

VILLAGE OF BALD HEAD ISLAND, NORTH CAROLINA

AUDITED FINANCIAL STATEMENTS

June 30, 2016

Village Council Members

J. Andrew Sayre, Mayor  
Kit Adcock, Mayor Pro Tempore  
Joe Ridgeway  
John Pitera  
John May

Administrative and Financial Staff

Chris McCall, Village Manager  
Virginia Cummings, Finance Director  
Daralyn Spivey, Tax Administrator

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Financial Section

## Independent Auditor's Report

To the Honorable Mayor and Members  
of the Village Council  
Village of Bald Head Island  
Bald Head Island, North Carolina 28461

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Bald Head Island, North Carolina, as of and for the year ended June 30, 2016 and the related notes to the financial statements, which collectively comprise the Village of Bald Head Island'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 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 *Governmental 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.

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 to 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 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, each major fund, and the aggregate remaining fund information of the Village of Bald Head Island, North Carolina as of June 30, 2016, 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 Management's Discussion and Analysis, the Law Enforcement Officers' Special Separation Allowance Schedule of Funding Progress and Employer Contributions and the Local Government Employees' Retirement System's Schedule of the Proportionate Share of the Net Pension Asset and Contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's response 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*

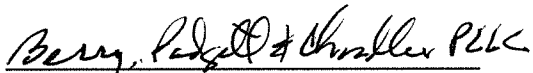
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Village of Bald Head Island, North Carolina. The introductory information, combining and individual nonmajor fund financial statements, budgetary schedules and other schedules, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor 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. In our opinion, based on our audit, the procedures performed as described above, the combining and individual fund financial statements, budgetary schedules and other schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory information has not been subjected to the auditing procedures applied in the audit of basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

*Other Reporting Required by Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated November 14, 2016 on our consideration of the Village of Bald Head Island's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that 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 the Village of Bald Head Island's internal control over financial reporting and compliance.

  
Berry, Pedge & Chandler PLLC  
Certified Public Accountants

November 14, 2016

## Management's Discussion and Analysis



## Management's Discussion and Analysis

As management of the Village of Bald Head Island, North Carolina, we offer readers of the Village of Bald Head Island's financial statements this narrative overview and analysis of the financial activities of the Village of Bald Head Island for the fiscal year ended June 30, 2016. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Village's financial statements, which follow this narrative.

### Financial Highlights

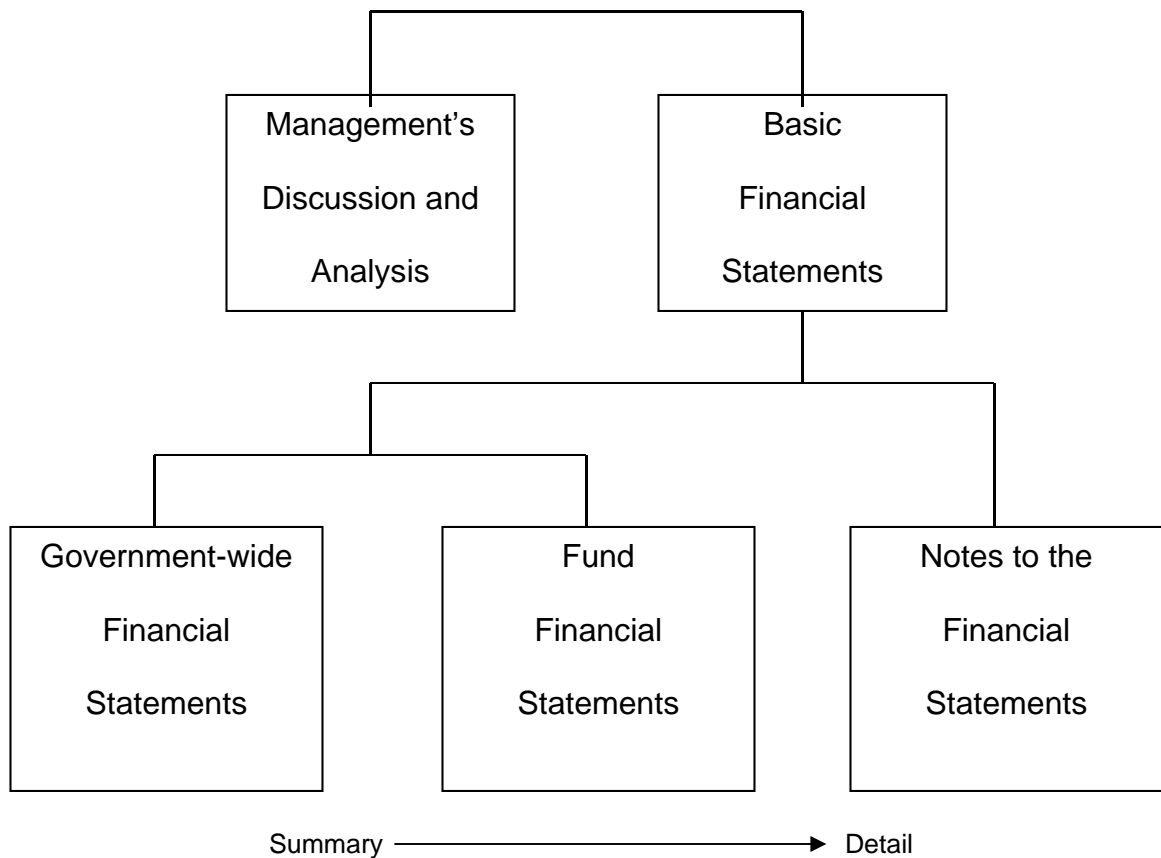
- The assets and deferred outflows of resources of the Village of Bald Head Island *exceeded* its liabilities and deferred inflows of resources at the close of the fiscal year by \$29,932,422 (*net position*).
- The government's total net position *increased* by \$5,927,638 primarily due to the decrease in operating expenditures and increase in capital assets.
- As of the close of the current fiscal year, the Village of Bald Head Island's governmental funds reported combined ending fund balances of \$10,215,529, a decrease of \$1,662,370 in comparison with the prior year. Approximately 56% percent of this total amount or \$5,723,122 is available for spending at the government's direction (*assigned and unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$5,723,122 which is an increase of \$539,788.
- The Village of Bald Head Island's total debt decreased by \$156,206 (1.2%) during the current fiscal year. The final payment on the 2009 GO Taxable Bond was made as well as the final payment on the Battery 4 installment loan with BHI Limited.

### Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to Village of Bald Head Island's basic financial statements. The Village'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 Village 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 Village of Bald Head Island.

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

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

### Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the Village'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 Village's financial status as a whole.

The two government-wide statements report the Village's net position and how it has changed. Net position is the difference between the Village'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 Village's financial condition.

The government-wide statements are divided into two categories: 1) governmental activities; and 2) business-type activities. The governmental activities include most of the Village's basic services such as public safety, economic and physical development, and general administration. Property taxes, intergovernmental revenues and charges for services financially support most of these activities. The business-type activities are those that the Village charges customers to provide. This type includes the water and sewer services offered by the Village.

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 Village'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 Village of Bald Head Island like all other governmental entities in North Carolina, use fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the Village's budget ordinance. All of the funds of the Village of Bald Head Island 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 Village's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* that 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 Village'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 Village of Bald Head Island 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 Village, the management of the Village, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the Village to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the Village complied with the budget ordinance and whether or not the Village 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 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 Village of Bald Head Island has one proprietary fund, the enterprise fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Village of Bald Head Island uses the enterprise fund to account for its water and sewer activity. This fund is 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 on Exhibit 9 of this report.

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

**Interdependence with Other Entities** – The Village depends on financial resources flowing from, or associated with, both the Federal Government and the State of North Carolina. Because of this dependency, the Village 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.

## Government-Wide Financial Analysis

**The Village of Bald Head Island's Net Position**  
**Figure 2**

	Government Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 10,700,761	\$ 14,008,860	\$ 2,756,390	\$ 1,573,303	\$ 13,457,151	\$ 15,582,163
Capital assets	18,222,812	12,709,160	11,644,505	10,767,889	29,867,317	23,477,049
Deferred outflows of resources	173,095	157,584	31,781	31,885	204,876	189,469
<b>Total assets and deferred outflows of resources</b>	<b>29,096,668</b>	<b>26,875,604</b>	<b>14,432,676</b>	<b>12,373,077</b>	<b>43,529,344</b>	<b>39,248,681</b>
Long term liabilities outstanding	8,556,587	9,631,867	3,875,222	2,956,148	12,431,809	12,588,015
Other liabilities	355,989	1,702,708	560,151	89,457	916,140	1,792,165
Deferred inflows of resources	152,460	690,816	105,513	181,901	257,973	872,717
<b>Total liabilities and deferred inflows of resources</b>	<b>9,065,036</b>	<b>12,025,391</b>	<b>4,540,886</b>	<b>3,227,506</b>	<b>13,605,922</b>	<b>15,252,897</b>
<b>Net position:</b>						
Net Investment Capital Assets	10,177,208	4,044,160	7,838,373	7,845,435	18,015,581	11,889,595
Restricted	3,956,826	6,908,977	619,540	291,892	4,576,366	7,200,869
Unrestricted	5,897,598	3,897,076	1,433,877	1,008,244	7,331,475	4,905,320
<b>Total net position</b>	<b>\$ 20,031,632</b>	<b>\$ 14,850,213</b>	<b>\$ 9,891,790</b>	<b>\$ 9,145,571</b>	<b>\$ 29,923,422</b>	<b>\$ 23,995,784</b>

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 Village of Bald Head Island exceeded liabilities and deferred inflows by \$29,923,422 as of June 30, 2016. The Village's net position *increased* by \$5,927,638 for the fiscal year ended June 30, 2016. However, the largest portion \$18,015,581 (60.2%) reflects the Village's net investment in capital assets (e.g. land, buildings, machinery, and equipment). The Village of Bald Head Island uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Village of Bald Head Island'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 liquidate these liabilities. An additional portion of the Village of Bald Head Island's net position of \$4,576,366 represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$7,331,475 is unrestricted.

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

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 99.19%, which is comparable to the statewide average of 98.87% in fiscal year 2014.
- Sale of Assets, in particular a sale of land for \$1.5 million dollars.

**Village of Bald Head Island Changes in Net Position  
Figure 3**

	Government Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
<b>Revenues</b>						
Program Revenues:						
Charges for services	791,740	401,416	2,243,494	2,084,684	3,035,234	2,486,100
Operating grants and contributions	1,236,770	216,449		19,201	1,236,770	235,650
Capital grants and contributions	28,297	38,482	185,776	106,100	214,073	144,582
General revenues						
Property taxes	7,667,389	7,806,332			7,667,389	7,806,332
Other taxes & licenses	1,551,485	1,490,853			1,551,485	1,490,853
Unrestricted investment earnings	6,178	7,099	6,004	567	12,182	7,666
Other	9,170	33,463	5,100	10,989	14,270	44,452
<b>TOTAL Revenues</b>	<b>11,291,029</b>	<b>9,994,094</b>	<b>2,440,374</b>	<b>2,221,541</b>	<b>13,731,403</b>	<b>12,215,635</b>
<b>Expenses:</b>						
General government	2,138,491	1,593,601			2,138,491	1,593,601
Public Safety	2,385,728	2,074,821			2,385,728	2,074,821
Transportation	86,193	-			86,193	-
Environmental protection	1,356,895	1,198,915			1,356,895	1,198,915
Economic & physical development	635,465	683,378			635,465	683,378
Interest on long term debt	194,193	195,603			194,193	195,603
Water & Sewer			1,722,505	1,659,121	1,722,505	1,659,121
<b>TOTAL Expenses</b>	<b>6,796,965</b>	<b>5,746,318</b>	<b>1,722,505</b>	<b>1,659,121</b>	<b>8,519,470</b>	<b>7,405,439</b>
Increase in net position before transfers and special items	4,494,064	4,247,776	717,869	562,420	5,211,933	4,810,196
Special item – gain (loss) on sale of assets	715,705				715,705	
Transfers	(28,350)	(30,000)	28,350	30,000		
Increase in net position	5,181,419	4,217,776	746,219	592,420	5,927,638	4,810,196
Net position, July 1 (Consolidated)	14,850,213	11,050,197	9,145,571	8,639,750	23,995,784	19,689,947
Net position, beginning restated		10,632,437		8,553,151		19,185,588
Net position, June 30	20,031,632	14,850,213	9,891,790	9,145,571	29,923,422	23,995,784

**Governmental activities.** Governmental activities increased the Village's net position by \$5,181,419 due to monitoring and maintaining department expenses while increasing capital assets.

**Business-type activities.** Business-type activities increased the Village's net position by \$746,219. Key elements of this increase are improvements to the wastewater system and the potable well construction.

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

As noted earlier, the Village of Bald Head Island uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

The general fund is the chief operating fund of the Village of Bald Head Island. At the end of the current fiscal year, Village of Bald Head's fund balance available in the General Fund was \$5,723,122 while total fund balance reached \$6,379,861. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. The Village currently has an available fund balance of 49.9% of general fund expenditures, while total fund balance represents 55.6% of the same amount.

At June 30, 2016, the governmental funds of Village of Bald Head Island reported a combined fund balance of \$10,215,529 a 14.0 percent decrease over last year. This decrease is due to the construction and payment for the Terminal Groin Project and Marina Jetties Project.

**General Fund Budgetary Highlights:** During the fiscal year, the Village 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 loan proceeds, federal and state grants; and 3) increases in appropriations that become necessary to maintain services.

Revenues were more than the budgeted amounts primarily due to greater than anticipated property tax collections, intergovernmental revenues and an increase in the sale of capital assets (land). Expenditures were less than budgeted due to a priority being placed on fiscal responsibility by Village staff.

**Proprietary Funds.** The Village of Bald Head Island'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 \$1,433,877. The total change in net position for the fund was an increase of \$746,219. The change in net position in the Water and Sewer Fund is a result of keeping expenditures in check to comply with budgetary requirements.

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

**Capital Assets.** The Village of Bald Head Island's investment in capital assets for its governmental and business-type activities as of June 30, 2016, totals \$29,867,317 (net of accumulated depreciation). These assets include buildings, roads and bridges, land, machinery and equipment, the water and sewer system, and vehicles.

**Village of Bald Head Island's Capital Assets  
(Net of depreciation)  
Figure 4**

	Government Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	4,148,723	1,894,558	35,000	35,000	4,183,723	1,929,558
Buildings	1,715,840	1,707,650	619,910	606,204	2,335,750	2,313,854
Other Improvements	524,144	378,296			524,144	378,296
Utility Systems			9,506,602	9,583,247	9,506,602	9,583,247
Furniture and equipment	171,472	142,536	98,438	110,632	269,910	253,168
Infrastructure	10,796,621	2,473,749			10,796,621	2,473,749
Vehicles and motorized equipment	382,366	256,761	52,853	12,401	435,219	269,162
Construction in progress	483,646	5,855,610	1,331,702	420,405	1,815,348	6,276,015
<b>TOTAL</b>	<b>18,222,812</b>	<b>12,709,160</b>	<b>11,644,505</b>	<b>10,767,889</b>	<b>29,867,317</b>	<b>23,477,049</b>

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

**Long-term Debt.** As of June 30, 2016, the Village of Bald Head Island had total long-term debt of \$12,431,809. Of this, \$3,806,132 is an Installment Note with PNC secured by a Deed of Trust on the water and sewer system. Proceeds from this financing were used to refinance existing debt and to fund the refurbishing of the wastewater treatment plant. \$7,050,604 is a debt service for a general obligation bond privately placed with PNC Bank in 2014 with a rate of 1.95% for five years. Proceeds were used to fund the Terminal Groin, Marina Jetties project, and various Shoreline projects.

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for Village of Bald Head Island is \$87,353,720.

Additional information regarding the Village of Bald Head Island's long-term debt can be found in note III.B.5 of this report.

**Economic Factors and Next Year's Budgets and Rates.** All indicators point to continuous growth in accommodations taxes due to the strong and flourishing housing market. This market will also continue to increase revenue in the Water and Sewer services with the increase in homes.

**Budget Highlights for the Fiscal Year Ending June 30, 2017**

**Governmental Activities:** Property taxes and accommodation taxes are expected to lead the increase in budgeted revenue. The Village will use these increases in revenues to finance programs currently in place as well as the debt service.



The Village will also invest in an \$8 million dollar installment loan to be paid off over 10 years to fund the new Public Safety Complex construction project that is expected to begin in the winter of 2016.

**Business-type Activities.** A rate study of the water and sewer systems was performed in November 2012. The rate study was approved by Village Council and recommends annual increases to keep up with inflation. There is a 3% annual rate increase in this budget year. It is expected that this increase will result in cash flows from operations sufficient to cover the cash flows necessary to provide water and sewer service to our customers and the related debt service payments for the existing loan to cover the capital improvements made for the waste water treatment plant. The utilities department is continuing with improvements that will result in re-use quality effluent from our waste water treatment facility. The process improvements and additions will improve the quality of the effluent. The Village is working closely with the Bald Head Island golf course to use all of the re-use quality effluent for irrigation. These upgrades to our discharge capacity will allow for a future expansion of the plant to levels which should fully meet build out demands for the Island.

### **Requests for Information**

This report is designed to provide an overview of the Village's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be addressed to the Village of Bald Head Island, Office of the Finance Director, P.O. Box 3009, Bald Head Island, NC 28461. One can also call (910) 457-9700, visit our website [www.villagebhi.org](http://www.villagebhi.org) or send an email to [vcummings@villagebhi.org](mailto:vcummings@villagebhi.org) for more information.

## Basic Financial Statements

**VILLAGE OF BALD HEAD ISLAND**  
**STATEMENT OF NET POSITION**  
**June 30, 2016**

Exhibit 1

	<b>Primary Government</b>		<b>Total</b>
	<b><u>Governmental</u></b> <b><u>Activities</u></b>	<b><u>Business-type</u></b> <b><u>Activities</u></b>	
<b>ASSETS</b>			
Current assets			
Cash and equivalents	5,473,125	1,420,304	6,893,429
Investments	758,060	281,638	1,039,698
Taxes receivable (net)	138,015	-	138,015
Accrued interest receivable on taxes	26,646	-	26,646
Accounts receivable	-	193,516	193,516
Due from other governmental agencies	335,481	33,837	369,318
Inventories	11,707	205,055	216,762
Prepaid expenses	7,500	2,500	10,000
Restricted assets			
Restricted cash and cash equivalents	3,473,158	619,540	4,092,698
Restricted investments	477,069	-	477,069
Total current assets	<u>10,700,761</u>	<u>2,756,390</u>	<u>13,457,151</u>
Non-current assets			
Capital assets			
Land and improvements not being depreciated	4,632,369	1,366,702	5,999,071
Other capital assets, net of depreciation	13,590,443	10,277,803	23,868,246
Total capital assets	<u>18,222,812</u>	<u>11,644,505</u>	<u>29,867,317</u>
Total non-current assets	<u>18,222,812</u>	<u>11,644,505</u>	<u>29,867,317</u>
Total assets	<u>28,923,573</u>	<u>14,400,895</u>	<u>43,324,468</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension deferrals	173,095	31,781	204,876
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	237,522	502,084	739,606
Accrued interest	35,418	14,791	50,209
Due to other governmental agencies	46,818	-	46,818
Customer deposits	17,850	-	17,850
Payable from restricted assets	18,381	43,276	61,657
Long-term liabilities			
Due within one year	2,413,384	802,657	3,216,041
Total current liabilities	<u>2,769,373</u>	<u>1,362,808</u>	<u>4,132,181</u>
Long-term liabilities			
Net pension liability	207,411	32,065	239,476
Due in more than one year	5,935,792	3,040,500	8,976,292
Total liabilities	<u>8,912,576</u>	<u>4,435,373</u>	<u>13,347,949</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Pension deferrals	152,460	40,540	193,000
Unearned income	-	64,973	64,973
Total deferred inflows of resources	<u>152,460</u>	<u>105,513</u>	<u>257,973</u>
<b>NET POSITION</b>			
Net investment in capital assets	10,177,208	7,838,373	18,015,581
Restricted for:			
Stabilization by State Statute	340,181		340,181
Economic Development	3,616,645		3,616,645
Capital Outlay		619,540	619,540
Unrestricted	5,897,598	1,433,877	7,331,475
Total net position	<u>20,031,632</u>	<u>9,891,790</u>	<u>29,923,422</u>

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

**VILLAGE OF BALD HEAD ISLAND  
STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2016**

Exhibit 2

<b>Functions/Programs</b>	<b>Program Revenue</b>				<b>Net (Expense) Revenue and Changes in Net Position</b>		
	<b>Expenses</b>	<b>Operating Grants</b>		<b>Capital Grants</b>	<b>Primary Government</b>		
		<b>Charges for Services</b>	<b>and Contributions</b>	<b>and Contributions</b>	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>Primary government</b>							
Governmental activities							
General Government	2,138,491	355,888	-	2,795	(1,779,808)		(1,779,808)
Public Safety	2,385,728	435,852	254,425	-	(1,695,451)		(1,695,451)
Transportation	86,193	-	44,779	-	(41,414)		(41,414)
Environmental protection	1,356,895	-	1,711	25,502	(1,329,682)		(1,329,682)
Economic and Physical Development	635,465	-	935,855	-	300,390		300,390
Interest on Long-term deb	194,193	-	-	-	(194,193)		(194,193)
Total governmental activities	<u>6,796,965</u>	<u>791,740</u>	<u>1,236,770</u>	<u>28,297</u>	<u>(4,740,158)</u>		<u>(4,740,158)</u>
Business-type activities							
Water and Sewer Operations	1,722,505	2,243,494	-	185,776		706,765	706,765
Total business-type activities	<u>1,722,505</u>	<u>2,243,494</u>	<u>-</u>	<u>185,776</u>		<u>706,765</u>	<u>706,765</u>
Total primary government	<u>8,519,470</u>	<u>3,035,234</u>	<u>1,236,770</u>	<u>214,073</u>	<u>(4,740,158)</u>	<u>706,765</u>	<u>(4,033,393)</u>
<b>General revenues:</b>							
Taxes:							
Property taxes, levied for general purposes					7,667,389	-	7,667,389
Other taxes					1,551,485	-	1,551,485
Unrestricted investment earnings					6,178	6,004	12,182
Miscellaneous					9,170	5,100	14,270
Total general revenue:					<u>9,234,222</u>	<u>11,104</u>	<u>9,245,326</u>
Special item - gain (loss) on sale of asse					715,705	-	715,705
Transfers					(28,350)	28,350	-
Total general revenues and transfer					<u>9,921,577</u>	<u>39,454</u>	<u>9,961,031</u>
Change in net position					<u>5,181,419</u>	<u>746,219</u>	<u>5,927,638</u>
Net position, beginning					<u>14,850,213</u>	<u>9,145,571</u>	<u>23,995,784</u>
Net position - ending					<u>20,031,632</u>	<u>9,891,790</u>	<u>29,923,422</u>

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

**VILLAGE OF BALD HEAD ISLAND  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2016**

	<u>Major Funds</u>		<u>Non-Major Fund</u>	<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Beach Stabilization Fund</u>	<u>Village Facilities Improvement Fund</u>	
<b>ASSETS</b>				
Cash and cash equivalents	5,296,064	3,194,031	177,061	8,667,156
Restricted cash	279,127			279,127
Investments	716,098	440,995	41,962	1,199,055
Restricted investments	36,074			36,074
Taxes receivable, net	138,015	-	-	138,015
Receivable from other governments	335,481	-	-	335,481
Prepaid expenses	7,500			7,500
Inventory	11,707		-	11,707
Total assets	<u>6,820,066</u>	<u>3,635,026</u>	<u>219,023</u>	<u>10,674,115</u>
<b>LIABILITIES</b>				
Liabilities:				
Accounts payable and accrued liabilities	237,522	18,381	-	255,903
Payable to other governments	46,818	-	-	46,818
Deposits	17,850	-		17,850
Total liabilities	<u>302,190</u>	<u>18,381</u>	<u>-</u>	<u>320,571</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Property taxes receivable	138,015	-	-	138,015
Total deferred inflows of resources	<u>138,015</u>	<u>-</u>	<u>-</u>	<u>138,015</u>
<b>FUND BALANCES</b>				
Non Spendable				
Prepaid expenses	7,500			7,500
Inventories	11,707			11,707
Restricted				
Stabilization by State Statute	340,181	-	-	340,181
Economic Development	297,351	3,616,645	219,023	4,133,019
Unassigned	5,723,122			5,723,122
Total fund balances	<u>6,379,861</u>	<u>3,616,645</u>	<u>219,023</u>	<u>10,215,529</u>
Total liabilities, deferred inflows of resources and fund balances:	<u>6,820,066</u>	<u>3,635,026</u>	<u>219,023</u>	<u>10,674,115</u>

**VILLAGE OF BALD HEAD ISLAND**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET POSITION**  
**June 30, 2016**

Exhibit 3  
Page 2 of 2

Total fund balance, governmental funds		10,215,529
--	--	------------

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.		18,222,812
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Deferred outflows of resources related to pensions are not reported in the funds		173,095
--	--	---------

Other long-term assets (accrued interest receivable from taxes) are not available to pay current period expenditures and therefore are inflows of resources in the funds.		26,646
---	--	--------

Liabilities for earned revenues considered deferred inflows of resources in the fund statements.		138,015
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Some liabilities, (such as notes payable, capital lease contract payable, long-term compensated absences, and bonds payable ), 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.

Gross long-term debt	(8,349,176)		
Net pension liability	<u>(207,411)</u>	(8,556,587)	

Deferred inflows of resources related to pensions are not reported in the funds		(152,460)
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Other long-term liabilities (accrued interest) are not due and payable in the current period and therefore are not reported in the funds.		<u>(35,418)</u>
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Net position of governmental activities		<u><u>20,031,632</u></u>
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The accompanying notes are an integral part of the financial statements.

**VILLAGE OF BALD HEAD ISLAND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE:**  
**GOVERNMENTAL FUNDS**  
**For the Year Ended June 30, 2016**

	<u>Major Funds</u>		<u>Non-Major Fund</u>	<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Beach Stabilization Fund</u>	<u>Village Facilities Improvement Fund</u>	
<b>REVENUES</b>				
Property taxes	7,672,569	-	-	7,672,569
Other taxes	1,071,880	-	-	1,071,880
Unrestricted intergovernmental revenue	483,998	-	-	483,998
Restricted intergovernmental revenue	303,710	-	-	303,710
Licenses and permits	427,700	-	-	427,700
Sales and services	1,896,703	-	-	1,896,703
Investment earnings:	3,295	2,831	52	6,178
Miscellaneous	12,729	935,855	-	948,584
Total revenues:	<u>11,872,584</u>	<u>938,686</u>	<u>52</u>	<u>12,811,322</u>
<b>EXPENDITURES</b>				
Current:				
General government	3,670,336	-	4,125	3,674,461
Public safety	3,436,804	-	151,335	3,588,139
Transportation	86,193	-	-	86,193
Environmental protection	1,238,263	-	-	1,238,263
Economic and physical development	544,040	3,817,795	-	4,361,835
Debt Service:				
Principal	2,324,471	-	-	2,324,471
Interest and other charges	166,980	-	-	166,980
Total expenditures:	<u>11,467,087</u>	<u>3,817,795</u>	<u>155,460</u>	<u>15,440,342</u>
Excess (deficiency) of revenues over expenditure	<u>405,497</u>	<u>(2,879,109)</u>	<u>(155,408)</u>	<u>(2,629,020)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from long-term debt, net	995,000	-	-	995,000
Transfers in	-	288,062	373,998	662,060
Transfers out	(690,410)	-	-	(690,410)
Total other financing sources and uses:	<u>304,590</u>	<u>288,062</u>	<u>373,998</u>	<u>966,650</u>
Net change in fund balances:	710,087	(2,591,047)	218,590	(1,662,370)
Fund balances - beginning	5,669,774	6,207,692	433	11,877,899
Fund balances - ending	<u>6,379,861</u>	<u>3,616,645</u>	<u>219,023</u>	<u>10,215,529</u>

**VILLAGE OF BALD HEAD ISLAND**  
**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES OF GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES**  
**For the Year Ended June 30, 2016**

Net change in fund balances - total governmental funds: (1,662,370)

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.

Capital outlay	6,691,083
Depreciation	(378,023)

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 position differs from the change in fund balance by the cost of the asset sold.

(824,910)

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

173,095

Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the statement of activities when earned.

Amount of donated assets	25,502
Change in unavailable revenue for tax revenues	(6,268)
Increase in interest receivable on property taxes	1,088

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

New long-term debt issued	(995,000)
Principal payments on long-term debt	2,324,471

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 not reflected on governmental funds	(27,213)
Compensated absences	(26,017)
Pension expense	(93,256)
Net pension obligation (LEO)	(20,763)

Change in net position of governmental activities

5,181,419



**VILLAGE OF BALD HEAD ISLAND**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
**GENERAL FUND**  
**For the Year Ended June 30, 2016**

Exhibit 5

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Ad valorem taxes	7,548,334	7,548,334	7,672,569	124,235
Other taxes	1,078,204	1,078,204	1,071,880	(6,324)
Unrestricted intergovernmental revenues	235,900	235,900	483,998	248,098
Restricted intergovernmental revenues	158,478	233,478	303,710	70,232
Licenses and permits	292,675	292,675	427,700	135,025
Sales and services	107,650	1,646,916	1,896,703	249,787
Investment earnings	8,500	8,500	3,012	(5,488)
Miscellaneous	9,000	9,000	12,729	3,729
Total revenues	9,438,741	11,053,007	11,872,301	819,294
<b>EXPENDITURES</b>				
Current:				
General government	1,800,650	3,724,297	3,670,336	53,961
Public safety	2,439,881	3,472,457	3,436,804	35,653
Transportation	86,593	86,593	86,193	400
Environmental protection	1,212,350	1,245,818	1,238,263	7,555
Economic and physical development	535,757	553,894	496,836	57,058
Debt Service:				
Principal	2,340,614	2,340,614	2,324,471	16,143
Interest and other charges	203,446	203,446	166,980	36,466
Contingency	406,100	406,100	-	406,100
Total expenditures	9,025,391	12,033,219	11,419,883	613,336
Excess (deficiency) of revenues over expenditures	413,350	(980,212)	452,418	1,432,630
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	(413,350)	(947,838)	(990,410)	42,572
Total other financing sources and uses	(413,350)	47,162	4,590	42,572
Fund balance appropriated	-	933,050	-	933,050
Net change in fund balances:	-	-	457,008	(457,008)
Fund balances - beginning			5,625,502	
Fund balances - ending			6,082,510	
Legally budgeted Stormwater Management Fund is consolidated into the General Fund for reporting purposes:				
Interest Income			283	
Expenditures			(47,204)	
Other sources			300,000	
Fund balances - beginning			44,272	
Fund balances - ending (Exhibit 4)			6,379,861	

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

**VILLAGE OF BALD HEAD ISLAND  
STATEMENT OF FUND NET POSITION  
PROPRIETARY FUNDS  
June 30, 2016**

Exhibit 6

	<b>Enterprise Funds</b>	
	<b><u>Water and Sewer Fund</u></b>	<b><u>Total</u></b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	1,420,304	1,420,304
Investments	281,638	281,638
Accounts receivable, net	193,516	193,516
Receivables from other governments	33,837	33,837
Inventories	205,055	205,055
Prepaid expenses	2,500	2,500
Restricted assets		
Cash and cash equivalents	619,540	619,540
Total current assets	2,756,390	2,756,390
Non-current assets:		
Capital assets:		
Land and construction in progress	1,366,702	1,366,702
Other capital assets, net of depreciation	10,277,803	10,277,803
Total capital assets	11,644,505	11,644,505
Total non-current assets	11,644,505	11,644,505
Total assets	14,400,895	14,400,895
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Contributions to pension plan	31,781	31,781
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	489,093	489,093
Salaries payable	12,991	12,991
Compensated absences - current	30,000	30,000
Bonds, notes and loans payable - current	772,657	772,657
Total current liabilities	1,362,808	1,362,808
Non-current liabilities:		
Compensated absences	7,025	7,025
Bonds, notes and loans payable	3,033,475	3,033,475
Total non-current liabilities	3,072,565	3,072,565
Total liabilities	4,435,373	4,435,373
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Pension deferrals	40,540	40,540
Unearned income	64,973	64,973
Total deferred inflows of resources	105,513	105,513
<b>NET POSITION</b>		
Net investment in capital assets	7,838,373	7,838,373
Restricted for capital outlay	619,540	619,540
Unrestricted	1,433,877	1,433,877
Total net position	9,891,790	9,891,790

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

**VILLAGE OF BALD HEAD ISLAND**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION**  
**PROPRIETARY FUNDS**  
**For the Year Ended June 30, 2016**

Exhibit 7

	<b>Enterprise Funds</b>	
	<b><u>Water and Sewer</u></b>	
	<b>Fund</b>	<b>Total</b>
<b>REVENUES</b>		
Charges for services	2,243,494	2,243,494
Miscellaneous operating revenue	5,100	5,100
Total operating revenues	2,248,594	2,248,594
<b>OPERATING EXPENSES</b>		
Water and sewer operations	1,372,957	1,372,957
Depreciation	273,882	273,882
Total operating expenses	1,646,839	1,646,839
Operating income (loss)	601,755	601,755
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Interest and investment revenue	6,004	6,004
Interest expense	(75,666)	(75,666)
Total non-operating revenue (expenses)	(69,662)	(69,662)
Income (loss) before contributions and transfers	532,093	532,093
Capital contributions	185,776	185,776
Transfers in	28,350	28,350
Change in net position	746,219	746,219
Total net position - beginning	9,145,571	9,145,571
Total net position - ending	9,891,790	9,891,790

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

**VILLAGE OF BALD HEAD ISLAND**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**June 30, 2016**

EXHIBIT 8  
Page 1 of 2

	<b>Enterprise Funds</b>	
	<b>Water &amp; Sewer Fund</b>	<b>Total</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from customers	2,277,084	2,277,084
Cash paid for goods and services	(487,680)	(487,680)
Cash paid to employees	(472,224)	(472,224)
Other operating revenue	<u>5,100</u>	<u>5,100</u>
Net cash provided (used) by operating activities	<u>1,322,280</u>	<u>1,322,280</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Transfers from other funds	<u>28,350</u>	<u>28,350</u>
Total cash flows from noncapital financing activities	<u>28,350</u>	<u>28,350</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Proceeds from notes	4,000,000	4,000,000
Acquisition of capital assets	(1,109,334)	(1,109,334)
Principal paid on long-term debt	(3,116,322)	(3,116,322)
Interest paid on long-term debt	(60,875)	(60,875)
Contributions from customers	<u>185,776</u>	<u>185,776</u>
Net cash provided (used) for capital and related financing activities	<u>(100,755)</u>	<u>(100,755)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Interest on investments	6,004	6,004
Investments purchased	<u>(168,192)</u>	<u>(168,192)</u>
Net cash provided (used) for investing activities	<u>(162,188)</u>	<u>(162,188)</u>
Net increase (decrease) in cash and cash equivalents	1,087,687	1,087,687
Cash and cash equivalents at beginning of year	<u>952,157</u>	<u>952,157</u>
Cash and cash equivalents at end of year	<u>2,039,844</u>	<u>2,039,844</u>

**VILLAGE OF BALD HEAD ISLAND  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
June 30, 2016**

EXHIBIT 8  
Page 2 of 2

	<b>Enterprise Funds</b>	
	<b><u>Water &amp; Sewer Fund</u></b>	<b><u>Total</u></b>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	<u>601,755</u>	<u>601,755</u>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	273,882	273,882
Changes in assets, deferred outflows, and liabilities:		
(Increase) decrease in accounts receivable	(563)	(563)
(Increase) decrease in inventory	18,088	18,088
Increase (decrease) in prepaid items	-	-
Decrease in net pension asset	55,267	55,267
Increase in deferred outflows of resources - pensions	104	104
Increase in net pension liability	32,065	32,065
Decrease in deferred inflows of resources - pensions	(102,661)	(102,661)
Increase (decrease) in accounts payable	411,235	411,235
Increase (decrease) in accrued wages	3,504	3,504
Increase (decrease) in accrued vacation	3,331	3,331
Increase (decrease) in unearned income	<u>26,273</u>	<u>26,273</u>
Total adjustments	<u>720,525</u>	<u>720,525</u>
Net cash provided (used) by operating activities	<u>1,322,280</u>	<u>1,322,280</u>

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

**VILLAGE OF BALD HEAD ISLAND, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2016**

EXHIBIT 9  
Page 1 of 23

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Village of Bald Head Island, North Carolina 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 Village of Bald Head Island is a municipal corporation governed by an elected Mayor and a four-member Council.

B. Basis of Presentation

*Government-wide Statements:* The statement of net position and the statement of activities display information about the primary government. 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 Village. 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 business-type activities of the Village and for each function of the Village'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 and 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 Village's funds. Separate statements for each fund category—governmental and proprietary are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as non-major funds.

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

The Village reports the following major governmental funds:

**General Fund.** The General Fund is the general operating fund of the Village. 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, federal and State grants, and various other taxes and licenses. The primary expenditures are for administration, public safety, street maintenance and construction, and sanitation services. Additionally, the Village has legally adopted a Stormwater Management Fund. Under GASB 54 guidance the Stormwater Management Fund is consolidated in the General Fund. The budgetary comparison for the Stormwater Management Fund has been included in the supplemental information.

**Beach Stabilization Capital Project Fund.** This fund is used to account for the construction of beach erosion prevention projects.

The Village reports the following non-major governmental funds:

**Village Facilities Capital Projects Fund.** This fund is used to account for the construction of an improved Village Administrative building and new Public Safety building.

The Village reports the following major enterprise fund:

**Water and Sewer Fund.** This fund is used to account for the Village's water and sewer operations. Additionally, the Village has legally adopted the Infiltration Pond Improvement Capital Project Fund. This fund is budgeted separately but consolidated into the Water and Sewer Fund for reporting purposes. The budgetary comparison for this fund has been included in the supplemental information.

C. Measurement Focus and Basis of Accounting

In accordance with North Carolina General Statutes, all funds of the Village 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 Village gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Village enterprise funds are charges to customers for sales and services. The Village 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 Village 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 registrations 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 Village are recognized as revenue. Sales taxes are considered a shared revenue for the Village of Bald Head Island because the tax is levied by Brunswick County and then remitted to and distributed by the State. Most intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. All taxes, including those dedicated for specific purposes, are reported as general revenues rather than program revenues. Under the terms of grant agreements, the Village funds certain programs by a combination of specific cost-reimbursements 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 Village'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 Village's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund and the Water and Sewer Fund. All annual appropriations lapse at the fiscal-year end. Project ordinances are adopted for all the Capital Projects Funds. The enterprise fund projects are consolidated with their respective operating fund for reporting purposes. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the project level for the multi-year funds. All amendments must be approved by the governing Board and the Board must adopt an interim budget that covers that 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 Village are made in board-designated official depositories and are secured as required by State law [G.S. 159-31]. The Village may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the Village 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 Village to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust (NCCMT).



The Village's investments are reported at fair value. Non-participating interest earning contracts are accounted for at cost. The NCCMT – Cash Portfolio, a SEC-registered (2a-7) external investment pool, is measured at amortized cost, which is the NCCMT's share price. The NCCMT – Term Portfolio's securities are valued at fair value.

2. Cash and Cash Equivalents

The Village pools money from several funds to facilitate disbursement and investment and to maximize investment income and considers all cash and investments to be cash and cash equivalents.

3. Restricted Assets

Customer deposits held by the Village before any services are supplied are restricted to the service for which the deposit was collected. Money in the Stormwater Management Fund is classified as restricted assets because its use is restricted to the Stormwater Management Fund per NC G.S. Chapter 159, Article 3, Part 2. Cash and investments in the Beach Stabilization Capital Project Fund are classified as restricted because they include \$1,516,695 of unexpended bond proceeds whose use is completely restricted for the purpose for which the bonds were originally issued. The remainder of the restricted funds represent unspent accommodation tax receipts.

The unexpended installment loan proceeds are classified as restricted for the enterprise fund because their use is restricted for the purpose of expansion of the water and sewer system.

Village of Bald Head Island Restricted Cash and Investments

Governmental Activities		
General Fund		
	Customer Deposits	\$ 17,850
	Stormwater Management - Cash	261,277
	Stormwater Management - Investments	<u>36,074</u>
Beach Stabilization Fund		
	Cash	\$ 3,194,031
	Investments	<u>440,995</u>
	Total governmental activities	<u>\$ 3,950,227</u>
Business-type Activities		
Water and Sewer Fund		
	Cash	<u>619,540</u>
	Total business-type activities	<u>\$ 619,540</u>
	Total Restricted Cash and Investments	<u><u>\$ 4,569,767</u></u>

4. Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Village 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, 2015.

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 inventory of the Village is valued at cost (first-in, first-out), which approximates market. The inventory of the Village's general and enterprise fund consists of materials and supplies held for subsequent use. The cost of this inventory is expensed when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements and 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 costs are as follows: land, \$10,000; buildings, improvements, substations, lines, and other plant and distribution systems, \$15,000; infrastructure, \$20,000; furniture and equipment, \$5,000; and vehicles, \$5,000. Donated capital assets received prior to June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015 are recorded at acquisition cost. All other purchased or constructed capital assets are recorded at cost or estimated historical cost. General infrastructure assets acquired prior to July 1, 2003, consisted mainly of road networks, and were not recorded, because the Village is a Phase III entity 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	30
Buildings	50
Improvements	20-25
Vehicles	6-15
Furniture and equipment	3-10
Computer equipment	3

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 so will not be recognized as an expense or expenditure until then. The Village has one item that meets this criterion, contributions made to the pension plan in the 2016 fiscal year. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Village has three items that meet the criterion for this category – property taxes receivable, prepaid water and sewer tap fees and deferrals of pension expense that result from the implementation of GASB Statement 68.

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 statement 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 on debt issuances 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 Village provides for the accumulation of up to 240 hours (258 hours for public safety) earned vacation leave with such leave being fully vested when earned. At the beginning of each calendar year, leave balances in excess of 240 hours may be converted to the employee's sick leave benefit account for retirement purposes only. For the Village'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 Village 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 Village's sick leave policy provides for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since the Village does not have 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 financial statements are classified as net investment in capital assets, restricted; and unrestricted. Restricted net position represents constraints on resources that are either externally imposed by creditors, grantors, contributors, 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:

**Nonspendable 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

**Prepaid expenses-** portion of fund balance that is not an available resource because it represents the year-end balance of ending prepaid expense, 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 Economic Development –** portion of fund balance restricted for economic development due to the source of funding for Beach Stabilization, Village Facilities Improvement and Stormwater Management [G.S. 159, Article 3, Part 2].

**Restricted for Capital Outlay –** portion of fund balance that is restricted by revenue source for future system expansion in the Water and Sewer Fund.

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

**Assigned Fund Balance-** the portion of fund balance that Village of Bald Head Island intends to use for specific purposes.

**Unassigned Fund Balance-** the portion of fund balance that has not been restricted, committed, or assigned to a specific purpose or other funds.

The Village of Bald Head Island 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-Village funds, Village 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 Village.

## 12. Pensions

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

## II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

### Noncompliance with North Carolina General Statutes

There were no noted violations of State statutes or contractual obligations during the year ended June 30, 2016.

## III. DETAIL NOTES ON ALL FUNDS

### A. Assets

#### 1. Deposits

All the deposits of the Village 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 Village's agents in the units' name. 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 Village, these deposits are considered to be held by the Village's agents in their name. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Village or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Village under the Pooling Method, the potential exists for under-collateralization. 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 Village has no formal policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Village complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2016, the Village's deposits had a carrying amount of \$10,985,627 and a bank balance of \$11,137,060. Of the bank balance, \$2,611,761 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. The Village has no formal policy regarding custodial credit risk for deposits.

At June 30, 2016, the Village's petty cash fund totaled \$500.

2. Investments

At June 30, 2016, the Village's investment balances were as follows:

<u>Investment Type</u>	<u>Valuation Measurement Method</u>	<u>Book Value at 6/30/16</u>	<u>Maturity</u>	<u>Rating</u>
NC Capital Management Trust - Term Portfolio	Amortized Cost	1,511,120	0.14 years	Unrated
NC Capital Management Trust - Cash Portfolio	Fair Value Level 1	<u>5,647</u>	N/A	<u>AAAm</u>
Total		<u><u>1,516,767</u></u>		

All investments are measured using the market approach; using prices and other relevant information generated by market transactions involving identical or comparable assets or a group of assets.

Level of fair value hierarchy; Level 1: Debt securities valued using directly observable, quoted prices (unadjusted) in active markets for identical assets.

*Interest Rate Risk.* The Village has no formal investment policy regarding interest rate risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the Village's investment policy requires securities not be sold prior to maturity except to minimize loss of principal, improve the quality or yield, or liquidity needs.

*Credit Risk.* The Village has no formal policy regarding credit risk, but has internal management procedures that limits the Village's investments to the provisions of G.S. 159-30 and restricts the purchase of securities to the highest possible ratings whenever particular types of securities are rated. The Village's investment in the NC Capital Management Trust Cash Portfolio carried a rating of AAAM by Standard & Poor's as of June 30, 2016. The Village's investment in the NC Capital Management Trust Term Portfolio is unrated. The Term Portfolio is authorized to invest in obligations of the U.S. government and agencies, and in high grade money market instruments as permitted under North Carolina General Statutes 159-30 as amended.

*Concentration of Credit Risk.* The Village limits the investments to the safest types of securities, pre-qualifying the financial institutions, brokers/dealers, intermediaries, and advisors, and diversifying the investment portfolio so that potential losses on individual securities will be minimized.

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, 2016 is net of the following allowance for doubtful accounts:

Enterprise Fund	<u>7,000</u>
Total	<u>7,000</u>

4. Capital Assets

Primary Government

Capital asset activity for the Primary Government for the year ended June 30, 2016, was as follows:

	<u>Beginning Balances</u>	<u>Reclassi- fications</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental activities:					
Capital assets not being depreciated:					
Land	1,894,558	-	2,506,682	252,517	4,148,723
Construction in progress	<u>5,855,610</u>	<u>(5,475,441)</u>	<u>156,335</u>	<u>52,858</u>	<u>483,646</u>
Total capital assets not being depreciated	<u>7,750,168</u>	<u>(5,475,441)</u>	<u>2,663,017</u>	<u>305,375</u>	<u>4,632,369</u>
Capital assets being depreciated					
Buildings	2,259,402	529,784	4,125	692,953	2,100,358
Other improvements	873,715	127,874	47,062	-	1,048,651
Vehicles and motorized equipment	1,473,276	-	236,339	263,685	1,445,930
Furniture and equipment	633,684	-	57,406	-	691,090
Infrastructure	<u>2,804,599</u>	<u>4,817,783</u>	<u>3,708,636</u>	<u>-</u>	<u>11,331,018</u>
Total capital assets being depreciated	<u>8,044,676</u>	<u>5,475,441</u>	<u>4,053,568</u>	<u>956,638</u>	<u>16,617,047</u>
Less accumulated depreciation for:					
Buildings	551,752	-	46,551	213,785	384,518
Other improvements	495,419	-	29,088	-	524,507
Vehicles and motorized equipment	1,216,515	-	70,367	223,318	1,063,564
Furniture and equipment	491,148	-	28,470	-	519,618
Infrastructure	<u>330,850</u>	<u>-</u>	<u>203,547</u>	<u>-</u>	<u>534,397</u>
Total accumulated depreciation	<u>3,085,684</u>	<u>-</u>	<u>378,023</u>	<u>437,103</u>	<u>3,026,604</u>
Total capital assets being depreciated, net	<u>4,958,992</u>				<u>13,590,443</u>
Governmental activity capital assets, net	<u>12,709,160</u>				<u>18,222,812</u>

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

General government	37,030
Public safety	89,550
Public works	<u>251,443</u>
Total depreciation expense	<u>378,023</u>

Business-type activities:	Beginning	Reclassi-			Ending
<i>Utilities Fund</i>	Balances	fications	Increases	Decreases	Balances
Capital assets not being depreciated:					
Land	35,000				35,000
Construction in progress	420,405	-	911,297	-	1,331,702
Total capital assets not being depreciated	455,405	-	911,297	-	1,366,702
Capital assets being depreciated					
Buildings	705,853		28,187		734,040
Utility systems	11,553,171	-	155,980		11,709,151
Vehicles and motorized equipment	76,416		47,381	5,000	118,797
Furniture and equipment	273,433	-	7,653	-	281,086
Total capital assets being depreciated	12,608,873	-	239,201	5,000	12,843,074
Less accumulated depreciation for:					
Buildings	99,649		14,481		114,130
Utility systems	1,969,924		232,625		2,202,549
Vehicles and motorized equipment	64,015		6,929	5,000	65,944
Furniture and equipment	162,801	-	19,847	-	182,648
Total accumulated depreciation	2,296,389	-	273,882	5,000	2,565,271
Total capital assets being depreciated, net	10,312,484				10,277,803
Business-type activities capital assets, net	10,767,889				11,644,505

#### Constructions commitments

The government has active construction projects as of June 30, 2016. At year-end, the government's commitments with contractors are as follow:

<u>Project</u>	<u>Spent-to-date</u>	<u>Remaining commitment</u>
WWTP Process Improvements	632,368	323,582
Potable Well Construction	250	120,000
Total	632,618	443,582

#### B. Liabilities

##### 1. Pension Plan Obligation

##### a. Local Governmental Employees' Retirement System

Plan Description. The Village of Bald Head Island is a participating employer in the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS membership is comprised of general employees and local law enforcement officers (LEOs) of participating local government entities. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and the State Superintendent, who serves as ex-officio members. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the



State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454 or at [www.osc.nc.gov](http://www.osc.nc.gov).

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

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

*Contributions.* Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Village of Bald Head Island employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Village of Bald Head Island's contractually required contribution rate for the year ended June 30, 2016, was 7.15% of compensation for law enforcement officers and 6.67% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Village of Bald Head Island were \$204,876 for the year ended June 30, 2016.

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

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

At June 30, 2016, the Village reported a liability of \$239,476 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014. The total pension liability was then rolled forward to the measurement date of June 30, 2015 utilizing update procedures incorporating the actuarial assumptions. The Village's proportion of the net pension asset was based on a projection of the Village's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2015, the Village's proportion was 0.05336%, which was a decrease of 0.00122% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the Village recognized pension expense of \$97,160. At June 30, 2016, the Village reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between actual and expected experience		56,291
Net difference between projected and actual earnings on pension plan investments		68,178
Changes in proportion and differences between Village contributions and proportionate share of contributions		68,531
Village contributions subsequent to the measurement date	<u>204,876</u>	
Total	<u><u>204,876</u></u>	<u><u>193,000</u></u>

\$204,876 reported as deferred outflows of resources related to pensions resulting from Board contributions subsequent to the measurement date will be recognized as an increase of the net pension asset in the year ended June 30, 2017. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2017	(100,075)
2018	(100,075)
2019	(99,865)
2020	107,015
2021	-
Thereafter	<u>-</u>
Total	<u><u>(193,000)</u></u>

*Actuarial Assumptions.* The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary Increases	4.25 to 8.55 percent, including inflation and productivity factor
Investment rate of return	7.25 percent, net of pension plan investment expense, including inflation

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

The actuarial assumptions used in the December 31, 2014 valuation were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2015 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	29.0%	2.2%
Global Equity	42.0%	5.8%
Real Estate	8.0%	5.2%
Alternatives	8.0%	9.8%
Credit	7.0%	6.8%
Inflation Protection	<u>6.0%</u>	3.4%
Total	<u>100.0%</u>	

The information above is based on 30 year expectations developed with the consulting actuary for the 2014 asset, liability and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

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

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

	<u>1% Decrease (6.25%)</u>	<u>Discount Rate (7.25%)</u>	<u>1% Increase (8.25%)</u>
Village's proportionate share of the net pension liability (asset)	1,669,900	239,476	(965,624)

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

b. Law Enforcement Officers Special Separation Allowance

(1) Plan Description

The Village of Bald Head Island administers a public employee retirement system (the "Separation Allowance"); a single-employer defined benefit pension plan that provides retirement benefits to the Village'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 Village are covered by the Separation Allowance. At December 31, 2015, the Separation Allowance's membership consisted of:

Retirees receiving benefits	0
Terminated plan members entitled to but not yet receiving benefits	0
Active plan members	<u>14</u>
Total	<u>14</u>

A separate report was not issued for the plan.

(2) Summary of Significant Accounting Policies

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

The Separation Allowance has no assets accumulated in a trust that meets the following criteria which are outlined in GASB Statements 67 and 68:

- contributions to the pension plan and earnings on those contributions are irrevocable
- pension plan assets are dedicated to providing benefits to plan members
- pension plan assets are legally protected from the creditors or employers, nonemployer contribution entities, the plan administrator, and plan members.

*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 Village 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 Village'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, 2015 actuarial valuation using the entry age normal 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 post-employment benefit increases.

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

Annual required contribution	25,512
Interest on net pension obligation	6,268
Adjustment to annual required contribution	<u>(11,017)</u>
Annual pension cost	20,763
Contributions made	<u>0</u>
Increase (decrease) in net pension obligation	20,763
Net pension obligation beginning of year	<u>125,366</u>
Net pension obligation end of year	<u>146,129</u>

Three Year Trend Information

For Year Ended	Annual Pension	Percentage of	Net Pension
<u>June 30</u>	<u>Cost (APC)</u>	<u>APC Contributed</u>	<u>Obligation</u>
2014	20,079	22.02%	103,919
2015	21,447	0.00%	125,366
2016	20,763	0.00%	146,129

(4) Funded Status and Funding Progress

As of December 31, 2015 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 \$108,672. The covered payroll (annual payroll of active employees covered by the plan) was \$799,951 and the ratio of the UAAL to the covered payroll was 13.58 percent.

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 Village contributes to the Supplemental Retirement Income Plan (Plan), a defined-contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The plan provides retirement benefits to law enforcement officers employed by the Village. 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 Village to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. The Village has elected to allow employees not engaged in law enforcement to participate in the Supplemental Retirement Income Plan. Total contributions for the year ended June 30, 2016 were \$263,243, which consisted of \$147,075 from the Village and \$116,168 from the employees. The Village's required contribution represented five percent of the covered payroll.

d. Other Employment Benefits

The Village has 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 months 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 Village, the Village does not determine the number of eligible participants. The Village 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 law enforcement officers. The Village considers these contributions to be immaterial.

For the fiscal year ended June 30, 2016, the Village made contributions to the State for death benefits of \$1,301. The Village's required contributions for employees not engaged in law enforcement and for law enforcement officers represented 0.06% and 0.00% of covered payroll, respectively.

2. Deferred Outflows and Inflows of Resources

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

Contributions to pension plan in current fiscal year	\$ 204,876
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Deferred inflows of resources at year-end is comprised of the following:

Taxes Receivable, less penalties (General Fund)	\$ 138,015
Uninstalled taps (Water & Sewer Fund)	\$ 64,973
Pension deferrals	\$ 193,000

### 3. Risk Management

The Village 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 Village participates in two self-funded risk financing pools administered by the North Carolina League of Municipalities. Through these pools, the Village obtains general liability coverage of \$5 million per occurrence, auto liability coverage of \$1 million per occurrence, police professional and public officers liability coverage of \$1 million per occurrence with a \$3 million aggregate, property coverage up to the total insurance values of the property policy, and workers' compensation coverage up to statutory limits. 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. Excess insurance coverage is purchased by the Board of Trustees to protect against large workers' compensation 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 Village upon request.

The Village carries flood, health and all other insurance through a commercial carrier. 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.

In accordance with G.S. 159-29, the Village's employees that have access to \$100 or more at any given time of the Village's funds are performance bonded through a commercial surety bond. The finance officer is bonded for \$150,000 and the tax collector is bonded for \$50,000. The remaining employees that have access to funds are bonded under a blanket bond for employee dishonesty of \$10,000 per occurrence and for theft of money or securities of \$5,000 per occurrence.

### 4. Claims, Judgments and Contingent Liabilities

According to the Village attorney and Village management at June 30, 2016, the Village was not a defendant in any lawsuit whose outcome could affect the Village's ability to pay its obligations as they become due.

### 5. Long-Term Obligations

- a. Installment Notes Payable: The Village has entered into installment purchase contracts to finance the acquisition and renovation of various land and facilities. The installment purchase contracts are outlined as follows:

#### General Fund

Installment purchase contract for the Village's purchase of a real property lot on Edward Teach Wynd from Bald Head Island Limited dated September 30, 2015, due in annual installments of \$331,667 plus 4.00% interest through September 2018.

#### Water and Sewer Fund

Installment purchase contract to refinance the current debt on the water and sewer system and to fund additional improvements dated January 29, 2016, due in quarterly installments of \$210,503 including interest of 1.97% through January 2021.



The future minimum payments of the installment purchases as of June 30, 2016, including \$269,968 of interest are as follows:

Year Ending June 30	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2017	331,667	39,800	772,657	69,357
2018	331,667	26,533	787,991	54,022
2019	331,666	13,267	803,630	38,384
2020			819,578	22,435
2021	-	-	622,276	6,170
Total	<u>995,000</u>	<u>79,600</u>	<u>3,806,132</u>	<u>190,368</u>

b. General Obligation Indebtedness

The Village's general obligation bonds serviced by the governmental funds were issued to finance the construction of a terminal groin. The general obligation bonds are being retired by ad valorem tax revenues generated from special tax districts and accommodation tax revenues and are reported as long-term debt in the General Fund. The general obligation bonds are collateralized by the full faith, credit and taxing power of the Village. Principal and interest requirements are appropriated when due.

Bonds payable at June 30, 2016 are comprised of the following individual issues:

General Obligation Bonds

Serviced by the General Fund

\$8,500,000 Beach Improvement Bonds, series 2014 due in quarterly installments of \$522,222, including principal and interest at 1.95% through December 2019.

7,050,604  
7,050,604

Annual debt service requirements to maturity for long-term obligations are as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2017	1,965,717	123,171
2018	2,004,330	84,558
2019	2,043,701	45,187
2020	<u>1,036,856</u>	<u>7,588</u>
Total	<u>7,050,604</u>	<u>260,504</u>

At June 30, 2016, the Village of Bald Head Island had a legal debt margin of \$87,353,720.

c. Changes in Long-Term Liabilities

	Balance <u>July 1, 2015</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>June 30, 2015</u>	Current Portion <u>of Balance</u>
Governmental activities:					
General obligation bond	9,210,075	-	2,159,471	7,050,604	1,965,717
Installment notes	165,000	995,000	165,000	995,000	331,667
Compensated absences	131,426	122,102	96,085	157,443	111,000
Net pension liability (LGERS)	-	207,411	-	207,411	-
Net pension obligation (LEO)	<u>125,366</u>	<u>20,763</u>	<u>-</u>	<u>146,129</u>	<u>5,000</u>
Governmental activity long-term liabilities	<u>9,631,867</u>	<u>1,345,276</u>	<u>2,420,556</u>	<u>8,556,587</u>	<u>2,413,384</u>
Business type activities:					
Installment note	2,922,454	4,000,000	3,116,322	3,806,132	772,657
Net pension liability (LGERS)	-	32,065	-	32,065	-
Compensated absences	<u>33,694</u>	<u>30,629</u>	<u>27,298</u>	<u>37,025</u>	<u>30,000</u>
Business-type activity long-term liabilities	<u>2,956,148</u>	<u>4,062,694</u>	<u>3,143,620</u>	<u>3,875,222</u>	<u>802,657</u>

C. Interfund Balances and Activity

Transfers to/from other funds at June 30, 2016, consist of the following:

From the General Fund to the Beach Stabilization Fund	288,062
From the General Fund to the Village Facilities Improvement Fund	373,998
From the General Fund to the Stormwater Management Fund	300,000
From the General Fund to the Water and Sewer Fund	<u>28,350</u>
Total	<u>990,410</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 2016 fiscal year, the Village made six transfers from the General Fund to various funds. Two of the transfers were to the Beach Stabilization Capital Project Fund totaling \$288,062. The first was the annual transfer of Accommodation Tax revenue less the amount needed to service the G.O. bond debt (\$287,715), and, the second was the board designated portion of ad valorem tax revenue designated for beach renourishment projects (\$347).

The third and fourth transfers were from the General Fund to the Village Facilities Improvement Fund totaling \$373,998 to pay for capital project expenditures.

The fifth transfer from the General Fund to the Stormwater Management Fund of \$300,000 was to pay for capital project expenditures.

The final transfer from the General Fund to the Water and Sewer Fund of \$28,350 was to pay for capital project expenditures.

D. Net Investment in Capital Assets

	Governmental	Business-type
Capital assets	18,222,812	11,644,505
Less: long-term debt	<u>8,045,604</u>	<u>3,806,132</u>
Net investment in capital asset	<u>10,177,208</u>	<u>7,838,373</u>

E. 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>\$6,379,861</u>
Less:	
Prepaid expenses	7,500
Inventories	11,707
Stabilization by State Statute	340,181
Economic Development	297,351
Remaining Fund Balance	5,723,122

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

<u>Encumbrances</u>	<u>General Fund</u>	<u>Beach Stabilization Fund</u>	<u>Non-major Funds</u>
	\$22,550	\$0	\$0

IV. JOINTLY GOVERNED ORGANIZATIONS

Cape Fear Council of Governments

The Village, in conjunction with four counties and thirty two 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 Village paid membership fees of \$330 to the Council during the fiscal year ended June 30, 2016.

V. JOINT VENTURES

Firemen's Relief Fund

The Village and the members of the Village's Public Safety 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 Firemen'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 Village obtains an ongoing financial benefit from the Fund for the on-behalf of payments for salaries and fringe benefits made to members of the Village's fire department by the board of trustees. During the fiscal year ended June 30, 2016, the Village reported no revenues and expenditures 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, 2016. 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.

VI. SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES

Federal and State Assisted Programs

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

VII. SIGNIFICANT EFFECTS OF SUBSEQUENT EVENTS

Events occurring after June 30, 2016 were evaluated by management on November 14, 2016 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 significant subsequent events needing disclosure.

Required  
Supplemental Financial Data

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

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- Schedule of Funding Progress for the Law Enforcement Officers' Special Separation Allowance
- Schedule of the Proportionate Share of the Net Pension Asset – Local Government Employees' Retirement System
- Schedule of Contributions – Local Government Employees' Retirement System

**VILLAGE OF BALD HEAD ISLAND, NORTH CAROLINA EXHIBIT A-1  
LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF FUNDING PROGRESS**

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 (a)	UAAL as a % of Covered Payroll [(b-a)/c]
12/31/2006	0	74,907	74,907	0.00%	519,888	14.41%
12/31/2007	0	72,093	72,093	0.00%	523,577	13.77%
12/31/2008	0	109,589	109,589	0.00%	647,206	16.93%
12/31/2009	0	189,636	189,636	0.00%	561,776	33.76%
12/31/2010	0	181,996	181,996	0.00%	768,951	23.67%
12/31/2011	0	162,146	162,146	0.00%	760,293	21.33%
12/31/2012	0	130,648	130,648	0.00%	758,282	17.23%
12/31/2013	0	129,123	129,123	0.00%	747,012	17.29%
12/31/2014	0	115,914	115,914	0.00%	888,448	13.05%
12/31/2015	0	108,672	108,672	0.00%	799,951	13.58%

**VILLAGE OF BALD HEAD ISLAND, NORTH CAROLINA**  
**VILLAGE OF BALD HEAD ISLAND'S PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET)**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**LAST THREE FISCAL YEARS**

EXHIBIT A-2

**LOCAL GOVERNMENT EMPLOYEE'S RETIREMENT SYSTEM**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Village of Bald Head Island's proportion of the net pension liability (asset) (%)	0.05336%	0.05458%	0.05730%
Village of Bald Head Island's proportion of the net pension liability (asset) (\$)	239,476	(321,884)	690,685
Village of Bald Head Island's covered-employee payroll	2,626,893	2,612,413	2,584,649
Village of Bald Head Island's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	9.12%	(12.32%)	26.72%
Plan fiduciary net position as a percentage of the total pension liability	98.09%	102.64%	94.35%

**VILLAGE OF BALD HEAD ISLAND, NORTH CAROLINA  
VILLAGE OF BALD HEAD ISLAND'S CONTRIBUTIONS  
REQUIRED SUPPLEMENTARY INFORMATION  
LAST THREE FISCAL YEARS**

EXHIBIT A-3

**LOCAL GOVERNMENT EMPLOYEE'S RETIREMENT SYSTEM**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required Contribution	204,876	189,469	186,326
Contributions in relation to the contractually required contribution	<u>204,876</u>	<u>189,469</u>	<u>186,326</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>
Village of Bald Head Island's covered-employee payroll	3,010,950	2,626,893	2,612,413
Contributions as a percentage of covered-employee payroll	6.80%	7.21%	7.13%



## Supplementary Statements

**VILLAGE OF BALD HEAD ISLAND  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2016 and 2015**

EXHIBIT B-1  
Page 1 of 6

	2016		Variance Favorable (Unfavorable)	2015
	Budget	Actual		Actual
<b>Revenues</b>				
<b>Ad valorem taxes</b>				
Current year	7,436,334	7,582,118	145,784	7,718,455
Prior year	92,000	67,898	(24,102)	102,001
Penalties and interest	20,000	22,553	2,553	25,343
Total	<u>7,548,334</u>	<u>7,672,569</u>	<u>124,235</u>	<u>7,845,799</u>
<b>Other taxes</b>				
Accommodations tax	1,078,204	1,071,880	(6,324)	1,061,251
Total	<u>1,078,204</u>	<u>1,071,880</u>	<u>(6,324)</u>	<u>1,061,251</u>
<b>Unrestricted intergovernmental</b>				
Local option sales tax	42,000	41,626	(374)	39,381
Utility franchise tax	189,000	437,249	248,249	389,434
Beer and wine	800	730	(70)	787
CAMA - State portion	1,100	1,802	702	1,912
Intergovernmental revenue	3,000	2,591	(409)	3,322
Total	<u>235,900</u>	<u>483,998</u>	<u>248,098</u>	<u>434,836</u>
<b>Restricted intergovernmental</b>				
Powell Bill allocation	42,500	44,779	2,279	44,857
Federal interest subsidy	978	2,795	1,817	38,482
FEMA reimbursement	-	65,903	65,903	-
Mosquito control	1,500	1,711	211	1,910
Grant revenue	-	-	-	56,164
Brunswick County - fire and rescue	188,500	188,522	22	113,518
Total	<u>233,478</u>	<u>303,710</u>	<u>70,232</u>	<u>254,931</u>
<b>Permits and fees</b>				
Building permits	53,675	112,774	59,099	73,970
Daily vehicle permits	50,000	92,405	42,405	79,374
Annual vehicle permits	104,000	118,006	14,006	98,400
Golf cart registration	45,000	55,090	10,090	52,810
EMS fees	10,000	16,016	6,016	12,341
Creek access permits	30,000	33,409	3,409	30,870
Total	<u>292,675</u>	<u>427,700</u>	<u>135,025</u>	<u>347,765</u>
<b>Sales and services</b>				
Sale of assets	1,525,000	1,540,615	15,615	1,330
Public Safety security service	2,000	200	(1,800)	1,940
Contractor Services Sales	34,266	228,132	193,866	-
Island Parcel Center Receipts	83,750	112,769	29,019	49,811
Post office operations	1,900	14,987	13,087	1,900
Total	<u>1,646,916</u>	<u>1,896,703</u>	<u>249,787</u>	<u>54,981</u>
<b>Investment earnings</b>				
Interest earned	8,500	3,012	(5,488)	3,183
Total	<u>8,500</u>	<u>3,012</u>	<u>(5,488)</u>	<u>3,183</u>

**VILLAGE OF BALD HEAD ISLAND  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2016 and 2015**

EXHIBIT B-1  
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	2016		Variance Favorable (Unfavorable)	2015
	Budget	Actual		Actual
Miscellaneous				
Fines	5,000	6,150	1,150	4,675
Insurance reimbursements	-	128	128	14,157
Miscellaneous	4,000	6,451	2,451	8,067
Total	<u>9,000</u>	<u>12,729</u>	<u>3,729</u>	<u>26,899</u>
 Total revenues	 <u>11,053,007</u>	 <u>11,872,301</u>	 <u>819,294</u>	 <u>10,029,645</u>
 <u>Expenditures</u>				
General government				
Governing body				
Codification	2,500	2,075	425	2,489
Travel	11,000	10,358	642	10,132
Manager's supplemental funds	57,200	27,191	30,009	7,892
Total	<u>70,700</u>	<u>39,624</u>	<u>31,076</u>	<u>20,513</u>
 Administration				
Salaries and wages	541,065	558,150	(17,085)	465,069
Employee benefits	188,282	184,472	3,810	142,804
Utilities	5,000	6,911	(1,911)	5,579
Telephone	20,550	25,268	(4,718)	21,945
Travel	10,000	11,668	(1,668)	5,656
Ferry costs	36,199	34,092	2,107	41,333
Parking	7,500	7,954	(454)	6,860
Equipment maintenance	10,400	10,193	207	15,448
Building maintenance	10,000	8,609	1,391	9,731
Office supplies	7,500	5,194	2,306	8,764
Copies and printing	1,000	1,243	(243)	165
Postage	2,600	2,158	442	2,671
Advertising	3,500	5,934	(2,434)	5,019
Dues and subscriptions	10,636	7,772	2,864	7,928
Training and certification	8,000	4,346	3,654	6,098
Bank charges	15,000	15,450	(450)	12,561
Miscellaneous	1,500	5,094	(3,594)	1,231
Professional services	380,597	373,270	7,327	285,120
Medical services	36,000	21,464	14,536	34,541
County collection fee	55,800	57,544	(1,744)	58,844
BHI Conservancy	130,245	125,245	5,000	122,835
Insurance	167,000	177,983	(10,983)	145,387
Capital outlay	-	-	-	31,833
Capital outlay - nondepreciable	7,500	916	6,584	3,871
Village events/wellness	14,000	9,488	4,512	9,694
Education assistance	-	350	(350)	-
Total	<u>1,669,874</u>	<u>1,660,768</u>	<u>9,106</u>	<u>1,450,987</u>

**VILLAGE OF BALD HEAD ISLAND  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2016 and 2015**

EXHIBIT B-1  
Page 3 of 6

	2016		Variance Favorable (Unfavorable)	2015
	Budget	Actual		Actual
Island Parcel Center				
Salaries and wages	82,123	78,369	3,754	73,993
Employee benefits	26,567	24,727	1,840	22,179
Utilities	-	310	(310)	3,803
Telephone	-	1,455	(1,455)	1,060
Travel	500	-	500	-
Ferry expenses	8,631	9,980	(1,349)	3,123
Parking expenses	2,332	2,981	(649)	2,500
Equipment maintenance	1,000	1,329	(329)	438
Barge and shipping expense	84,400	84,344	56	46,442
Building and grounds maintenance	2,373	4,746	(2,373)	1,006
Office supplies	11,990	11,707	283	1,084
Copies and printing	3,600	1,192	2,408	-
Miscellaneous	4,500	901	3,599	3,306
Liability insurance	9,900	9,389	511	2,486
Capital outlay	-	-	-	11,737
Capital outlay - nondepreciable	-	4,755	(4,755)	11,730
Total	<u>237,916</u>	<u>236,185</u>	<u>1,731</u>	<u>184,887</u>
Contractor Services				
Salaries and wages	59,552	61,277	(1,725)	-
Employee benefits	13,579	13,579	-	-
Utilities	3,411	3,248	163	-
Telephone	435	981	(546)	-
Purchase for resale	91,717	76,824	14,893	-
Barge cost	2,750	3,105	(355)	-
Ferry cost	9,185	9,185	-	-
Tram and bus expense	731	977	(246)	-
Equipment maintenance	383	383	-	-
Building and grounds maintenance	7,572	7,587	(15)	-
Other expense	3,628	3,730	(102)	-
Office supplies	2,340	2,359	(19)	-
Capital outlay	<u>1,550,524</u>	<u>1,550,524</u>	<u>-</u>	<u>-</u>
Total	<u>1,745,807</u>	<u>1,733,759</u>	<u>12,048</u>	<u>-</u>
Total general government	<u>3,724,297</u>	<u>3,670,336</u>	<u>53,961</u>	<u>1,656,387</u>

**VILLAGE OF BALD HEAD ISLAND  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2016 and 2015**

EXHIBIT B-1  
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	2016		Variance Favorable (Unfavorable)	2015
	Budget	Actual		Actual
Public safety				
Police, fire and EMS				
Salaries	1,342,882	1,396,361	(53,479)	1,273,467
Salaries - Animal Control	3,000	-	3,000	-
Employee benefits	372,417	366,924	5,493	348,132
Utilities	14,000	15,173	(1,173)	15,999
Telephone	22,000	19,559	2,441	16,000
Communications	2,000	1,757	243	3,118
Gas and oil	20,000	18,623	1,377	19,293
LP gas	3,000	1,201	1,799	2,831
Travel	10,000	9,905	95	10,731
Ferry costs	42,896	42,896	-	49,260
Parking	56,140	42,934	13,206	45,650
Barge expenses	3,500	3,480	20	4,170
Repairs - equipment	5,000	3,079	1,921	912
Repairs - vehicles	20,000	25,820	(5,820)	19,912
Vehicle permits	9,000	7,533	1,467	6,810
Repairs - building & grounds	7,000	7,181	(181)	7,028
Maintenance contracts	23,000	21,059	1,941	31,084
Supplies	28,082	23,158	4,924	22,814
EMS billing expense	800	757	43	664
Doshier medical clinic supplies	33,000	460	32,540	259
Law enforcement supplies	5,000	1,982	3,018	3,559
Safety equipment and programs	10,000	3,923	6,077	5,708
EMS supplies	10,000	7,956	2,044	12,488
ALS medication	5,000	5,216	(216)	3,879
Water rescue supplies	2,000	680	1,320	1,261
Fire supplies	24,000	18,581	5,419	5,328
Volunteer incentive	2,500	2,758	(258)	1,883
Copies and printing	3,000	2,108	892	2,252
Munitions	3,500	3,311	189	1,623
Dues and subscriptions	4,000	7,074	(3,074)	4,127
Uniforms	12,000	6,169	5,831	8,647
Training and certification	15,000	11,966	3,034	10,257
Public education	2,500	3,232	(732)	4,765
Miscellaneous	3,000	3,436	(436)	2,209
Animal control	1,000	-	1,000	-
Medical services	-	345	(345)	-
Rent	96,040	96,040	-	-
Capital outlay - Nondepreciable	-	1,858	(1,858)	-
Capital outlay	<u>1,145,564</u>	<u>1,145,807</u>	<u>(243)</u>	<u>141,956</u>
Total	<u>3,361,821</u>	<u>3,330,302</u>	<u>31,519</u>	<u>2,088,076</u>
Development services				
Salaries	68,540	68,359	181	65,992
Employee benefits	27,006	26,159	847	27,858
Travel	700	-	700	-
Ferry	3,181	3,019	162	3,087
Parking	750	750	-	750
Repair and maintenance - equipment	4,300	3,488	812	2,797
Supplies	1,030	20	1,010	3
Dues	1,308	1,784	(476)	289
Training	500	381	119	311
Miscellaneous	500	-	500	-
Professional services	<u>2,821</u>	<u>2,542</u>	<u>279</u>	<u>4,149</u>
Total	<u>110,636</u>	<u>106,502</u>	<u>4,134</u>	<u>105,236</u>
Total public safety	<u>3,472,457</u>	<u>3,436,804</u>	<u>35,653</u>	<u>2,193,312</u>

**VILLAGE OF BALD HEAD ISLAND  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2016 and 2015**

EXHIBIT B-1  
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	2016		Variance Favorable (Unfavorable)	2015
	Budget	Actual		Actual
Transportation				
Road maintenance	86,593	86,193	400	76,357
Total	<u>86,593</u>	<u>86,193</u>	<u>400</u>	<u>76,357</u>
Environmental protection				
Public works				
Salaries and wages	410,281	386,398	23,883	370,104
Employee benefits	145,139	136,582	8,557	145,832
Utilities	17,000	11,863	5,137	19,577
Telephone	3,700	4,178	(478)	3,228
Gas and oil	10,500	17,241	(6,741)	9,796
LP gas	2,500	1,834	666	2,597
Travel	750	85	665	482
Ferry expense	33,544	31,874	1,670	33,621
Parking	6,750	6,773	(23)	6,897
Barge expense	20,000	30,740	(10,740)	21,826
Repairs - equipment	14,500	11,084	3,416	17,125
Vehicle permits	5,210	5,290	(80)	5,210
Maintenance - building & grounds	15,000	16,115	(1,115)	14,619
Right-of-way maintenance	48,000	27,623	20,377	25,224
Contract - mulch site	60,000	56,454	3,546	65,000
Contract services	337,944	350,914	(12,970)	334,676
Office supplies	1,000	1,250	(250)	1,047
Safety equipment supplies	2,500	2,654	(154)	1,181
Building supplies	3,000	2,705	295	1,506
Signs	4,000	3,531	469	3,987
Uniforms	3,000	2,074	926	1,647
Training and certification	1,000	135	865	118
Miscellaneous	500	142	358	57
Mosquito control	4,000	6,918	(2,918)	1,551
Capital outlay	96,000	123,806	(27,806)	41,309
Total environmental protection	<u>1,245,818</u>	<u>1,238,263</u>	<u>7,555</u>	<u>1,128,217</u>
Economic and physical development				
Shoreline preservation				
Salaries	87,812	60,092	27,720	85,046
Employee benefits	22,809	15,714	7,095	23,221
Travel	5,000	-	5,000	1,511
Ferry	4,181	1,413	2,768	2,820
Parking	1,245	750	495	750
Equipment maintenance	-	80	(80)	-
Office supplies	300	-	300	159
Dues and subscriptions	2,260	1,360	900	1,658
Training and certification	150	-	150	6,243
Engineering	50,000	-	50,000	36,088
Monitoring	183,137	156,092	27,045	238,131
Legal	48,000	104,835	(56,835)	76,536
Dune restoration/vegetation	-	350	(350)	71,670
Lobbying	114,000	112,831	1,169	117,740
Stormwater management	35,000	36,469	(1,469)	2,281
Baldhead Creek access expansion	-	6,850	(6,850)	125,878
Total	<u>553,894</u>	<u>496,836</u>	<u>57,058</u>	<u>789,732</u>

**VILLAGE OF BALD HEAD ISLAND  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2016 and 2015**

EXHIBIT B-1  
Page 6 of 6

	2016		Variance Favorable (Unfavorable)	2015
	Budget	Actual		Actual
Debt service				
Principal	2,340,614	2,324,471	16,143	2,776,114
Interest and fees	203,446	166,980	36,466	193,683
Total	<u>2,544,060</u>	<u>2,491,451</u>	<u>52,609</u>	<u>2,969,797</u>
Contingency	<u>406,100</u>	<u>-</u>	<u>406,100</u>	<u>-</u>
Total expenditures	<u>12,033,219</u>	<u>11,419,883</u>	<u>613,336</u>	<u>8,813,802</u>
Revenues over (under) expenditures	<u>(980,212)</u>	<u>452,418</u>	<u>1,432,630</u>	<u>1,215,843</u>
Other financing sources (uses)				
Fund balance appropriated	933,050	-	(933,050)	-
Operating transfers out				
Beach Stabilization Fund	(220,000)	(288,062)	(68,062)	(487,663)
Stormwater management fund	(300,000)	(300,000)	-	
Village Facilities Fund	(371,138)	(373,998)	(2,860)	(415,000)
Infiltration / RO Fund	(56,700)	(28,350)	28,350	(30,000)
Installment debt proceeds	995,000	995,000	-	-
Total	<u>980,212</u>	<u>4,590</u>	<u>(975,622)</u>	<u>(932,663)</u>
Revenues and other financing sources over (under) expenditures	<u>-</u>	<u>457,008</u>	<u>457,008</u>	<u>283,180</u>
Fund balance				
Beginning of year - July 1		<u>5,625,502</u>		<u>5,342,322</u>
End of year - June 30		<u>6,082,510</u>		<u>5,625,502</u>

**VILLAGE OF BALD HEAD ISLAND  
STORMWATER MANAGEMENT FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
From Inception and for the Fiscal Year Ended June 30, 2016**

EXHIBIT B-2

	Project Author- ization	Prior Year(s)	Actual Current Year	Total To Date	Variance Positive (Negative)
<u>Revenues</u>					
Investment earnings					
Interest earned	42,789	43,124	283	43,407	618
Total revenues	<u>42,789</u>	<u>43,124</u>	<u>283</u>	<u>43,407</u>	<u>618</u>
<u>Expenditures</u>					
Capital outlay:					
Administration	12,000	7,635	-	7,635	4,365
Construction	1,239,789	954,725	43,064	997,789	242,000
Engineering	232,500	189,002	4,140	193,142	39,358
Legal	27,000	15,990	-	15,990	11,010
Total expenditures	<u>1,511,289</u>	<u>1,167,352</u>	<u>47,204</u>	<u>1,214,556</u>	<u>296,733</u>
Revenues over (under) expenditures	(1,468,500)	(1,124,228)	(46,921)	(1,171,149)	297,351
Other financing sources (uses)					
Operating transfer from General Fund	<u>1,468,500</u>	<u>1,168,500</u>	<u>300,000</u>	<u>1,468,500</u>	<u>-</u>
Revenues and other financing sources over (under) expenditures	<u>-</u>	<u>44,272</u>	<u>253,079</u>	<u>297,351</u>	<u>297,351</u>
Fund balance, beginning			<u>44,272</u>		
Fund balance, ending			<u>297,351</u>		



**VILLAGE OF BALD HEAD ISLAND  
BEACH STABILIZATION CAPITAL PROJECT FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
From Inception and for the Fiscal Year Ended June 30, 2016**

EXHIBIT B-3  
Page 1 of 2

	Project Author- ization	Actual		Total To Date	Variance Positive (Negative)
		Prior Year(s)	Current Year		
<b>Revenues</b>					
Restricted intergovernmental FEMA reimbursement	741,351	741,351	-	741,351	-
Investment earnings					
Interest earned	159,770	165,212	2,831	168,043	8,273
Interest on bond proceeds	6,201	6,200	-	6,200	(1)
<b>Total</b>	<b>165,971</b>	<b>171,412</b>	<b>2,831</b>	<b>174,243</b>	<b>8,272</b>
<b>Miscellaneous</b>					
Marina Entrance Channel Agreement	-	-	830,514	830,514	830,514
Refund State of NC	421,627	421,626	105,341	526,967	105,340
<b>Total</b>	<b>421,627</b>	<b>421,626</b>	<b>935,855</b>	<b>1,357,481</b>	<b>935,854</b>
<b>Total revenues</b>	<b>1,328,949</b>	<b>1,334,389</b>	<b>938,686</b>	<b>2,273,075</b>	<b>944,126</b>
<b>Expenditures</b>					
<b>Capital outlay:</b>					
<b>Beach Renourishment</b>					
Administration/Engineering	1,464,757	1,286,355	35,798	1,322,153	142,604
Monitoring	738,346	715,116	49,920	765,036	(26,690)
Legal	762,008	718,467	23,307	741,774	20,234
Construction	1,070,633	611,858	134	611,992	458,641
Dune restoration	723,030	699,606	-	699,606	23,424
Vitex restoration	35,000	29,406	-	29,406	5,594
Lobbying	34,448	34,448	-	34,448	-
<b>Subtotal</b>	<b>4,828,222</b>	<b>4,095,256</b>	<b>109,159</b>	<b>4,204,415</b>	<b>623,807</b>
<b>Engineered Beach</b>					
Administration/Engineering	340,063	340,062	-	340,062	1
Legal	212,868	212,867	-	212,867	1
<b>Subtotal</b>	<b>552,931</b>	<b>552,929</b>	<b>-</b>	<b>552,929</b>	<b>2</b>
<b>Marine Groins - Harbor Groin System</b>					
Administration/Engineering	86,818	86,818	-	86,818	-
Legal	17,461	17,460	-	17,460	1
Construction	236,555	236,555	-	236,555	-
<b>Subtotal</b>	<b>340,834</b>	<b>340,833</b>	<b>-</b>	<b>340,833</b>	<b>1</b>
<b>BHI Creek Dredging</b>					
Administration/Engineering	217,687	217,687	-	217,687	-
<b>Subtotal</b>	<b>217,687</b>	<b>217,687</b>	<b>-</b>	<b>217,687</b>	<b>-</b>
<b>Jetty Extension Project</b>					
Administration/Engineering	564,147	190,478	17,763	208,241	355,906
Legal	2,304	-	2,303	2,303	1
Construction	1,245,771	546,938	698,833	1,245,771	-
<b>Subtotal</b>	<b>1,812,222</b>	<b>737,416</b>	<b>718,899</b>	<b>1,456,315</b>	<b>355,907</b>

**VILLAGE OF BALD HEAD ISLAND  
BEACH STABILIZATION CAPITAL PROJECT FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
From Inception and for the Fiscal Year Ended June 30, 2016**

EXHIBIT B-3  
Page 2 of 2

	Project Author- ization	Actual		Total To Date	Variance Positive (Negative)
		Prior Year(s)	Current Year		
<b>Sand Replacement Project</b>					
Administration/Engineering	402,893	402,893	-	402,893	-
Monitoring	50,804	50,804	-	50,804	-
Legal	160,795	160,795	-	160,795	-
Construction	16,047,974	16,047,974	-	16,047,974	-
Dune Restoration/Vegetation	20,000	20,000	-	20,000	-
Subtotal	<u>16,682,466</u>	<u>16,682,466</u>	<u>-</u>	<u>16,682,466</u>	<u>-</u>
<b>Terminal Groins Project</b>					
Administration/Engineering	2,406,464	1,692,083	609,419	2,301,502	104,962
Legal	389,110	181,927	86,832	268,759	120,351
Construction	6,148,143	2,932,895	2,293,486	5,226,381	921,762
Subtotal	<u>8,943,717</u>	<u>4,806,905</u>	<u>2,989,737</u>	<u>7,796,642</u>	<u>1,147,075</u>
<b>BHI Creek Dredging</b>					
Administration/engineering	365,113	365,113	-	365,113	-
Monitoring	45,945	45,944	-	45,944	1
Construction	1,241,869	1,241,869	-	1,241,869	-
Subtotal	<u>1,652,927</u>	<u>1,652,926</u>	<u>-</u>	<u>1,652,926</u>	<u>1</u>
<b>Sandtube Groins</b>					
Administration/Engineering	62,167	62,167	-	62,167	-
Construction	676,538	676,537	-	676,537	1
Subtotal	<u>738,705</u>	<u>738,704</u>	<u>-</u>	<u>738,704</u>	<u>1</u>
Total expenditures	<u>35,769,711</u>	<u>29,825,122</u>	<u>3,817,795</u>	<u>33,642,917</u>	<u>2,126,794</u>
Revenues over (under) expenditures	<u>(34,440,762)</u>	<u>(28,490,733)</u>	<u>(2,879,109)</u>	<u>(31,369,842)</u>	<u>3,070,920</u>
<b>Other financing sources (uses)</b>					
Operating transfer from					
General Fund	7,558,567	7,816,230	288,062	8,104,292	545,725
Village Facilities Fund	1,663,470	1,663,470	-	1,663,470	-
Bonds Issued - 2009	15,000,000	15,000,000	-	15,000,000	-
Bonds Issued - 2012	1,718,725	1,718,725	-	1,718,725	-
Bonds Issued - 2014	8,500,000	8,500,000	-	8,500,000	-
Total other financing sources (uses)	<u>34,440,762</u>	<u>34,698,425</u>	<u>288,062</u>	<u>34,986,487</u>	<u>545,725</u>
Revenues and other financing sources over (under) expenditures	<u>-</u>	<u>6,207,692</u>	<u>(2,591,047)</u>	<u>3,616,645</u>	<u>3,616,645</u>
Fund balance, beginning			<u>6,207,692</u>		
Fund balance, ending			<u>3,616,645</u>		

**VILLAGE OF BALD HEAD ISLAND  
VILLAGE FACILITIES IMPROVEMENT FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
From Inception and for the Fiscal Year Ended June 30, 2016**

EXHIBIT B-4

	Project Author- ization	Prior Year	Actual Current Year	Total To Date	Variance Favorable (Unfavorable)
<u>Revenues</u>					
Investment earnings					
Interest earned	105,160	105,612	52	105,664	504
Total revenues	<u>105,160</u>	<u>105,612</u>	<u>52</u>	<u>105,664</u>	<u>504</u>
<u>Expenditures</u>					
General Government					
Capital outlay:					
Administration - village hall	238,686	224,097	1,000	225,097	13,589
Construction - village hall	534,316	530,688	3,125	533,813	503
Furnishings/Equipment - village hall	41,802	41,276	-	41,276	526
Purchase of real property	330,082	330,082	-	330,082	-
Total	<u>1,144,886</u>	<u>1,126,143</u>	<u>4,125</u>	<u>1,130,268</u>	<u>14,618</u>
Public Safety					
Capital outlay:					
Administration and engineering	542,580	225,834	140,494	366,328	176,252
Legal and professional services	5,131	5,131	10,841	15,972	(10,841)
Construction	10,000	9,653	-	9,653	347
Total	<u>557,711</u>	<u>240,618</u>	<u>151,335</u>	<u>391,953</u>	<u>165,758</u>
Total expenditures	<u>1,702,597</u>	<u>1,366,761</u>	<u>155,460</u>	<u>1,522,221</u>	<u>180,376</u>
Revenues over (under) expenditures	<u>(1,597,437)</u>	<u>(1,261,149)</u>	<u>(155,408)</u>	<u>(1,416,557)</u>	<u>(180,880)</u>
Other financing sources (uses)					
Loan proceeds	-	165,000	-	165,000	165,000
Operating transfer from General Fund	3,265,533	2,764,678	373,998	3,138,676	(126,857)
Operating transfers to General Fund	(4,626)	(4,626)	-	(4,626)	-
Beach Stabilization Fund	(1,663,470)	(1,663,470)	-	(1,663,470)	-
Net other financing sources (uses)	<u>1,597,437</u>	<u>1,261,582</u>	<u>373,998</u>	<u>1,635,580</u>	<u>38,143</u>
Revenues and other financing sources over (under) expenditures	<u>-</u>	<u>433</u>	<u>218,590</u>	<u>219,023</u>	<u>219,023</u>
Fund balance, beginning			<u>433</u>		
Fund balance, ending			<u>219,023</u>		

**VILLAGE OF BALD HEAD ISLAND  
WATER AND SEWER FUND  
SCHEDULE OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL (NON-GAAP)  
For the year ended June 30, 2016**

EXHIBIT C-1  
Page 1 of 3

	Budget	Actual	Variance Positive (Negative)
<b>Revenues:</b>			
Water charges			
Water service	804,648	802,444	(2,204)
Water tap fees	108,145	182,150	74,005
Pipeline surcharge	226,351	228,868	2,517
Miscellaneous revenue	6,000	5,100	(900)
Total	1,145,144	1,218,562	73,418
Sewer charges			
Sewer service	911,901	921,183	9,282
Sewer tap fees	135,651	55,947	(79,704)
Septic maintenance	23,338	22,868	(470)
Port-O-John rentals	17,700	30,034	12,334
Total	1,088,590	1,030,032	(58,558)
Total operating revenues	2,233,734	2,248,594	14,860
Nonoperating revenues			
Interest income	-	5,983	5,983
Contributions from customers	-	185,776	185,776
Total nonoperating revenues	-	191,759	191,759
Total revenues	2,233,734	2,440,353	206,619
<b>Expenditures</b>			
Operating expenditures			
Salaries and wages	544,255	541,728	2,527
Employee benefits	141,660	134,635	7,025
Utilities	88,500	95,334	(6,834)
Telephone	30,500	35,584	(5,084)
Gas and oil	8,160	6,506	1,654
Travel	4,200	1,965	2,235
Ferry expense	36,198	27,711	8,487
Parking	7,500	7,308	192
Barges and shipping	21,600	28,851	(7,251)
Equipment maintenance	9,300	18,521	(9,221)
Non-expendable supplies	1,200	514	686
Cart maintenance	2,600	618	1,982
Vehicle maintenance	9,430	8,656	774
Building and grounds maintenance	10,400	6,624	3,776
System repairs and maintenance	203,000	201,022	1,978
Office supplies	2,000	1,781	219
Water supplies	10,000	11,688	(1,688)
Sewer supplies	21,800	21,716	84
Safety equipment	2,500	2,595	(95)

**VILLAGE OF BALD HEAD ISLAND  
WATER AND SEWER FUND  
SCHEDULE OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL (NON-GAAP)  
For the year ended June 30, 2016**

EXHIBIT C-1  
Page 2 of 3

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Tools	3,500	3,384	116
Building supplies	1,200	665	535
Copies and printing	10,200	9,873	327
Postage	500	-	500
Dues and subscriptions	1,000	1,106	(106)
Uniforms	3,600	3,170	430
Training and certification	2,500	816	1,684
Permits	4,900	5,425	(525)
Miscellaneous	2,000	1,949	51
Professional services	70,541	80,081	(9,540)
Lab fees	20,400	18,064	2,336
Medical fees	1,000	-	1,000
Purchase of water	49,000	44,227	4,773
Insurance	59,200	60,412	(1,212)
Equipment rental	2,800	1,128	1,672
Non-depreciable equipment	-	808	(808)
Manager's supplemental funds	29,440	386	29,054
Total	<u>1,416,584</u>	<u>1,384,851</u>	<u>31,733</u>
Debt service			
Principal payments	3,114,880	3,116,322	(1,442)
Interest and other costs	63,870	60,875	2,995
Total	<u>3,178,750</u>	<u>3,177,197</u>	<u>1,553</u>
Capital outlay			
Capital asset additions	<u>1,341,850</u>	<u>1,150,498</u>	<u>191,352</u>
Total expenditures	<u>5,937,184</u>	<u>5,712,546</u>	<u>224,638</u>
Revenues over (under) expenditures	<u>(3,703,450)</u>	<u>(3,272,193)</u>	<u>431,257</u>
Other financing sources (uses)			
Fund balance appropriated	(296,550)	-	296,550
Loan proceeds	4,000,000	4,000,000	-
Total other financing sources (uses)	<u>3,703,450</u>	<u>4,000,000</u>	<u>296,550</u>
Revenues and other sources over expenditures and other uses	<u>-</u>	<u>727,807</u>	<u>727,807</u>
Fund Balance			
Beginning of year		<u>1,317,880</u>	
End of year		<u>2,045,687</u>	

**VILLAGE OF BALD HEAD ISLAND  
WATER AND SEWER FUND  
SCHEDULE OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL (NON-GAAP)  
For the year ended June 30, 2016**

EXHIBIT C-1  
Page 3 of 3

	Budget	Actual	Variance Positive (Negative)
Reconciliation from budgetary basis (modified accrual) to full accrual			
Revenues and other sources over expenditures and other uses		727,807	
Reconciling items:			
Principal retirement		3,116,322	
Capital outlay		1,150,498	
Increase in interest expense accrued		(14,791)	
Increase in accrued vacation pay		(3,331)	
Decrease in net pension asset		(55,267)	
Increase in deferred outflows of resources - pensions		(104)	
Increase in net pension liability		(32,065)	
Decrease in deferred inflows of resources - pensions		102,661	
Depreciation		(273,882)	
Loan proceeds		(4,000,000)	
Transfer from General Fund in capital project		28,350	
Interest income recorded in capital projects		21	
Transfer to Capital Projects from Water and Sewer Fund		-	
Change in net position per exhibit 7		746,219	

-

**VILLAGE OF BALD HEAD ISLAND**  
**INFILTRATION POND IMPROVEMENT CAPITAL PROJECT FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
**From Inception and for the Fiscal Year Ended June 30, 2016**

EXHIBIT C-2

	Project Author- ization	Prior Year	Actual Current Year	Total To Date	Variance Favorable (Unfavorable)
<b>Revenues</b>					
Interest on investments	22,750	23,122	21	23,143	393
Total revenues	22,750	23,122	21	23,143	393
<b>Expenditures</b>					
Capital outlay:					
Infiltration pond					
Administration	45,000	44,289	-	44,289	711
Engineering	804,505	804,920	-	804,920	(415)
Legal	468,624	458,069	-	458,069	10,555
Construction	412,451	402,499	-	402,499	9,952
Total	1,730,580	1,709,777	-	1,709,777	20,803
Aquifer study					
Administration	112,050	34,080	-	34,080	77,970
Engineering/Legal	332,860	331,658	-	331,658	1,202
Construction	91,739	91,739	-	91,739	-
Total	536,649	457,477	-	457,477	79,172
Total expenditures	2,267,229	2,167,254	-	2,167,254	99,975
Revenues over (under) expenditures	(2,244,479)	(2,144,132)	21	(2,144,111)	100,368
Other financing sources (uses)					
Operating transfer from					
General Fund	1,796,855	1,768,507	28,350	1,796,857	2
Water and Sewer Fund	447,624	447,624	-	447,624	-
Net other financing sources (uses)	2,244,479	2,216,131	28,350	2,244,481	2
Revenues and other financing sources over (under) expenditures	-	71,999	28,371	100,370	100,370
Fund balance, beginning			71,999		
Fund balance, ending			100,370		

## Other Schedules

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This section includes additional information on property taxes and transfers.

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



**VILLAGE OF BALD HEAD ISLAND, NORTH CAROLINA  
GENERAL FUND  
SCHEDULE OF AD VALOREM TAXES RECEIVABLE  
June 30, 2016**

EXHIBIT D-1

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2015</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2016</u>
2015-2016	-	7,643,748	7,582,118	61,630
2014-2015	68,374	-	42,249	26,125
2013-2014	28,715	-	8,821	19,894
2012-2013	19,355	-	8,107	11,248
2011-2012	8,509		3,500	5,009
2010-2011	4,292		1,351	2,941
2009-2010	11,022		3,870	7,152
2008-2009	1,696		-	1,696
2007-2008	2,174		-	2,174
2006-2007	<u>146</u>	<u>-</u>	<u>-</u>	<u>146</u>
Totals	<u>144,283</u>	<u>7,643,748</u>	<u>7,650,016</u>	<u>138,015</u>

Reconciliation with revenues

Taxes - ad valorem - General Fund	7,672,569
Less interest and penalties	22,553
Other adjustments	<u>-</u>
Total collections	<u><u>7,650,016</u></u>

**VILLAGE OF BALD HEAD ISLAND, NORTH CAROLINA**  
**ANALYSIS OF CURRENT TAX LEVY**  
**VILLAGE-WIDE LEVY**  
**For the Year Ended June 30, 2016**

EXHIBIT D-2

	Village-Wide			Total Levy	
	<u>Property Valuation</u>	<u>Rate</u>	<u>Amount of Levy</u>	<u>Property excluding Registered Motor Vehicles</u>	<u>Registered Motor Vehicles</u>
Original Levy:					
Property taxed at current year's rate	1,090,768,989	0.006663	7,267,794	7,267,794	
Special district taxes			367,947	367,947	
Registered motor vehicles taxed at current year's rate	1,100	0.006663	7		7
Registered motor vehicles taxed at prior year's rate	-	0.005910	-	-	-
<b>Total original levy</b>	<u>1,090,770,089</u>		<u>7,635,748</u>	<u>7,635,741</u>	<u>7</u>
Discoveries:					
Property taxed at current year's rate	1,276,207	0.006663	8,503	8,503	
Special district taxes			334	334	
Prior year taxes			-	-	
Prior year special district taxes	-		-	-	-
<b>Total discoveries</b>	<u>1,276,207</u>		<u>8,837</u>	<u>8,837</u>	<u>-</u>
Abatements:					
Property taxed at current year's rate	124,791	0.006663	831	831	
Special district taxes			6	6	
Registered motor vehicles taxed at current and prior year's rate	-	0.005900	-	-	-
<b>Total abatements</b>	<u>124,791</u>		<u>837</u>	<u>837</u>	<u>-</u>
<b>Net levy</b>	<u>1,091,921,505</u>		7,643,748	7,643,741	7
Uncollected taxes at June 30, 2016			<u>61,630</u>	<u>61,630</u>	<u>-</u>
Current year's taxes collected			<u>7,582,118</u>	<u>7,582,111</u>	<u>7</u>
Current levy collection percentage			<u>99.19%</u>	<u>99.19%</u>	<u>100.00%</u>

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 Auditor's Report

To the Honorable Mayor and the  
Members of Council  
Village of Bald Head Island  
Bald Head Island, North Carolina 28461

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Bald Head Island, North Carolina, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprises the Village of Bald Head Island's basic financial statements, and have issued our report thereon dated November 14, 2016.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses that we consider to be significant deficiencies. We consider deficiency 2016-1 and 2016-2 to be significant deficiencies in internal control over financial reporting.

Compliance and Other Matters

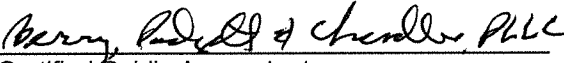
As part of obtaining reasonable assurance about whether the Village of Bald Head Island's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. That item is described in the accompanying schedule of findings and questioned costs at 2016-1.

Village of Bald Head Island's Response to Findings

The Village of Bald Head Island's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Village's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

  
Certified Public Accountants

November 14, 2016

VILLAGE OF BALD HEAD ISLAND, NORTH CAROLINA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Fiscal Year Ended June 30, 2016

EXHIBIT E-1  
Page 1 of 2

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

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

II. Financial Statement Findings

SIGNIFICANT DEFICIENCIES

**2016-1 Significant Audit Adjustments**

Criteria: General ledger and other records should include all adjustments necessary for GAAP financial reporting

Condition: Several audit adjustments that in our opinion would not have been discovered except through our auditing procedures were proposed. Management is responsible for establishing controls to ensure that they are able to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles.

Effect: Financial reporting could be misleading.

Cause: The finance department staff is competent, capable and performs daily and monthly functions very well. However there was significant turnover in the department during the past year. The new hires had no experience in governmental accounting, and consequently their expertise was limited with some aspects of governmental generally accepted accounting principles.

Recommendation: Additional training should be accorded the Finance Director and accounting staff with additional supervision provided until such time as training is completed.

Views of responsible officials and planned corrective actions: The Village agrees with this finding and recommendation.

**VILLAGE OF BALD HEAD ISLAND, NORTH CAROLINA**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**For the Fiscal Year Ended June 30, 2016**

**EXHIBIT E-1**  
**Page 2 of 2**

**2016-2 Segregation of Duties**

Criteria: Duties should be segregated to provide reasonable assurance that transactions are handled appropriately. Documentation should be in place to provide continuing guidance.

Condition: There is a lack of segregation of duties among Village personnel.

Effect: Transactions could be mishandled.

Cause: There are a limited number of personnel for certain functions

Recommendation: The duties should be segregated as much as possible and alternative controls should be used to compensate for lack of separation. Job descriptions, accounting policies and procedures should be in writing and reviewed annually. Policies and procedures should be updated and refined as the Village continues to grow and reporting requirements become more vigorous. Incompatible duties such as initiation of transactions and approval of those transactions should be separated, and when possible duties should be rotated to further enhance controls. Finally, all employees should be aware of the existence and application of these policies.

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

VILLAGE OF BALD HEAD ISLAND, NORTH CAROLINA  
CORRECTIVE ACTION PLAN  
For the Year Ended June 30, 2016

Exhibit E-2

I. Financial Statement Findings

**Finding 2016-1**

Name of contact person: Virginia Cummings, Finance Officer

Corrective Action: Additional continuing education courses in governmental accounting will be undertaken by the finance department staff.

Proposed completion date: June 30, 2017

**Finding 2016-2**

Name of contact person: Virginia Cummings

Corrective Action: Some duties currently undertaken by the finance director will be delegated to accounting staff to aid in segregation of duties.

Proposed completion date: June 30, 2017



**VILLAGE OF BALD HEAD ISLAND, NORTH CAROLINA  
SUMMARY SCHEDULE OF PRIOR YEAR FINDING  
For the Year Ended June 30, 2016**

**Exhibit E-3**

**Finding: 2015-1**

Status: The condition has been corrected