functions/Programs	Net (Expense) Revenue and Changes in Net Position							
	Expenses	Program Revenue			Primary Government			Component Unit
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Southport ABC Board
Primary government								
Governmental Activities								
General Government	1,438,541	215,696	3,835	-	(1,219,010)	(1,219,010)		
Public Safety	2,099,886	974,510	78,504	650	(1,046,222)	(1,046,222)		
Transportation	512,549	-	105,753	47,616	(359,180)	(359,180)		
Culture and Recreation	478,814	35,017	3,200	-	(440,597)	(440,597)		
Environmental Protection	220,829	190,028	-	-	(30,801)	(30,801)		
Interest on Long-term debt	152,997	-	-	-	(152,997)	(152,997)		
Total governmental activities	<u>4,903,616</u>	<u>1,415,251</u>	<u>191,292</u>	<u>48,266</u>	<u>(3,248,807)</u>	<u>(3,248,807)</u>		
Business-type activities								
Electric Operations	6,926,077	7,343,076	3,607	-		420,606	420,606	
Water and Sewer Operations	2,428,650	2,166,204	215	666,179		403,948	403,948	
Total business-type activities	<u>9,354,727</u>	<u>9,509,280</u>	<u>3,822</u>	<u>666,179</u>		<u>824,554</u>	<u>824,554</u>	
Total primary government	<u>14,258,343</u>	<u>10,924,531</u>	<u>195,114</u>	<u>714,445</u>	<u>(3,248,807)</u>	<u>824,554</u>	<u>(2,424,253)</u>	
Component Unit								
Southport ABC Board	2,218,758	2,218,409	-	-			(349)	
Total component units	<u>2,218,758</u>	<u>2,218,409</u>	<u>-</u>	<u>-</u>			<u>(349)</u>	
General revenues:								
Taxes:								
Property taxes, levied for general purposes					1,797,132	-	1,797,132	-
Other taxes					756,654	-	756,654	-
Grants and contributions not restricted to specific programs					583,458	-	583,458	-
Unrestricted investment earnings					2,093	8,344	10,437	349
Miscellaneous					32,884	-	32,884	-
Transfers					40,000	(40,000)	-	-
Total general revenues					<u>3,212,221</u>	<u>(31,656)</u>	<u>3,180,565</u>	<u>349</u>
Change in net position					<u>(36,586)</u>	<u>792,898</u>	<u>756,312</u>	<u>-</u>
Net position - beginning					<u>11,887,582</u>	<u>22,724,877</u>	<u>34,612,459</u>	<u>130,000</u>
Net position - ending					<u>11,850,996</u>	<u>23,517,775</u>	<u>35,368,771</u>	<u>130,000</u>

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

**CITY OF SOUTHPORT, NORTH CAROLINA
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2014**

**EXHIBIT 3
Page 1 of 2**

	Major Fund	Non-Major Funds	
	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	1,465,816	41,053	1,506,869
Restricted cash and cash equivalents	228,656	164,957	393,613
Taxes receivable, net	199,723	-	199,723
Due from other funds	34,720	-	34,720
Receivable from other governments	282,868	34,720	317,588
Receivable from other component unit	123,768	-	123,768
Other receivables	16,367	-	16,367
Total assets	2,351,918	240,730	2,592,648
 LIABILITIES			
Liabilities:			
Accounts payable	164,989	1,710	166,699
Due to other funds	-	34,720	34,720
Other accrued expenses	26,517	-	26,517
Accounts payable from restricted assets	2,475	-	2,475
Total liabilities	193,981	36,430	230,411
 DEFERRED INFLOWS OF RESOURCES			
Property taxes receivable	199,723	-	199,723
Prepaid privilege licenses	16,301	-	16,301
Total deferred inflows of resources	216,024	-	216,024
 FUND BALANCES			
Non Spendable			
Inventories			
Restricted			
Stabilization by State Statute	487,723	-	487,723
Streets	62,181	-	62,181
Fire protection	-	163,727	163,727
Capital outlay	164,000	-	164,000
Committed			
Fire protection	45,446	-	45,446
Capital outlay	-	40,573	40,573
Assigned			
Designated for subsequent year	-	-	-
Unassigned	1,182,563	-	1,182,563
Total fund balances	1,941,913	204,300	2,146,213
Total liabilities, deferred inflows of resources and fund balances	2,351,918	240,730	2,592,648

**CITY OF SOUTHPORT, NORTH CAROLINA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2014**

**EXHIBIT 3
Page 2 of 2**

Total fund balance, governmental fund:		2,146,213
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position.		14,010,395
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.		43,487
Liabilities for earned revenues considered deferred inflows of resources in fund statements		199,723
Some liabilities are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Position.		
Accrued interest payable	(139,210)	
Capital leases payable	(454,418)	
Installment notes payable	(3,027,200)	
Compensated absences	(127,518)	
Other postemployment benefits	(778,108)	
Net pension obligation	(22,368)	
	(4,548,822)	(4,548,822)
Net position of governmental activities:		11,850,996

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

CITY OF SOUTHPORT, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2014

EXHIBIT 4
Page 1 of 2

	<u>Major Fund</u>	<u>Non-Major Funds</u>	
	<u>General Fund</u>	<u>Other Governmental Funds</u>	
REVENUES			
Property taxes	1,780,678	-	1,780,678
Other taxes	100,318	-	100,318
Unrestricted intergovernmental revenues	1,239,794	-	1,239,794
Restricted intergovernmental revenues	805,343	47,616	852,959
Licenses and permits	187,252	-	187,252
Sales and services	573,679	-	573,679
Investment earnings	1,640	453	2,093
Miscellaneous	76,189	-	76,189
Total revenues	<u>4,764,893</u>	<u>48,069</u>	<u>4,812,962</u>
EXPENDITURES			
Current:			
General government	1,378,272	111,387	1,489,659
Public safety	1,898,969	70,255	1,969,224
Transportation	404,772	50,747	455,519
Environmental protection	220,829	-	220,829
Culture and recreation	415,970	-	415,970
Debt Service:			
Principal	319,429	-	319,429
Interest and other charges	161,035	-	161,035
Total expenditures	<u>4,799,276</u>	<u>232,389</u>	<u>5,031,665</u>
Excess (deficiency) of revenues over expenditures	<u>(34,383)</u>	<u>(184,320)</u>	<u>(218,703)</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from capital leases	119,985	-	119,985
Transfers in	136,000	-	136,000
Transfers out	(96,000)	-	(96,000)
Total other financing sources and uses	<u>159,985</u>	<u>-</u>	<u>159,985</u>
Net change in fund balances	125,602	(184,320)	(58,718)
Fund balances - beginning	1,816,311	388,620	2,204,931
Fund balances - ending	<u>1,941,913</u>	<u>204,300</u>	<u>2,146,213</u>

CITY OF SOUTHPORT, NORTH CAROLINA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2014

Net change in fund balances - total governmental funds: (58,718)

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

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period. This is the amount by which capital outlays \$530,851 are exceeded by depreciation \$607,183 in the current period. (76,332)

Governmental funds report the entire net sales price (proceeds) from sale of an asset as revenue because it provides current financial resources. In contrast, the Statement of Activities reports only the gain on the sale of the assets. Thus, the change in net assets differs from the change in fund balance by the cost of the asset sold. (2,386)

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 revenue 16,454

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current resources of governmental funds. Neither transaction has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Principal paid on debt	319,429	
Proceeds of long-term debt	<u>(119,985)</u>	199,444

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

Accrued interest	8,038
Compensated absences	2,540
Net pension obligation	(2,742)
Other postemployment benefits	<u>(122,884)</u>

Change in net position of governmental activities: (36,586)

CITY OF SOUTHPORT, NORTH CAROLINA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE-BUDGET AND ACTUAL
For the Year Ended June 30, 2014

EXHIBIT 5

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Ad valorem taxes	1,707,900	1,707,900	1,780,678	72,778
Other taxes	92,200	92,200	100,318	8,118
Unrestricted intergovernmental revenues	1,233,000	1,233,000	1,239,794	6,794
Restricted intergovernmental revenues	765,500	782,900	805,343	22,443
Licenses and permits	116,400	116,400	187,252	70,852
Sales and services	530,800	627,900	573,679	(54,221)
Investment earnings	3,200	3,200	1,640	(1,560)
Miscellaneous	129,600	63,600	76,189	12,589
Total revenues	4,578,600	4,627,100	4,764,893	137,793
EXPENDITURES				
Current:				
General government	1,147,000	1,385,100	1,378,272	6,828
Public safety	1,762,200	1,925,785	1,898,969	26,816
Transportation	418,800	414,100	404,772	9,328
Environmental protection	207,500	207,300	220,829	(13,529)
Culture and recreation	502,900	430,100	415,970	14,130
Debt Service:				
Principal	471,200	420,100	319,429	100,671
Interest and other charges	-	161,100	161,035	65
Contingency	207,000	10,000	-	10,000
Total expenditures	4,716,600	4,953,585	4,799,276	154,309
Excess (deficiency) of revenues over expenditures	(138,000)	(326,485)	(34,383)	292,102
OTHER FINANCING SOURCES (USES)				
Proceeds from capital leases	-	119,985	119,985	-
Transfers in	8,000	140,000	30,000	(110,000)
Transfers out	-	(66,000)	(66,000)	-
Total other financing sources and uses	8,000	193,985	83,985	(110,000)
Fund balance appropriated	130,000	132,500	-	(132,500)
Net change in fund balance	-	-	49,602	49,602
Fund balance - beginning			1,728,311	
Fund balance - ending			1,777,913	
A legally budgeted Capital Reserve Fund is consolidated into the General Fund for reporting purposes:				
Transfer from other funds			106,000	
Transfer to other funds			(30,000)	
Fund balance - beginning			88,000	
Fund balance - ending			164,000	
Fund balance - ending (Exhibit 4)			1,941,913	

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

CITY OF SOUTHPORT, NORTH CAROLINA
STATEMENT OF FUND NET POSITION
PROPRIETARY FUNDS
June 30, 2014

EXHIBIT 6

	Major Enterprise Funds		
	<u>Electric Fund</u>	<u>Water and Sewer Fund</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and cash equivalents	3,248,381	419,527	3,667,908
Accounts receivable, net	480,323	120,508	600,831
Receivables from other governments	-	11,886	11,886
Restricted assets			
Cash and cash equivalents	88,854	1,943,643	2,032,497
Total current assets	3,817,558	2,495,564	6,313,122
Non-current assets:			
Capital assets:			
Land and improvements	-	2,762,465	2,762,465
Utility system	9,170,041	15,363,749	24,533,790
Buildings	54,388	-	54,388
Equipment and furniture	122,845	377,173	500,018
Vehicles	24,861	339,245	364,106
Less: Accumulated depreciation	(3,127,111)	(5,330,379)	(8,457,490)
Total non-current assets	6,245,024	13,512,253	19,757,277
Total assets	10,062,582	16,007,817	26,070,399
LIABILITIES			
Current liabilities:			
Accounts payable	577,394	104,168	681,562
Salaries payable	2,886	4,975	7,861
Customer deposits	88,854	-	88,854
Compensated absences	7,500	6,107	13,607
Accrued interest payable	-	3,011	3,011
Bonds, notes and loans payable	-	103,401	103,401
Total current liabilities	676,634	221,662	898,296
Non-current liabilities:			
Compensated absences	4,005	-	4,005
Other postemployment benefits	67,314	270,014	337,328
Bonds, notes and loans payable	-	1,312,995	1,312,995
Total non-current liabilities	71,319	1,583,009	1,654,328
Total liabilities	747,953	1,804,671	2,552,624
NET POSITION			
Net investment in capital assets	6,245,024	12,216,991	18,462,015
Restricted for capital projects	-	1,943,643	1,943,643
Unrestricted	3,069,605	42,512	3,112,117
Total net position	9,314,629	14,203,146	23,517,775

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

CITY OF SOUTHPORT, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
For the Year Ended June 30, 2014

EXHIBIT 7

	Major Enterprise Funds		
	<u>Electric Fund</u>	<u>Water and Sewer Fund</u>	<u>Total</u>
REVENUES			
Charges for services	7,343,076	2,166,204	9,509,280
Miscellaneous	3,607	215	3,822
Total operating revenues	7,346,683	2,166,419	9,513,102
OPERATING EXPENSES			
Electric operations	6,691,466	-	6,691,466
Water and sewer operations	-	2,021,839	2,021,839
Depreciation	234,611	387,105	621,716
Total operating expenses	6,926,077	2,408,944	9,335,021
Operating income (loss)	420,606	(242,525)	178,081
NON-OPERATING REVENUES (EXPENSES)			
Interest and investment revenue	5,545	2,799	8,344
Interest expense	-	(19,706)	(19,706)
Total non-operating revenue (expenses)	5,545	(16,907)	(11,362)
Income (loss) before contributions	426,151	(259,432)	166,719
Capital contributions - customers	-	344,900	344,900
Capital contributions - Federal grant		321,279	321,279
Transfers out	(20,000)	(20,000)	(40,000)
Change in net position	406,151	386,747	792,898
Total net position - beginning	8,908,478	13,816,399	22,724,877
Total net position - ending	9,314,629	14,203,146	23,517,775

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

CITY OF SOUTHPORT, NORTH CAROLINA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2014

EXHIBIT 8
Page 1 of 2

	<u>Major Enterprise Funds</u>		<u>Total</u>
	<u>Electric Fund</u>	<u>Water & Sewer Fund</u>	
Cash flows from operating activities:			
Cash received from customers	7,380,024	2,217,564	9,597,588
Cash paid for goods and services	(6,453,986)	(1,690,846)	(8,144,832)
Cash paid to employees	(218,263)	(358,520)	(576,783)
Customer deposits received	25,234		25,234
Customer deposits returned	(19,576)		(19,576)
Other operating revenues	<u>3,607</u>	<u>215</u>	<u>3,822</u>
Net cash provided (used) by operating activities	<u>717,040</u>	<u>168,413</u>	<u>885,453</u>
Cash flows from noncapital financing activities:			
Transfers from (to) other funds	<u>(20,000)</u>	<u>(20,000)</u>	<u>(40,000)</u>
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(241,032)	(198,445)	(439,477)
Principal paid on long-term debt	-	(114,306)	(114,306)
Interest paid on long-term debt	-	(19,993)	(19,993)
Contributions from customers	<u>-</u>	<u>344,900</u>	<u>344,900</u>
Net cash provided (used) for capital and related financing activities	<u>(241,032)</u>	<u>12,156</u>	<u>(228,876)</u>
Cash flows from investing activities:			
Interest on investments	<u>5,545</u>	<u>2,799</u>	<u>8,344</u>
Net increase (decrease) in cash and cash equivalents	461,553	163,368	624,921
Cash and cash equivalents, beginning	<u>2,875,682</u>	<u>2,199,802</u>	<u>5,075,484</u>
Cash and cash equivalents, ending	<u>3,337,235</u>	<u>2,363,170</u>	<u>5,700,405</u>

CITY OF SOUTHPORT, NORTH CAROLINA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2014

EXHIBIT 8
Page 2 of 2

	Major Enterprise Funds		
	Electric Fund	Water & Sewer Fund	Total
Reconciliation of operating income to net cash provided by operating activities:			
Operating income (loss)	420,606	(242,525)	178,081
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	234,611	387,105	621,716
Changes in assets and liabilities			
(Increase) decrease in accounts receivable	36,948	51,360	88,308
Increase (decrease) in accounts payable	(351)	(70,303)	(70,654)
Increase (decrease) in accrued wages	952	1,817	2,769
Increase (decrease) in customer deposits	5,658	-	5,658
Increase (decrease) in accrued vacation	143	(5,374)	(5,231)
Increase (decrease) in OPEB accrual	18,473	46,333	64,806
Total adjustments	296,434	410,938	707,372
Net cash provided (used) by operating activities	717,040	168,413	885,453
Non-cash investing, capital and financing activities:			
Federal portion of Shoreline Protection Grant	-	321,279	321,279
Total non-cash investing, capital and financing activities:	-	321,279	321,279

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

I. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

A. Reporting Entity

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

City of Southport ABC Board

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

B. Basis of Presentation

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

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

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

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

The City reports the following major governmental fund:

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

The City reports the following non-major governmental funds:

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

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

Pedestrian Transportation Plan Capital Project Fund. This fund is used to account for the study of Improvements to pedestrian walkways and access ways in the City.

Safe Routes to School Sidewalks Fund. This fund is used to account for the construction of sidewalks and access ways in the City.

The City reports the following major enterprise funds:

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

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

The City reports the following non-major enterprise fund:

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

C. Measurement Focus and Basis of Accounting

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

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

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City enterprise funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the water and

sewer system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

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

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

D. Budgetary Data

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

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

1. Deposits and Investments

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

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

2. Cash and Cash Equivalents

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

3. Restricted Assets

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

City of Southport Restricted Cash

Governmental Activities	
General Fund	
Streets	64,656
Capital outlay	164,000
Fire Station Capital Project Fund	
Unexpended debt proceds	<u>164,957</u>
Total governmental activities	<u>393,613</u>
Business-type Activities	
Electric Fund	
Customer deposits	88,854
Water and Sewer Fund	
Impact fees collected	1,822,509
Unexpended debt proceeds	<u>121,134</u>
Total Business-type Activities	<u>2,032,497</u>
Total Restricted Cash	<u><u>2,426,110</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, 2013.

5. Allowances for Doubtful Accounts

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

6. Inventory and Prepaid Items

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

7. Capital Assets

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

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

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

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

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

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

8. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and will not be recognized as an expense or expenditure until then. At the date of these financial statements the City had no items meeting this criterion. 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 two items that meets the criterion for this category – property taxes receivable and prepaid privilege licenses.

9. Long-Term Obligations

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

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

10. Compensated Absences

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

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

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

11. Net Position/Fund Balances

Net Position

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

Fund Balances

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

The governmental fund types classify fund balances as follows:

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

Inventories – Portion of fund balance that is not an available resource because it represents the year-end balance of ending inventories, which are not spendable resources.

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

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

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

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

Restricted for Fire Protection – portion of fund balance that is restricted by revenue source for fire protection expenditures. This amount represents the unexpended balance of debt proceeds in the capital project fund.

Committed Fund Balance – portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of City of Southport's governing body (highest level of decision-making authority). Any changes or removal of specific purpose requires majority action by the governing body.

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

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

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

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

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

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

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2014, the expenditures in the City's General Fund exceeded the authorized appropriations made in the Administration Department, 1029 North Howe Street Building Department Fire Department, Street Department, and Solid Waste Department in the General Fund and for Capital Outlay in the Water and Sewer Fund. These over-expenditures occurred because budget amendments were not sufficient to cover increases in expenditures late in the year. Management and the Board will more closely review expenditure-to-budget reports to ensure compliance in future years.

B. Annual Settlement of Tax Collector

NC General Statutes require that after July 1 the tax collector make a sworn report to the governing body each year. This report is to be made before the tax collector is charged with taxes for the current fiscal year. This report contains the amount of taxes the tax collector was charged with collecting, the amount of taxes, interest and penalties collected by him and a list of persons owning property whose taxes for the preceding year remain unpaid. This settlement, together with the action of the governing body shall be entered in full in the minutes of the governing body. This report was not prepared for the current year. Management and the tax collector will work together to see that this report is filed for all future periods.

C. Bank Accounts not Reconciled Monthly

Internal control procedures require that all bank accounts be reconciled monthly. During the year just ended, all bank accounts were not reconciled every month. Reconciling bank accounts is the best way to determine that all receipts have been deposited and expenditures are clearing the bank for the correct amount. The finance officer will present a bank reconciliation monthly to the board and management with the monthly financial statements. This procedure will allow proper monitoring to ensure that the accounts are reconciled.

D. Recording of Grant Receipts

During the year just ended the City participated with the Army Corps of Engineers in a Shoreline Protection Project. Under the terms of this grant, the City provided thirty five percent of the costs of the project and the federal government provided the balance. Under the terms of the grant, the City was responsible for complying with the Single Audit Act and other audit requirements. The City recorded only the City's participation on its books and records and did not record the federal portion. The federal portion was recorded in these financial statements. Management and the finance officer will in the future monitor grant requirements and grant accounting to prevent future problems.

III. DETAIL NOTES ON ALL FUNDS

A. Assets

1. Deposits

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

At June 30, 2014, the City's deposits had a carrying amount of \$7,567,376 and a bank balance of \$7,617,482. The carrying amount of deposits of the ABC Board was \$369,899 and the bank balance was \$364,417. \$250,000 of the ABC Board and \$640,636 of the City was covered by federal depository insurance. The balances of the deposits \$6,976,846 for the City and \$114,417 by the ABC Board were collateralized by institutions using the Pooling Method. At June 30, 2014, the City's cash on hand totaled \$450.

2. Investments

At June 30, 2014, the City of Southport had \$ 33,061 invested with the North Carolina Capital Management Trust's Cash Portfolio which accrued a credit rating of AAAM by Standard and Poor's. The City has no policy regarding credit risk.

3. Receivables - Allowances for Doubtful Accounts

The amounts presented in the Balance Sheet and the Statement of Net Position for the year ended June 30, 2014 are net of the following allowances for doubtful accounts:

General Fund:	
Taxes receivable	35,269
Solid waste accounts receivable	<u>1,526</u>
Total General Fund	<u>36,795</u>
Enterprise Funds	
Electric Fund - accounts receivable	64,005
Water and Sewer Fund - accounts receivable	<u>21,266</u>
Total Enterprise Funds	<u>85,271</u>
Total	<u><u>122,066</u></u>

4. Capital Assets

Primary Government

Capital asset activity for the Primary Government for the year ended June 30, 2014, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	2,504,952			2,504,952
Construction in progress	-	34,720		34,720
Total capital assets not being depreciated	<u>2,504,952</u>	<u>34,720</u>	-	<u>2,539,672</u>
Capital assets being depreciated				
Buildings	8,601,149	122,628		8,723,777
Other improvements	932,570			932,570
Infrastructure	2,567,245	18,586		2,585,831
Vehicles and motorized equipment	3,384,748	189,965	245,628	3,329,085
Furniture and equipment	736,704	164,952		901,656
Total capital assets being depreciated	<u>16,222,416</u>	<u>496,131</u>	<u>245,628</u>	<u>16,472,919</u>
Less accumulated depreciation for:				
Buildings	1,152,058	174,205		1,326,263
Other improvements	303,651	38,789		342,440
Infrastructure	474,568	99,804		574,372
Vehicles and motorized equipment	2,278,139	240,995	243,242	2,275,892
Furniture and equipment	429,839	53,390		483,229
Total accumulated depreciation	<u>4,638,255</u>	<u>607,183</u>	<u>243,242</u>	<u>5,002,196</u>
Total capital assets being depreciated, net	<u>11,584,161</u>			<u>11,470,723</u>
Governmental activity capital assets, net	<u><u>14,089,113</u></u>			<u><u>14,010,395</u></u>

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

General government	102,919
Public safety	342,310
Transportation	107,616
Cultural and recreational	54,338
Total depreciation expense	<u><u>607,183</u></u>

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
<i>Electric Fund</i>				
Capital assets not being depreciated:	-	-	-	-
Capital assets being depreciated				
Buildings	54,388			54,388
Utility systems	8,929,009	241,032		9,170,041
Vehicles and motorized equipment	57,548			57,548
Furniture and equipment	122,845			122,845
Total capital assets being depreciated	9,163,790	241,032	-	9,404,822
Less accumulated depreciation for:				
Buildings	9,582	1,088		10,670
Utility systems	2,795,270	224,101		3,019,371
Vehicles and motorized equipment	57,295	253		57,548
Furniture and equipment	63,040	9,169		72,209
Total accumulated depreciation	2,925,187	234,611	-	3,159,798
Total capital assets being depreciated, net	6,238,603			6,245,024
Electric fund capital assets, net	6,238,603			6,245,024
<i>Water and Sewer Fund</i>				
Capital assets not being depreciated:				
Land	2,762,465			2,762,465
Construction in progress	-			-
Total capital assets not being depreciated	2,762,465	-	-	2,762,465
Capital assets being depreciated				
Utility systems	14,860,957	502,792		15,363,749
Vehicles and motorized equipment	339,245	5,046		344,291
Furniture and equipment	372,127			372,127
Total capital assets being depreciated	15,572,329	507,838	-	16,080,167
Less accumulated depreciation for:				
Utility systems	4,293,881	358,742		4,652,623
Vehicles and motorized equipment	325,031	14,214		339,245
Furniture and equipment	324,362	14,149		338,511
Total accumulated depreciation	4,943,274	387,105	-	5,330,379
Total capital assets being depreciated, net	10,629,055			10,749,788
Water and Sewer fund capital assets, net	13,391,520			13,512,253
Business-type activities capital assets, net	19,630,123			19,757,277

Construction Commitments

The City had one active construction project as of June 30, 2014. At year end, the City's commitment with contractors totaled \$90,280 for the Safe Routes to School Sidewalk Project.

Discretely presented component unit

Activity for the ABC Board for the year ended June 30, 2014, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets not being depreciated:				
Land	4,600	-	-	4,600
Capital assets being depreciated				
Buildings	58,755			58,755
Building improvements	41,961	27,500		69,461
Furniture and fixtures	15,695			15,695
Equipment	20,596			20,596
Total capital assets being depreciated	137,007	27,500		164,507
Less accumulated depreciation for:				
Buildings	58,755			58,755
Building improvements	31,035	2,277		33,312
Furniture and fixtures	8,816	1,150		9,966
Equipment	19,957	636		20,593
Total accumulated depreciation	118,563	4,063		122,626
Total capital assets being depreciated, net	18,444			41,881
ABC capital assets, net	23,044			46,481

B. Liabilities

1. Pension Plan and Postemployment Obligations

a. Local Government Employees' Retirement System

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

Funding Policy – Plan members are required to contribute six percent of their annual covered salary. The City and the ABC Board are required to contribute at an actuarially determined rate. For the City, the current rate for employees not engaged in law enforcement and for law enforcement officers is 7.07% and 7.28%, respectively, of annual covered payroll. For the ABC Board, the current rate for employees not engaged in law enforcement is 7.07% of annual covered payroll. The contribution requirements of members and of the City of Southport and the ABC Board are established and may be amended by the North Carolina General Assembly. The City's contributions to the LGERS for the years ended June 30, 2014, 2013 and 2012 were \$126,372, \$118,236, and \$115,002, respectively. The ABC Board's contributions to LGERS for the years ended June 30, 2014, 2013 and 2012 were \$7,677, \$7,550, and \$5,822, respectively. The contributions made by the City and the ABC Board equaled the required contribution for each year.

b. Law Enforcement Officers Special Separation Allowance

(1) Plan Description

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

All full-time law enforcement officers of the City are covered by the separation allowance. At December 31, 2013, the Separation Allowance's membership consisted of:

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

A separate report was not issued for the plan.

(2) Summary of Significant Accounting Policies

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

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

(3) Contributions

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

The annual required contribution for the current year was determined as part of the December 31, 2013 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 5.00% investment rate of return (net of administrative expenses) and (b) projected salary increases of 4.25% - 7.85% per year. Both (a) and (b) included an inflation component of 3.00%. The assumptions did not include postretirement benefit increases.

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

Annual required contribution	13,254
Interest on net pension obligation	981
Adjustment to annual required contribution	<u>(1,599)</u>
Annual pension cost	12,636
Contributions made	<u>9,894</u>
Increase (decrease) in net pension obligation	2,742
Net pension obligation beginning of year	<u>19,626</u>
Net pension obligation end of year	<u>22,368</u>

For Year Ended <u>June 30</u>	3 Year Trend Information		
	Annual Pension Cost <u>(APC)</u>	Percentage of <u>APC Contributed</u>	Net Pension <u>Obligation</u>
2012	12,324	80.28%	17,143
2013	12,377	79.94%	19,626
2014	12,636	78.30%	22,368

(4) Funded Status and Funding Progress.

As of December 31, 2013, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and the unfunded actuarial accrued liability (UAAL) was \$87,917. The covered payroll (annual payroll of active employees covered by the plan) was \$455,582, and the ratio of the UAAL to the covered payroll was 19.30%.

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

c. Supplemental Retirement Income Plan

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

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

Funding Policy – Article 12E of G.S. Chapter 143 requires the City to contribute each month an amount equal to five percent of each employee's salary engaged in law enforcement and the City has elected to contribute five percent on non law enforcement employees. All amounts contributed are vested immediately. Also, the employees may make voluntary contributions to the plan. Contributions for the year ended June 30, 2014 were \$134,001, which consisted of \$89,675 from the City and \$44,326 from the employees.

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

Plan Description-The State of North Carolina contributes, on behalf of the City of Southport, to the Firefighter's and Rescue Squad Workers' Pension Fund (Fund), a cost-sharing multiple-employer defined benefit pension plan with a special funding situation administered by the State of North Carolina. The Fund provides pension benefits for eligible fire and rescue squad workers who have elected to become members of the fund. Article 86 of G. S. Chapter 58 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Firefighter's and Rescue Squad Worker's Pension Fund is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for the Firefighter's and Rescue Squad Workers' Pension Fund. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy-Plan members are required to contribute \$10 per month to the Fund. The City of Southport contributes this payment for qualifying firefighters. The State, a non-employer contributor, funds the plan through appropriations. The City does not contribute an amount above the amount required of members. Contribution requirements of plan members and the State of North Carolina are established and may be amended by the North Carolina General Assembly.

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

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

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

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

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

Membership in the HCB Plan consisted of the following at December 31, 2012, the date of the latest actuarial valuation:

Law enforcement officers	11
General Employees	31
Retirees	<u>17</u>
Total	<u>59</u>

Funding Policy - The City has chosen to fund the healthcare benefits on a pay as you go basis. The current annual required contribution (ARC) is 17.32% of covered payroll. For the current year, the City contributed \$130,446 or 7.14%. The City's obligation to contribute to the HCB Plan is established and may be amended by the Board of Aldermen.

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

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

Annual required contribution	316,477
Interest on net OPEB obligation	37,110
Adjustment to annual required contribution	<u>(35,451)</u>
Annual OPEB cost	318,136
Contributions made	<u>130,446</u>
Increase (decrease) in net OPEB obligation	187,690
Net OPEB obligation, beginning of year	<u>927,746</u>
Net OPEB obligation, end of year	<u>1,115,436</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2014 were as follows:

For Year Ended <u>June 30</u>	3 Year Trend Information		Net OPEB <u>Obligation</u>
	<u>Annual OPEB Cost</u>	<u>% of Annual OPEB Cost Contributed</u>	
2012	386,164	42.3%	736,588
2013	317,794	39.8%	927,746
2014	318,136	41.0%	1,115,436

Funded Status and Funding Progress – As of December 31, 2012, the most recent actuarial valuation date, the plan was not funded. The actuarial liability for benefits and, this, the unfunded actuarial accrued liability (UAAL) was \$4,026,456. The covered payroll (annual payroll of active employees covered by the plan) was \$1,781,591, and the ratio of the UAAL to covered payroll was 226.0%. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and

healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

At December 31, 2012 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.00 percent investment rate of return (net of administrative expenses), which is the expected long-term investment returns on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual medical cost trend increase of 8.5 to 5 percent annually for pre-Medicare costs and 6.25 to 5.0 percent for post-Medicare costs. The investment rate included a 3.00% inflation assumption. The assumed investment rate of return reflects the fact that no assets are set aside within the City of Southport. If a Trust or equivalent arrangement were set up for this purpose, the investment rate of return may be increased. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2012 was 30 years.

2. Other Employment Benefits

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

For the year ended June 30, 2014, the City made no contributions to the State for death benefits. The City's required contributions for employees not engaged in law enforcement and for law enforcement officers represented 0.00% and 0.00% of covered payroll, respectively. Due to a surplus in the death benefit, a decision was made by the State to temporarily stop employer contributions to the LGERS Death Benefit Plan beginning July 1, 2012. A temporary relief period based on the number of years the employer has contributed as of December 31, 2010 was established. Employers, like the City of Southport, with more than twenty years of contributing to the plan were given three years of relief from making contributions. The City of Southport will resume making contributions on July 1, 2015, for employees not engaged in law enforcement and law enforcement officers.

3. Deferred Inflows of Resources

Deferred inflows of resources at year-end is comprised of the following:

	<u>Unavailable Revenue</u>	<u>Unearned Revenue</u>
General Fund:		
Prepaid privilege licenses		16,301
Taxes receivable	<u>199,723</u>	
Total	<u><u>199,723</u></u>	<u><u>16,301</u></u>

4. Risk Management

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

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

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

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

5. Claims, Judgments and Contingent Liabilities

According to the City Attorney and City Management at June 30, 2014, the City was not a defendant in any lawsuit whose outcome could affect the City's ability to pay obligations as they become due.

6. Long-Term Obligations

a. Capital Leases

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

Below is a summary of the provisions of these leases:

<u>Date of Lease</u>	<u>Property Leased</u>	<u>Total of Lease</u>	<u>Payment Amount</u>	<u>Remaining Payments</u>	<u>Frequency of Payments</u>
5/3/12	Spartan Aerial Fire Truck	400,000	84,298	4	Annual
9/14/12	GMC 4500 Ambulance	119,285	31,137	4	Annual
1/12/14	GMC 4500 Ambulance	119,985	25,171	5	Annual

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

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

<u>Fund</u>	<u>Class of Property</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
General Fund	Vehicles and motorized equipment	1,052,991	291,809	761,182

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2014 were as follows:

<u>Year Ending June 30</u>	<u>Total</u>	<u>Governmental Activities</u>
2015	140,606	140,606
2016	140,606	140,606
2017	140,606	140,606
2018	25,171	25,171
2019	25,171	25,171
Total minimum lease payments	472,160	472,160
Less: Amount representing interest	17,742	17,742
Present value of minimum lease payments	454,418	454,418

b. Installment Purchase

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

Annual debt service payments of the installment purchase as of June 30, 2014, including \$1,154,741 of interest is as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2015	189,200	135,921
2016	189,200	127,426
2017	189,200	118,931
2018	189,200	110,436
2019	189,200	101,941
2020-2024	946,000	382,279
2025-2029	1,135,200	177,807
	<u>3,027,200</u>	<u>1,154,741</u>

c. Revolving Loans

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

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

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

Year Ending June 30	Business-type Activities	
	Principal	Interest
2015	103,401	18,068
2016	103,401	16,562
2017	103,401	15,057
2018	103,401	13,551
2019	103,401	12,045
2020-2024	517,004	37,641
2025-2029	312,153	4,517
2030-2031	70,234	-
	<u>1,416,396</u>	<u>117,441</u>

At June 30, 2014, the City of Southport had a legal debt margin of \$58,520,749.

g. Changes in Long - Term Liabilities

	Balance <u>6/30/13</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>6/30/14</u>	Current Portion of <u>Balance</u>
Governmental activities:					
General obligation bonds	2,595		2,595	-	-
Installment notes payable	3,216,400		189,200	3,027,200	189,200
Capitalized leases	462,067	119,985	127,634	454,418	133,559
Compensated absences	130,058	98,254	100,794	127,518	60,000
Other postemployment benefits	655,224	219,291	96,407	778,108	
Net pension obligation	<u>19,626</u>	<u>12,636</u>	<u>9,894</u>	<u>22,368</u>	<u>-</u>
	<u>4,485,970</u>	<u>450,166</u>	<u>526,524</u>	<u>4,409,612</u>	<u>382,759</u>
Business-type activities:					
General obligation bonds	10,905		10,905	-	-
Revolving loans	1,519,797		103,401	1,416,396	103,401
Compensated absences	22,843	15,826	21,057	17,612	13,607
Other postemployment benefits	<u>272,522</u>	<u>98,845</u>	<u>34,039</u>	<u>337,328</u>	<u>-</u>
	<u>1,826,067</u>	<u>114,671</u>	<u>169,402</u>	<u>1,771,336</u>	<u>117,008</u>

Compensated absences for governmental activities have typically been liquidated in the General Fund.

C. Interfund Balances and Activity

Balances due to/from other funds at June 30, 2014 consist of the following:

Due to General Fund from Safe Routes to School Fund	<u><u>34,720</u></u>
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The interfund balances are the result of expenditures in project funds before grant funds are received. These balances will be liquidated when the funds are received.

Transfers to/from other funds at June 30, 2014, consist of the following:

Transfer from General Fund to Capital Reserve Fund	66,000
Transfer from Electric Fund to Capital Reserve Fund	20,000
Transfer from Water and Sewer Fund to Capital Reserve Fund	20,000
Transfer from Capital Reserve Fund To General Fund	<u>30,000</u>
Total	<u><u>136,000</u></u>

Transfers are used to move unrestricted revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts providing matching funds for various grant programs.

During the current year, the City made transfers to and from the Capital Reserve Fund for future and current purchases of capital assets.

D. Contracts

1. Electric Maintenance Contract

The City of Southport has awarded a contract to Brunswick Electric Membership Corporation for the operation and maintenance of the Electric Distribution System of the City of Southport. The contract is for a five year term beginning on July 1, 2011. This contract expires on June 30, 2016. The initial cost to the City under the contract was \$327,026 for the twelve months ending on June 30, 2012. Effective each July 1, under the contract the annual fee will be adjusted based on the increase in the Consumer Price Index and City customer growth. For the year ending June 30, 2014, the City made monthly payments of \$28,699. Non-basic operations and maintenance service such as power restoration after catastrophic events, system improvements and upgrades, and system extension are to be provided on a cost plus basis. The cost of non-basic service will be based on cost of materials, equipment and labor. System additions and extensions are to be approved by the City.

The minimum payments on the contract are:

	<u>Year Ending June 30</u>
2015	327,026
2016	<u>327,026</u>
Total	<u>650,052</u>

For the year ended June 30, 2013, the City payments under this contract totaled \$344,395

2. Solid Waste Collection Contract

The City has a contract with Waste Industries, Inc. to provide solid waste collection to the City and its residents. This contract, expiring June 30, 2018, bases fees on the number of residents and frequency of collection. The expense to the City for the year ended June 30, 20 was \$196,042.

E. On-Behalf Payments for Fringe Benefits and Salaries

For the fiscal year ended June 30, 2014, the City of Southport has recognized on-behalf payments for pension contributions made by the State as a revenue and an expenditure of \$6,797 for the 19 volunteer firefighters who perform firefighting duties for the town's fire department. The volunteers elected to be members of the Firefighter's and Rescue Squad Workers' Pension Fund, a cost sharing, multiple employer public employee retirement system established and administered by the State of North Carolina. The Plan is funded by a \$10 monthly contribution paid for each member by the City, investment income, and a State appropriation.

The City has also recognized as a revenue and an expenditure, on-behalf payments for fringe benefits and salaries of \$1,300 for the salary supplement and stipend benefits paid to eligible firemen by the local board of trustees of the Firemen's Relief Fund during the fiscal year ended June 30, 2014. Under State law the local board of trustees for the Fund receives an amount each year, which the board may use at its own discretion for eligible firemen or their departments.

F. Net Investment in Capital Assets

The City's Net Investment in Capital Assets at June 30, 2014, consisted of the following:

	Governmental <u>Funds</u>	Business-type <u>Funds</u>
Capital assets	14,010,395	19,757,277
Less: Long-term Debt	(3,481,618)	(1,416,396)
Add: Unexpended debt proceeds	<u>120,964</u>	<u>121,134</u>
Net investment in capital assets	<u><u>10,649,741</u></u>	<u><u>18,462,015</u></u>

G. Fund Balance

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

Total fund balance - General Fund	<u>1,941,913</u>
Less:	
Stabilization by State Statute	487,723
Streets - Powell Bill	62,181
Capital outlay (Capital Reserve Fund)	<u>164,000</u>
Remaining fund balance	<u><u>1,228,009</u></u>

Outstanding encumbrances are amounts needed to pay any commitments related to purchase orders and contracts that remain unperformed at year-end.

At June 30, 2014, the City had no outstanding encumbrances.

III. JOINT VENTURES

The City and the members of the City's fire department each appoint two members to the five-member local board of trustees for the Firemen's Relief Fund. The State Insurance Commissioner appoints one additional member to the local board of trustees. The Fireman's Relief Fund is funded by a portion of the fire and lightening insurance premiums that insurers remit to the State. The State passes these moneys to the local board of the Firemen's Relief Fund. The funds are used to assist fire fighters in various ways. The City obtains an ongoing financial benefit from the Fund for the on-behalf of payments for salaries and fringe benefits made to members of the City's fire department by the board of trustees. During the fiscal year ended June 30, 2014, the City reported revenues and expenditures for payments of \$1,300 made through the Firemen's Relief Fund. The participating governments do not have any equity interest in the joint venture, so no equity has been reflected in the financial statements at June 30, 2014. The Firemen's Relief Fund does not issue separate audited financial statements. Instead, the local board of trustees files an annual financial report with the State Firemen's Association. This report can be obtained from the Association at 323 West Jones Street, Suite 401, Raleigh, North Carolina 27603.

IV. JOINTLY GOVERNED ORGANIZATIONS

A. North Carolina Eastern Municipal Power Agency

The City is a member of the North Carolina Eastern Municipal Power Agency (Agency). The Agency was formed to enable municipalities that own electric distribution systems to finance, construct, own, operate, and maintain generation and transmission facilities. Each participating government appoints one commissioner to the Agency's governing board. The 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, 2014 were \$5,627,911.

B. Cape Fear Council of Governments

The City, in conjunction with four counties and forty other municipalities established the Cape Fear Council of Governments (Council). The participating governments established the Council to coordinate various funding received from federal and State agencies. Each participating government appoints one member to the Council's governing board. The City paid membership fees of \$815 to the Council during the fiscal year ended June 30, 2014.

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, 2014, 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, 2014. Complete financial information for the Airport Commission can be obtained from the Airport's administrative offices at 380 Long Beach Road, Southport, North Carolina 28461.

V. SUMMARY OF DISCLOSURE OF SIGNIFICANT CONTINGENCIES

Federal and State Assisted Programs

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

VI. SUBSEQUENT EVENTS

Events occurring after June 30, 2014 were evaluated by management on January 14, 2015 to ensure that any subsequent events that met the criteria for recognition and/or disclosure in these financial statements have been included. There are no subsequent events needing disclosure.

REQUIRED SUPPLEMENTARY
FINANCIAL DATA

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

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

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

EXHIBIT A-1

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
12/31/2001	0	68,510	68,510	0.00%	281,686	24.32%
12/31/2002	0	78,299	78,299	0.00%	238,891	32.76%
12/31/2003	0	96,898	96,898	0.00%	320,308	30.25%
12/31/2004	0	39,719	39,719	0.00%	223,535	17.77%
12/31/2005	0	115,142	115,142	0.00%	311,662	36.94%
12/31/2006	0	103,801	103,801	0.00%	341,857	30.36%
12/31/2007	0	102,803	102,803	0.00%	386,336	26.61%
12/31/2008	0	84,913	84,913	0.00%	481,273	17.64%
12/31/2009	0	84,792	84,792	0.00%	458,371	18.50%
12/31/2010	0	104,168	104,168	0.00%	396,761	26.25%
12/31/2011	0	88,994	88,994	0.00%	449,334	19.81%
12/31/2012	0	89,663	89,663	0.00%	450,696	19.89%
12/31/2013	0	87,917	87,917	0.00%	455,582	19.30%

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

EXHIBIT A-2

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2001	5,590	0.00%
2002	7,405	0.00%
2003	8,982	0.00%
2004	9,227	0.00%
2005	12,430	106.62%
2006	6,633	217.99%
2007	11,306	127.88%
2008	10,682	135.35%
2009	10,639	135.90%
2010	9,869	146.50%
2011	10,784	202.88%
2012	12,466	79.37%
2013	12,587	78.60%

Notes to the Required Schedules:

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

Valuation date	December 31, 2013
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	17 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return*	5.00%
Projected salary increases*	4.25%-7.85%
*Includes inflation at	3.00%
Cost of living adjustments	N/A

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

EXHIBIT A-3

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

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

EXHIBIT A-4

Year Ended <u>June 30</u>	Annual Required <u>Contribution</u>	Percentage <u>Contributed</u>
2010	383,344	28.30%
2011	383,344	38.08%
2012	383,344	42.59%
2013	316,477	40.01%
2014	316,477	41.00%

Notes to the Required Schedules:

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

Valuation date	December 31, 2012
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay, open
Remaining amortization period	30 years
Asset valuation method	Market value of assets
Actuarial assumptions:	
Investment rate of return*	4.00%
Medical cost trend rate	
Pre-Medicare Trend Rate	8.50%-5.00%
Post-Medicare Trend Rate	6.25%-5.00%
Year of ultimate trend rate	2018
*Includes inflation at	3.00%

GOVERNMENTAL FUNDS

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

Included in the Governmental Funds in these statements are:

- General Fund
- Capital Reserve Fund
- Building Capital Improvement Fund
- Combining Balance Sheet – Non-Major Governmental Funds
- Combining Statement – Non-Major Governmental Funds
- Fire Station Capital Project Fund
- Pedestrian Transportation Plan Capital Project Fund
- Safe Routes To School Sidewalks Project Fund

**CITY OF SOUTHPORT, NORTH CAROLINA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended June 30, 2014**

**EXHIBIT B-1
Page 1 of 11**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues			
Ad valorem taxes			
Current year	1,601,000	1,620,737	19,737
Prior years	40,000	50,187	10,187
Motor vehicle taxes	58,900	95,908	37,008
Penalties and interest	8,000	13,846	5,846
Total	<u>1,707,900</u>	<u>1,780,678</u>	<u>72,778</u>
Other taxes			
Dog tags	1,200	1,110	(90)
Privilege licenses	23,000	15,352	(7,648)
Accommodation tax	68,000	83,856	15,856
Total	<u>92,200</u>	<u>100,318</u>	<u>8,118</u>
Unrestricted intergovernmental revenues			
Local option sales tax	665,000	656,336	(8,664)
Beer and wine tax	13,000	13,066	66
ABC Profit distribution	250,000	269,106	19,106
Utility franchise tax	305,000	301,286	(3,714)
Total	<u>1,233,000</u>	<u>1,239,794</u>	<u>6,794</u>
Restricted intergovernmental revenues			
State street-aid allocation	100,000	105,753	5,753
On-behalf of payments - fire and rescue	-	8,097	8,097
Solid waste disposal tax	-	1,825	1,825
ABC Revenue for law enforcement	10,000	12,011	2,011
Fire - Misc. grants	5,000	-	(5,000)
Volunteer rescue EMS grant	16,400	-	(16,400)
Brunswick County rescue contributions	36,000	36,000	-
Police grants	3,500	3,500	-
Fire district fees	612,000	638,157	26,157
Total	<u>782,900</u>	<u>805,343</u>	<u>22,443</u>
Licenses and permits			
Building permits	110,000	179,707	69,707
Re-inspection fees	400	585	185
Planning and zoning fees	6,000	6,960	960
Total	<u>116,400</u>	<u>187,252</u>	<u>70,852</u>

**CITY OF SOUTHPORT, NORTH CAROLINA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended June 30, 2014**

**EXHIBIT B-1
Page 2 of 11**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Sales and services			
Cemetery lot sales	1,500	1,255	(245)
Refuse collection fees	186,000	188,773	2,773
Boat slip rentals	25,000	14,655	(10,345)
Rescue squad fees	125,000	148,946	23,946
Community building rent	120,000	93,370	(26,630)
1029 N. Howe Street rent	70,100	60,029	(10,071)
Caommon area fees - 1029 Howe	16,400	13,712	(2,688)
Tourism - Visitor Center sales	49,400	32,577	(16,823)
Lot cleaning reimbursements	300	-	(300)
Recreation fees	29,200	20,362	(8,838)
Carolina Power & Light	5,000	-	(5,000)
Total	627,900	573,679	(54,221)
Investment earnings			
Interest income	3,200	1,640	(1,560)
Miscellaneous			
Insurance reimbursement	5,000	6,273	1,273
Donations - Firemen's fund	-	6,113	6,113
Donations - Recreation department	2,000	3,200	1,200
Donations - Beautification	2,000	0	(2,000)
Fire Department Capital Campaign	-	650	650
Homeowners recovery fund	600	155	(445)
Miscellaneous - Police department	5,000	5,452	452
Miscellaneous - Fire department	-	435	435
Miscellaneous - Rescue squad	-	6,896	6,896
Miscellaneous - Tourism	19,000	14,008	(4,992)
Beautification Revenue	2,500	2,000	(500)
Special events - Tourism	10,000	2,010	(7,990)
Sales - fixed assets	15,000	17,736	2,736
Miscellaneous	2,500	11,261	8,761
Total	63,600	76,189	12,589
Total revenues	4,627,100	4,764,893	137,793
Expenditures			
General government			
Board expense			
Full-Time employees	28,000	27,400	
Social security	4,700	2,088	
Group insurance	4,800	7,948	
Unemployment expense	300	144	
Workers compensation	100	109	
Other personnel costs	33,600	30,800	
Professional fees	24,100	27,797	
Departmental supplies	15,300	7,725	
Training and travel	6,300	8,339	

CITY OF SOUTHPORT, NORTH CAROLINA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended June 30, 2014

EXHIBIT B-1
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	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Other services	10,300	10,048	

**CITY OF SOUTHPORT, NORTH CAROLINA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended June 30, 2014**

**EXHIBIT B-1
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	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Contract Services	14,600	13,917	
Insurance and bonds	3,000	3,020	
Elections	2,000	1,805	-
Total	147,100	141,140	5,960
 Administration			
Full-time employees	77,700	60,259	
Part-time employees	11,600	40,204	
401(k) Retirement supplement	3,900	2,032	
Social security	6,800	4,762	
Group insurance	14,400	13,656	
Retirement	5,500	2,009	
Unemployment expense	400	459	
Workers compensation	400	678	
Professional fees	1,300	1,260	
Vehicle supplies	2,000	298	
Departmental supplies	7,000	12,286	
Training and travel	6,100	3,291	
Communications	7,500	13,131	
Mileage allowance	4,100	3,200	
Utilities	12,700	9,599	
Advertising	4,000	2,949	
Other services	17,900	32,347	
Contract services	11,600	8,175	
Insurance and bonding	8,300	8,257	
Capital outlay - vehicles	25,000	23,546	-
Total	228,200	242,398	(14,198)
 Finance			
Full-time employees	114,400	119,671	
401(k) Retirement supplement	5,700	3,072	
Social security	8,800	4,695	
Group insurance	26,100	24,960	
Retirement	8,100	4,922	
Unemployment expense	500	588	
Workers compensation	300	482	
Departmental supplies	12,000	11,398	
Training and travel	4,700	3,930	
Communications	11,200	11,225	
Utilities	4,500	3,531	
Other services	1,000	1,935	
Contract services	19,600	19,477	
Insurance and bonding	3,300	3,278	-
Total	220,200	213,164	7,036

**CITY OF SOUTHPORT, NORTH CAROLINA
GENERAL FUND
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For the Year Ended June 30, 2014**

**EXHIBIT B-1
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	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Buildings and Grounds			
Full-time employees	76,800	82,912	
Part-time employees	5,300	5,145	
401(k) Retirement supplement	3,700	4,124	
Social security	6,200	6,713	
Group insurance	25,900	22,697	
Retirement	5,100	5,832	
Unemployment expense	900	421	
Workers compensation	3,800	1,474	
Uniforms and protective gear	1,600	1,859	
Vehicle supplies	2,800	3,224	
Departmental supplies	7,200	8,582	
Training and travel	600	305	
Communications	1,700	1,391	
Repairs and maintenance - equipment	2,600	800	
Repairs and maintenance - vehicles	1,100	213	
Repairs and maintenance - facilities	29,000	16,182	
Other services	9,200	9,552	
Contract services	13,700	16,040	
Insurance and bonding	1,300	1,521	
Capital outlay - equipment	16,200	16,200	-
Total	<u>214,700</u>	<u>205,187</u>	<u>9,513</u>
Tourism			
Full-time employees	74,000	69,403	
401(k) Retirement supplement	3,700	3,435	
Social security	5,700	5,261	
Group insurance	18,700	15,522	
Retirement	5,200	4,858	
Unemployment expense	500	382	
Workers compensation	1,000	1,015	
Departmental supplies	40,200	42,784	
Purchased for resale	33,900	33,827	
Miscellaneous expense	2,000	-	
Training and travel	1,800	1,588	
Communications	2,600	2,259	
Utilities	9,500	8,954	
Repairs and maintenance - facilities	8,300	8,158	
Other services	4,000	4,000	
Contract services	800	1,583	
Insurance and bonding	3,800	3,822	-
Total	<u>215,700</u>	<u>206,851</u>	<u>8,849</u>

**CITY OF SOUTHPORT, NORTH CAROLINA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
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For the Year Ended June 30, 2014**

**EXHIBIT B-1
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	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Community Building			
Full-time employees	25,100	25,241	
Part-time employees	40,300	31,623	
401(k) Retirement supplement	1,300	1,249	
Social security	5,000	4,338	
Group insurance	9,300	7,862	
Retirement	1,800	1,766	
Unemployment expense	600	5,846	
Workers compensation	1,700	1,474	
Departmental supplies	10,200	8,704	
Communications	3,500	3,851	
Utilities	16,000	15,164	
Repairs and maintenance - facilities	22,500	16,983	
Advertising	500	60	
Contract services	400	601	
Insurance and bonding	5,000	4,968	-
Total	143,200	129,730	13,470
1029 North Howe Street			
Departmental supplies	200	560	
Communications	1,200	1,395	
Utilities	4,000	4,967	
Repairs and maintenance - facilities	2,500	5,402	
Other services	-	11,241	
Contract services	9,100	24,268	
Insurance and bonding	5,000	5,801	
Capital outlay - equipment	-	12,386	
Capital outlay - facilities	54,500	34,747	-
Total	76,500	100,767	(24,267)
City Garage			
Full-time employees	86,300	87,188	
401 (k) retirement supplement	4,100	4,288	
Social security	6,200	6,345	
Group insurance	29,300	28,906	
Retirement	5,700	6,066	
Unemployment expense	500	419	
Workers compensation	2,900	2,880	
Uniforms and protective gear	3,800	3,717	
Vehicle supplies	1,400	1,179	
Departmental supplies	4,800	3,673	
Training and travel	500	516	
Communications	3,100	1,751	
Utilities	14,000	16,224	
Repairs and maintenance - equipment	1,700	-	

**CITY OF SOUTHPORT, NORTH CAROLINA
GENERAL FUND
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**EXHIBIT B-1
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	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Repairs and maintenance - vehicles	1,000	46	
Repairs and maintenance - facilities	-	362	
Contracted services	1,200	2,538	
Insurance and bonding	3,500	3,437	
Expense reimbursement from Electric Fund	(6,500)	(6,500)	
Expense reimbursement from Water-Sewer Fund	(24,000)	(24,000)	-
Total	<u>139,500</u>	<u>139,035</u>	<u>465</u>
 Total general government	<u>1,385,100</u>	<u>1,378,272</u>	<u>6,828</u>
Public Safety			
Police			
Full-time employees	484,100	475,782	
Separation allowance	9,900	9,976	
Part-time employees	37,000	39,020	
401 (k) retirement supplement	24,200	23,520	
Social security	40,700	39,492	
Group insurance	156,700	150,907	
Retirement	35,200	34,279	
Unemployment expense	3,100	2,680	
Workers compensation	14,500	14,449	
Vehicle supplies	30,000	34,263	
Departmental supplies	15,500	15,689	
Uniforms and protective gear	11,600	10,002	
Miscellaneous expense	-	8,023	
Training and travel	6,500	6,251	
Communications	22,000	22,701	
Utilities	6,600	5,727	
Repairs and maintenance - equipment	5,400	6,793	
Repairs and maintenance - vehicles	5,000	4,595	
Other services	500	1,300	
Contract services	1,000	4,934	
Insurance and bonding	13,400	18,914	
Capital outlay	8,500	-	
Total	<u>931,400</u>	<u>929,297</u>	<u>2,103</u>
 Fire Department			
Part-time employees	2,000	1,782	
Volunteer fees	80,000	79,850	
Volunteer incentives	18,000	20,976	
Social security	9,400	9,602	
Firefighter pension plan contribution	-	-	
Firefighter retirement	6,000	12,727	
Payments to retirees	23,000	22,935	
Unemployment expense	1,100	421	
Workers compensation	5,700	6,691	
Professional fees	1,000	1,000	

**CITY OF SOUTHPORT, NORTH CAROLINA
GENERAL FUND
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**EXHIBIT B-1
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	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Vehicle supplies	6,300	5,496	
Departmental supplies	33,000	34,093	
Uniforms and protective gear	23,800	22,333	
Inspections	6,000	5,858	
Fire prevention	3,000	2,365	
Training and travel	8,000	12,142	
Communications	10,000	11,154	
Utilities	25,000	28,648	
Repairs and maintenance - equipment	10,900	11,200	
Repairs and maintenance - vehicles	18,000	15,864	
Repairs and maintenance - facilities	2,000	2,548	
Contract services	24,100	24,910	
Other services	-	758	
Southport firemen's expenses	-	7,187	
Insurance and bonding	22,200	25,088	
Capital outlay	81,800	70,203	-
Total	420,300	435,831	(15,531)
Rescue Squad			
Part-time employees	2,000	1,947	
Fees paid to volunteers	85,000	79,396	
Social security	6,700	6,222	
Unemployment expense	1,000	448	
Workers compensation	5,400	5,373	
Uniforms and protective gear	3,000	2,702	
Vehicle supplies	6,000	6,682	
Departmental supplies	28,600	21,191	
Training and travel	1,000	38	
Communications	2,400	2,034	
Utilities	6,800	6,518	
Repairs and maintenance - equipment	3,600	424	
Repairs and maintenance - vehicles	4,500	1,664	
Repairs and maintenance - facilities	3,000	267	
Other services	300	-	
Contract services	15,900	16,907	
Insurance and bonding	4,900	4,908	
Capital outlay	134,885	130,721	-
Total	314,985	287,442	27,543
Code Enforcement			
Full-time employees	143,800	150,577	
Part-time employees	1,400	1,890	
401 (k) retirement supplement	7,200	7,386	
Social security	11,100	11,291	

**CITY OF SOUTHPORT, NORTH CAROLINA
GENERAL FUND
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**EXHIBIT B-1
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	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Group insurance	31,200	31,036	
Retirement	10,200	10,447	
Unemployment payments	700	746	
Workers compensation	300	2,126	
Professional fees	15,000	2,925	
Vehicle supplies	2,700	2,635	
Departmental supplies	5,000	5,065	
Training and travel	3,000	1,861	
Communications	4,200	3,702	
Utilities	7,500	3,936	
Repairs and maintenance - equipment	-	229	
Repairs and maintenance - vehicles	1,000	1,123	
Other services	4,600	2,510	
Contract services	8,400	5,093	
Insurance and bonding	1,800	1,821	-
Total	259,100	246,399	12,701
Total public safety	1,925,785	1,898,969	26,816
Transportation			
Street			
Full-time employees	79,600	79,327	
Part-time salaries	15,500	10,378	
401 (k) retirement supplement	3,800	2,021	
Social security	3,100	3,333	
Group insurance	21,000	20,880	
Retirement	5,300	2,857	
Unemployment expense	600	489	
Workers compensation	5,100	10,177	
Uniforms and protective gear	1,900	1,979	
Vehicle supplies	8,000	13,346	
Departmental supplies	3,500	5,497	
Communications	2,700	1,171	
Utilities	25,500	28,188	
Repairs and maintenance - equipment	2,600	2,918	
Repairs and maintenance - vehicles	1,100	2,926	
Repairs and maintenance - facilities	-	286	
Contract services	2,000	1,812	
Insurance and bonding	2,600	2,579	-
Total	183,900	190,164	(6,264)

**CITY OF SOUTHPORT, NORTH CAROLINA
GENERAL FUND
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**EXHIBIT B-1
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	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Powell Bill			
Departmental supplies	14,100	10,009	
Repairs and maintenance - vehicles	2,000	2,143	
Street resurfacing	175,000	173,295	
Contract services	11,000	2,475	
Capital outlay - equipment	8,100	8,100	
Capital outlay - improvements	20,000	18,586	-
Total	<u>230,200</u>	<u>214,608</u>	<u>15,592</u>
Total transportation	<u>414,100</u>	<u>404,772</u>	<u>9,328</u>
Environmental Protection			
Cemetery			
Part-time salaries	10,100	10,103	
Social security	800	773	
Departmental supplies	-	36	
Contract services	13,900	13,874	-
Total	<u>24,800</u>	<u>24,786</u>	<u>14</u>
Solid Waste			
Contract services	<u>182,500</u>	<u>196,043</u>	-
Total	<u>182,500</u>	<u>196,043</u>	<u>(13,543)</u>
Total environmental protection	<u>207,300</u>	<u>220,829</u>	<u>(13,529)</u>
Cultural and Recreational			
Parks and recreation			
Full-time employees	123,000	125,718	
Part-time employees	57,600	59,694	
401 (k) retirement supplement	6,100	6,106	
Social security	13,900	13,922	
Group insurance	32,000	34,493	
Retirement	8,700	8,637	
Unemployment expense	1,500	930	
Workers compensation	4,600	5,919	
Professional fees	7,000	7,000	
Uniforms and protective gear	600	518	
Vehicle supplies	6,500	5,310	
Departmental supplies	43,600	43,229	
Training and tavel	1,900	1,032	
Communications	8,600	7,906	
Utilities	31,200	31,296	

**CITY OF SOUTHPORT, NORTH CAROLINA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended June 30, 2014**

**EXHIBIT B-1
Page 11 of 11**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Repairs and maintenance - equipment	700	84	
Repairs and maintenance - vehicles	1,400	580	
Repairs and maintenance - facilities	56,700	38,993	
Contract services	14,000	14,104	
Insurance and bonding	10,500	10,499	-
Total cultural and recreational	<u>430,100</u>	<u>415,970</u>	<u>14,130</u>
 Debt service			
Principal	420,100	319,429	
Interest and fees	161,100	161,035	-
Total debt service	<u>581,200</u>	<u>480,464</u>	<u>100,736</u>
 Contingency	<u>10,000</u>	-	<u>10,000</u>
 Total expenditures	<u>4,953,585</u>	<u>4,799,276</u>	<u>154,309</u>
 Revenues over (under) expenditures	<u>(326,485)</u>	<u>(34,383)</u>	<u>292,102</u>
 Other financing sources (uses)			
Proceeds of capital leases	119,985	119,985	-
Transfers from other funds			
Transfer from Capital Reserve Fund	30,000	30,000	-
Transfer from Fire Station Capital Project Fund	110,000	-	(110,000)
Transfers to other funds			
Transfer to Capital Reserve Fund	<u>(66,000)</u>	<u>(66,000)</u>	<u>-</u>
 Total other financing sources (uses)	193,985	83,985	(110,000)
 Appropriated fund balance	<u>132,500</u>	-	<u>(132,500)</u>
 Net change in fund balance	<u>-</u>	49,602	<u>49,602</u>
 Fund Balance			
Beginning of year		<u>1,728,311</u>	
 End of year		<u>1,777,913</u>	

**CITY OF SOUTHPORT, NORTH CAROLINA
CAPITAL RESERVE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended June 30, 2014**

EXHIBIT B-2

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues			
Investment earnings	-	-	-
Interest income	-	-	-
Total revenues	-	-	-
Expenditures			
General Government			
Future capital outlay	98,000	-	98,000
Total expenditures	98,000	-	98,000
Revenues over (under) expenditures	(98,000)	-	98,000
Other financing sources (uses)			
Transfers from other funds			
General Fund	66,000	66,000	-
Electric Fund	20,000	20,000	-
Water and Sewer Fund	20,000	20,000	-
Transfers to other funds			
General Fund	(30,000)	(30,000)	-
Fund balance appropriated	22,000	-	(22,000)
Total other financing sources (uses)	98,000	76,000	(22,000)
Net change in fund balance	-	76,000	76,000
Fund Balance			
Beginning of year		88,000	
End of year		164,000	

CITY OF SOUTHPORT, NORTH CAROLINA
 BUILDING CAPITAL IMPROVEMENT FUND
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
 IN FUND BALANCE - BUDGET AND ACTUAL
 For the Year Ended June 30, 2014

EXHIBIT B-3

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Actual Current Year</u>	<u>Total To Date</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues					
Investment earnings					
Interest earned	-	18	228	246	246
Miscellaneous					
Lease termination proceeds	36,800	36,819	-	36,819	19
Total revenues	<u>36,800</u>	<u>36,837</u>	<u>228</u>	<u>37,065</u>	<u>265</u>
Expenditures					
Professional fees	36,800	15,252	-	15,252	21,548
Building costs	1,923,200	1,796,356	111,387	1,907,743	15,457
Capital Outlay	10,000	6,697	-	6,697	3,303
Total expenditures	<u>1,970,000</u>	<u>1,818,305</u>	<u>111,387</u>	<u>1,929,692</u>	<u>40,308</u>
Excess of (under) revenues over expenditures	<u>(1,933,200)</u>	<u>(1,781,468)</u>	<u>(111,159)</u>	<u>(1,892,627)</u>	<u>40,573</u>
Other financing sources (uses)					
Transfers from other funds	1,933,200	1,933,200	-	1,933,200	-
Excess of revenues and other sources over expenditures	<u>-</u>	<u>151,732</u>	<u>(111,159)</u>	<u>40,573</u>	<u>40,573</u>
Fund balance					
Beginning of year			<u>151,732</u>		
End of year			<u>40,573</u>		

City of Southport, North Carolina
 Combining Balance Sheet
 Non-Major Governmental Funds
 June 30, 2014

EXHIBIT B-4

	<u>Fire Station Capital Project</u>	<u>Building Capital Improvement Fund</u>	<u>Safe Routes to School Sidewalks Fund</u>	<u>Pedestrian Transportation Plan Fund</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and cash equivalents		41,053	-	-	41,053
Restricted cash and cash equivalents	164,957				164,957
Receivable from other governments	-	-	34,720	-	34,720
Total assets	164,957	41,053	34,720	-	240,730
 LIABILITIES					
Liabilities:					
Accounts payable	1,230	480	-	-	1,710
Due to other funds	-	-	34,720	-	34,720
Total liabilities	1,230	480	34,720	-	36,430
 FUND BALANCES					
Restricted for:					
Fire protection	163,727	-	-	-	163,727
Committed for:					
Capital outlay		40,573	-	-	40,573
Total fund balances	163,727	40,573	-	-	204,300
Total liabilities, deferred inflows of resources and fund balances	164,957	41,053	34,720	-	240,730

City of Southport, North Carolina
 Combining Statement of Revenues, Expenditures and Changes in Fund Balances
 Non-Major Governmental Funds
 For the Year Ended June 30, 2014

EXHIBIT B-5

	<u>Fire Station Capital Project</u>	<u>Building Capital Improvement Fund</u>	<u>Safe Routes to School Sidewalks Fund</u>	<u>Pedestrian Transportation Plan Fund</u>	<u>Total-Other Governmental Funds</u>
REVENUES					
Restricted intergovernmental	-	-	34,720	12,896	47,616
Investment earnings	225	228	-	-	453
Total revenues	<u>225</u>	<u>228</u>	<u>34,720</u>	<u>12,896</u>	<u>48,069</u>
EXPENDITURES					
Current:					
General government	-	111,387	-	-	111,387
Public Safety	70,255	-	-	-	70,255
Streets	-	-	34,720	16,027	50,747
Total Expenditures	<u>70,255</u>	<u>111,387</u>	<u>34,720</u>	<u>16,027</u>	<u>232,389</u>
Net change in fund balances	(70,030)	(111,159)	-	(3,131)	(184,320)
Fund balances - beginning	233,757	151,732	-	3,131	388,620
Fund balances - ending	<u>163,727</u>	<u>40,573</u>	<u>-</u>	<u>-</u>	<u>204,300</u>

**CITY OF SOUTHPORT, NORTH CAROLINA
 FIRE STATION CAPITAL PROJECT
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
 IN FUND BALANCE - BUDGET AND ACTUAL
 For the Year Ended June 30, 2014**

EXHIBIT B-6

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Actual Current Year</u>	<u>Total To Date</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues					
Investment earnings					
Interest earned	-	4,601	225	4,826	4,826
Miscellaneous					
Miscellaneous receipts	-	43,314	-	43,314	43,314
Total revenues	-	47,915	225	48,140	48,140
Expenditures					
Professional Services - Design	94,666	94,666	-	94,666	-
Construction	3,416,694	3,420,270	-	3,420,270	(3,576)
Furnishings and telephone system	92,993	83,222	70,255	153,477	(60,484)
Contingency	69,647	-	-	-	69,647
Total expenditures	3,674,000	3,598,158	70,255	3,668,413	5,587
Excess of (under) revenues over expenditures	(3,674,000)	(3,550,243)	(70,030)	(3,620,273)	53,727
Other financing sources (uses)					
Financing proceeds	3,784,000	3,784,000	-	3,784,000	-
Transfer to other funds	(110,000)	-	-	-	110,000
Other financing sources exceed other financing uses	3,674,000	3,784,000	-	3,784,000	110,000
Excess of revenues and other sources over expenditures	-	233,757	(70,030)	163,727	163,727
Fund balance					
Beginning of year			233,757		
End of year			163,727		

CITY OF SOUTHPORT, NORTH CAROLINA
PEDESTRIAN TRANSPORTATION PLAN CAPITAL PROJECT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended June 30, 2014

EXHIBIT B-7

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Actual Current Year</u>	<u>Total To Date</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues					
Restricted Intergovernmental					
DOT Grant	<u>31,000</u>	<u>11,904</u>	<u>12,896</u>	<u>24,800</u>	<u>(6,200)</u>
Total revenues	<u>31,000</u>	<u>11,904</u>	<u>12,896</u>	<u>24,800</u>	<u>(6,200)</u>
Expenditures					
Transportation					
Professional fees	<u>31,000</u>	<u>14,973</u>	<u>16,027</u>	<u>31,000</u>	<u>-</u>
Total expenditures	<u>31,000</u>	<u>14,973</u>	<u>16,027</u>	<u>31,000</u>	<u>-</u>
Excess of (under) revenues over expenditures	<u>-</u>	<u>(3,069)</u>	<u>(3,131)</u>	<u>(6,200)</u>	<u>(6,200)</u>
Other financing sources (uses)					
Transfers from other funds	<u>-</u>	<u>6,200</u>	<u>-</u>	<u>6,200</u>	<u>(6,200)</u>
Excess of revenues and other sources over expenditures	<u>-</u>	<u>3,131</u>	<u>(3,131)</u>	<u>-</u>	<u>-</u>
Fund balance					
Beginning of year			<u>3,131</u>		
End of year			<u>-</u>		

CITY OF SOUTHPORT, NORTH CAROLINA
SAFE ROUTES TO SCHOOL SIDEWALKS PROJECT FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended June 30, 2014

EXHIBIT B-8

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Actual Current Year</u>	<u>Total To Date</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues					
Restricted Intergovernmental					
DOT Grant	125,000	-	34,720	34,720	(90,280)
Total revenues	125,000	-	34,720	34,720	(90,280)
Expenditures					
Transportation					
Sidewalk design and construction	125,000	-	34,720	34,720	90,280
Total expenditures	125,000	-	34,720	34,720	90,280
Excess of (under) revenues over expenditures	-	-	-	-	-
Other financing sources (uses)					
Transfers from other funds	-	-	-	-	-
Excess of revenues and other sources over expenditures	-	-	-	-	-
Fund balance					
Beginning of year			-		
End of year			-		

ENTERPRISE FUNDS

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

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

**CITY OF SOUTHPORT, NORTH CAROLINA
ELECTRIC FUND
SCHEDULE OF REVENUES, EXPENSES, AND
SUPPLEMENTAL BUDGET EXPENDITURES - BUDGET AND ACTUAL (NON-GAAP)
For the Year Ended June 30, 2014**

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

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues			
Operating revenues			
Charges for services			
Electricity sales	7,078,400	7,078,975	575
Underground service	150,000	169,604	19,604
Load management switches	3,300	3,399	99
Service charges	109,000	91,098	(17,902)
Total charges for services	7,340,700	7,343,076	2,376
Other operating revenues			
Miscellaneous	-	3,607	3,607
Total operating revenues	7,340,700	7,346,683	5,983
Nonoperating revenues			
Interest on investments	5,000	5,545	545
Total nonoperating revenues	5,000	5,545	545
Total revenues	7,345,700	7,352,228	6,528
Expenditures			
Expenditures other than depreciation			
Salaries	231,000	219,215	
Professional services	33,300	15,162	
Social security	17,700	18,612	
Group insurance	73,500	65,475	
Retirement	16,400	15,152	
401 (k) retirement supplement	11,600	11,252	
Unemployment expense	900	1,188	
Workers compensation insurance	1,400	10,160	
Uniforms and protective gear	1,000	1,103	
Telephone and postage	24,800	21,062	
Travel and training	3,200	3,585	

**CITY OF SOUTHPORT, NORTH CAROLINA
ELECTRIC FUND
SCHEDULE OF REVENUES, EXPENSES, AND
SUPPLEMENTAL BUDGET EXPENDITURES - BUDGET AND ACTUAL (NON-GAAP)
For the Year Ended June 30, 2014**

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

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Expenditures			
Expenditures other than depreciation			
Equipment maintenance	1,400	317	
Vehicle maintenance	1,000	987	
Gas, oil and tires	1,800	1,231	
Garage expense reimbursement	6,500	6,500	
Departmental supplies	7,400	28,314	
Utility sales tax	171,000	157,470	
Power purchased	5,821,400	5,627,911	
Contract maintenance	343,900	344,395	
Contract services	78,300	78,034	
Insurance and bonding	4,900	4,831	
Load management repairs	-	35,729	
Dues and subscriptions	5,900	5,165	-
Total expenditures other than depreciation	<u>6,858,300</u>	<u>6,672,850</u>	<u>185,450</u>
Supplemental budget expenditures			
Capital outlay	504,000	241,032	-
Total supplemental expenditures	<u>504,000</u>	<u>241,032</u>	<u>262,968</u>
Total expenditures	<u>7,362,300</u>	<u>6,913,882</u>	<u>448,418</u>
Excess of revenues over (under) expenditures	<u>(16,600)</u>	<u>438,346</u>	<u>454,946</u>
Other financing sources (uses)			
Appropriated fund balance	36,600	-	(36,600)
Transfers to other funds			
Capital Reserve Fund	(20,000)	(20,000)	-
Other financing sources over (under) uses	<u>16,600</u>	<u>(20,000)</u>	<u>(36,600)</u>
Revenues and other sources over expenditures and other uses	<u>-</u>	<u>418,346</u>	<u>418,346</u>

CITY OF SOUTHPORT, NORTH CAROLINA
ELECTRIC FUND
SCHEDULE OF REVENUES, EXPENSES, AND
SUPPLEMENTAL BUDGET EXPENDITURES - BUDGET AND ACTUAL (NON-GAAP)
For the Year Ended June 30, 2014

EXHIBIT C-1
Page 3 of 3

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Reconciliation of modified accrual basis to full accrual basis:			
Excess of revenues and other sources over (under) expenditures and other uses		418,346	
Depreciation		(234,611)	
Total supplemental budget expenditures		241,032	
(Increase) decrease in unfunded OPEB liability		(18,473)	
(Increase) decrease in accrued vacation		<u>(143)</u>	
Change in net position		<u><u>406,151</u></u>	

**CITY OF SOUTHPORT, NORTH CAROLINA
WATER AND SEWER FUND
SCHEDULE OF REVENUES, EXPENSES, AND
SUPPLEMENTAL BUDGET EXPENDITURES - BUDGET AND ACTUAL (NON-GAAP)
For the Year Ended June 30, 2014**

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

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues			
Operating revenues			
Charges for services			
Water and sewer services	2,258,000	2,143,854	(114,146)
Water and sewer tap fees	10,000	22,350	12,350
Total charges for services	2,268,000	2,166,204	(101,796)
Other operating revenues			
Miscellaneous	-	215	215
Total operating revenues	2,268,000	2,166,419	(101,581)
Nonoperating revenues			
Interest on investments	1,000	2,746	1,746
Shoreline protection grant	-	321,279	321,279
Impact fees	207,000	344,900	137,900
Total nonoperating revenues	208,000	668,925	460,925
Total revenues	2,476,000	2,835,344	359,344
Expenditures			
Expenditures other than depreciation			
Salaries	369,500	354,963	
Professional fees	60,300	9,845	
Social security	28,300	34,989	
Group insurance	87,500	86,131	
Retirement	26,200	30,249	
401 (k) retirement supplement	18,500	21,637	
Unemployment expense	900	6,425	
Workers compensation insurance	6,000	4,700	
Uniforms and protective gear	5,100	5,120	
Telephone and postage	29,500	27,085	
Utilities	61,500	38,367	
Travel and training	2,200	1,950	
System maintenance	37,000	35,647	

**CITY OF SOUTHPORT, NORTH CAROLINA
WATER AND SEWER FUND
SCHEDULE OF REVENUES, EXPENSES, AND
SUPPLEMENTAL BUDGET EXPENDITURES - BUDGET AND ACTUAL (NON-GAAP)
For the Year Ended June 30, 2014**

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

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Expenditures			
Expenditures other than depreciation			
Equipment repair	4,900	1,926	
Vehicle repair	2,500	1,149	
Garage expense	24,000	24,000	
Gas, oil and tires	8,500	8,991	
Water and sewer supplies	56,900	65,736	
Annual permits and fees	3,500	3,495	
Water purchases	460,000	462,485	
Sewer capital charge	350,000	332,191	
Contract services	424,700	417,113	
Coperative agreements	179,500	-	
Insurance and bonding	6,600	6,562	-
Contingency	152,400	-	-
	2,406,000	1,980,756	425,244
Total expenditures other than depreciation			
Supplemental budget expenditures			
Capital outlay	165,500	507,838	
Long-term debt payments	135,100	114,306	
Interest expense	20,000	19,993	-
	320,600	642,137	(321,537)
Total supplemental expenditures			
Total expenditures	2,726,600	2,622,893	103,707
Revenues over (under) expenditures	(250,600)	212,451	463,051
Other financing sources (uses)			
Fund balance appropriated	270,600	-	(270,600)
Transfer to other funds			
Transfer to Capital Reserve Fund	(20,000)	(20,000)	-
	250,600	(20,000)	(270,600)
Other financing sources over (under) uses			
Revenues and other sources over (under) expenditures and other uses	-	192,451	192,451

CITY OF SOUTHPORT, NORTH CAROLINA
WATER AND SEWER FUND
SCHEDULE OF REVENUES, EXPENSES, AND
SUPPLEMENTAL BUDGET EXPENDITURES - BUDGET AND ACTUAL (NON-GAAP)
For the Year Ended June 30, 2014

EXHIBIT C-2
Page 3 of 3

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Reconciliation of modified accrual basis to full accrual basis:			
Revenues and other sources over expenditures and other uses		192,451	
Total supplemental budget expenditures		642,137	
Depreciation		(387,105)	
(Increase) decrease in accrued vacation pay		5,374	
(Increase) decrease in interest payable		268	
(Increase) decrease in OPEB liability		(46,333)	
Interest expense included in debt payments		(19,993)	
Interest income recorded in capital projects		72	
Expenses recorded in capital projects		<u>(124)</u>	
 Change in net position of Water and Sewer Fund		 <u><u>386,747</u></u>	

CITY OF SOUTHPORT, NORTH CAROLINA
WASTEWATER SYSTEM ENHANCEMENT CAPITAL PROJECT PHASE II
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP)
For the Year Ended June 30, 2014

EXHIBIT C-3

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Actual Current Year</u>	<u>Total To Date</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues					
Restricted intergovernmental revenues					
Principal Forgiveness grant (ARRA)	-	702,347	-	702,347	702,347
Clean Water grant	<u>3,000,000</u>	<u>2,606,197</u>	<u>-</u>	<u>2,606,197</u>	<u>(393,803)</u>
Total restricted intergovernmental	<u>3,000,000</u>	<u>3,308,544</u>	<u>-</u>	<u>3,308,544</u>	<u>308,544</u>
Investment earnings					
Interest earned	<u>-</u>	<u>8,144</u>	<u>72</u>	<u>8,216</u>	<u>8,216</u>
Total revenues	<u>3,000,000</u>	<u>3,316,688</u>	<u>72</u>	<u>3,316,760</u>	<u>316,760</u>
Expenditures					
Professional services	959,945	788,589	-	788,589	171,356
Legal and administrative fees	56,985	152	124	276	56,709
Closing costs	-	-	-	-	-
Easement and land acquisition	43,070	5,000	-	5,000	38,070
Construction	3,203,995	3,104,109	-	3,104,109	99,886
Contingency	<u>140,700</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>140,700</u>
Total expenditures	<u>4,404,695</u>	<u>3,897,850</u>	<u>124</u>	<u>3,897,974</u>	<u>506,721</u>
Excess of (under) revenues over expenditures	<u>(1,404,695)</u>	<u>(581,162)</u>	<u>(52)</u>	<u>(581,214)</u>	<u>823,481</u>
Other financing sources (uses)					
Financing proceeds					
Federal Revolving Loan (ARRA)	<u>1,404,695</u>	<u>702,348</u>	<u>-</u>	<u>702,348</u>	<u>(702,347)</u>
Other financing sources over (under) uses	<u>1,404,695</u>	<u>702,348</u>	<u>-</u>	<u>702,348</u>	<u>(702,347)</u>
Excess of revenues and other sources over expenditures	<u>-</u>	<u>121,186</u>	<u>(52)</u>	<u>121,134</u>	<u>121,134</u>
Fund balance					
Beginning of year			<u>121,186</u>		
End of year			<u>121,134</u>		

OTHER SCHEDULES

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

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

**CITY OF SOUTHPORT, NORTH CAROLINA
SCHEDULE OF AD VALOREM TAXES RECEIVABLE
June 30, 2014**

EXHIBIT D-1

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2013</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2014</u>
2013 - 2014		1,797,347	1,718,172	79,175
2012 - 2013	95,658		46,807	48,851
2011 - 2012	54,114		19,539	34,575
2010 - 2011	36,595		1,462	35,133
2009 - 2010	18,298		1,363	16,935
2008 - 2009	7,910		221	7,689
2007 - 2008	4,544		185	4,359
2006 - 2007	2,962		84	2,878
2005 - 2006	2,659		26	2,633
2004 - 2005	2,765		1	2,764
2003 - 2004	<u>2,375</u>	<u>-</u>	<u>2,375</u>	<u>-</u>
Total	<u>227,880</u>	<u>1,797,347</u>	<u>1,790,235</u>	<u>234,992</u>
Less allowance for uncollectible taxes receivable				<u>35,269</u>
Ad Valorem taxes receivable - net				<u>199,723</u>
Reconcilement with revenues				
Taxes - ad valorem - General Fund				1,780,678
Amounts written off for tax year				
2003 - 2004 per statute of limitations				2,375
Releases and adjustments				<u>21,028</u>
Subtotal				1,804,081
Less: Interest collected				<u>13,846</u>
Total collections and credits				<u>1,790,235</u>

**CITY OF SOUTHPORT, NORTH CAROLINA
ANALYSIS OF CURRENT TAX LEVY
CITY-WIDE LEVY
June 30, 2014**

EXHIBIT D-2

	City-Wide			Total Levy	
	<u>Property Valuation</u>	<u>Rate</u>	<u>Total Levy</u>	<u>Property Excluding Registered Motor Vehicles</u>	<u>Registered Motor Vehicles</u>
Original Levy:					
Property taxed at current rate	731,953,990	0.002456	1,797,679	1,704,775	92,904
Total	731,953,990		1,797,679	1,704,775	92,904
Discoveries					
Current year taxes	2,721,498	0.002456	6,684	6,403	281
Penalties			760	760	
Abatements	(3,166,124)	0.002456	(7,776)	(7,040)	(736)
Total valuation	<u>731,509,365</u>				
Net levy			1,797,347	1,704,898	92,449
Uncollected taxes at June 30, 2014			79,175	76,385	2,790
Current year's taxes collected			1,718,172	1,628,513	89,659
Current levy collection percentage			95.59%	95.52%	96.98%

SUPPLEMENTARY INFORMATION:

COMPLIANCE SECTION

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

INDEPENDENT AUDITORS' REPORT

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

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Southport, North Carolina, as of and for the year ended June 30, 2014, which collectively comprises the City of Southport's basic financial statements, and have issued our report thereon, dated January 14, 2015. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the Town of Southport Board of Alcoholic Control were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

Management of the City of Southport is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Southport's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Southport's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiency described in the accompanying schedule of findings and questioned costs to be material weaknesses: 14-1, 14-2 and 14-3.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency described in the accompany schedule of findings and questioned cost to be significant deficiencies: 14-4.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weakness have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Southport's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. Those items are described in the accompanying schedule of findings and questioned cost: 14-1, 14-2, 14-3 and 14-4. We noted certain other matters that we reported to management of the City of Southport in a separate letter dated January 14, 2015.

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

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

Berry Padgett & Chandler, PLLC
Certified Public Accountants

Southport, North Carolina
January 14, 2015

**City of Southport, North Carolina
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2014**

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness identified? Xyes _no

- Significant Deficiencies identified that are not considered to be material weaknesses Xyes _no

- Noncompliance material to financial statements noted _yes Xno

II. Financial Statement Findings

MATERIAL WEAKNESS

Finding 14-1 Excess Expenditures over Appropriations

Criteria: NC General Statute 159-8(b) requires expenditures not exceed budgeted appropriations.

Condition: Expenditures in the City's General Fund exceeded the authorized appropriation made in the Administration Department, 1029 North Howe Street Building Department Fire Department, Street Department, and Solid Waste Department in the General Fund and for Capital Outlay in the Water and Sewer Fund.

Effect: Violation of state statute in those expenditures exceeds those appropriated by the board.

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

Recommendation: Expenditures are recorded timely and pre-audit procedures are followed to allow timely amendment of the budget.

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

Finding 14-2 Bank Accounts not Reconciled

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

Condition: All bank accounts were not reconciled every month.

Effect: Certain disbursements were not recorded timely and ultimately caused over-expenditure of some budget appropriations.

Cause: Failure to follow and enforce City policy.

**City of Southport, North Carolina
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2014**

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

Recommendation: Reconcile bank accounts timely and present to the board and management with the monthly reports.

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

Finding 14-3 Recording of Grant Receipts

Criteria: Under terms of the grant, the City was responsible for complying with the Single Audit Act and other audit requirements. Those requirements require the recording of grants in the general ledger.

Condition: The City only recorded the City's portion of the grant in the records of the City and not the federal portion.

Effect: The total grant costs were understated

Cause: Grant administration failed to record the federal portion of the grant in the general ledger.

Recommendation: Grant administration be aware of entire grant and requirements thereof.

View of responsible officials and planned corrective action: The City agrees with the finding and will monitor all grants provisions.

SIGNIFICANT DEFICIENCIES

Finding 14-4 Annual Settlement of the Tax Collector

Criteria: NC General Statute 105-373 requires an Annual Settlement of Tax Collector to the governing board of the taxing unit after July 1 and before being charged with the taxes for the current year.

Condition: The Annual Settlement of the Tax Collector was not provided to the board until January 2015.

Effect: The tax collector was not released of responsibility for the prior year taxes and full disclosure of amounts collected and uncollected was not made.

Cause: Tax Collector not aware of requirement.

Recommendation: That Tax Collector be made aware of the General Statute Requirements.

View of responsible officials and planned corrective action. The City agrees with the finding and will provide additional training to the tax collector.

**City of Southport, North Carolina
Corrective Action Plan
For the Year Ended June 30, 2014**

Exhibit E-2

I. Financial Statement Findings

Finding 14-1

Name of contact person: Melanie Trexler

Corrective Action: Additional emphasis will be given to budget appropriations by department during the pre-audit process to determine the ability to purchase and the need to inform the board of needed budget amendments.

Proposed completion date: June 30, 2015

Finding 14-2

Name of contact person: Melanie Trexler

Corrective Action: Bank accounts will be reconciled timely and provided to the board and management.

Proposed completion date: June 30, 2015

Finding 14-3

Name of contact person: Melanie Trexler

Corrective Action: Conditions of grant provisions will be reviewed and necessary recording will be made to the City's general ledger.

Proposed completion date: June 30, 2015

Finding 14-4

Name of contact person: Melanie Trexler

Corrective Action: The Tax Collector will be provided with the addition training needed.

Proposed completion date: June 30, 2015

**City Of Southport, North Carolina
Summary Schedule of Prior Year Findings
For the Year Ended June 30, 2014**

Exhibit E-3

Finding: 2013-1

Status: The condition continues.

Finding: 2013-2

Status: The condition has been corrected by exemption from S.L. 2002-129 to create a TDA.