

VILLAGE OF BALD HEAD ISLAND, NORTH CAROLINA

AUDITED FINANCIAL STATEMENTS

June 30, 2015

Village Council Members

J. Andrew Sayre, Mayor  
Gene Douglas, Mayor Pro Tempore  
Art Morris  
Robert Helgesen  
Joe Ridgeway

Administrative and Financial Staff

Calvin R. Peck, Jr., Village Manager  
Debra Straub, Finance Director  
Lori Frye, Tax Administrator

VILLAGE OF BALD HEAD ISLAND, NORTH CAROLINA  
TABLE OF CONTENTS  
June 30, 2015

EXHIBIT

**FINANCIAL SECTION**

**Independent Auditor's Report**

**Management's Discussion and Analysis**

**Basic Financial Statements:**

Government-wide Financial Statements:

Statement of Net Position 1

Statement of Activities 2

Fund Financial Statements:

Balance Sheet - Governmental Funds 3

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position

Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds 4

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities 4

Statement of Revenues, Expenditures, and Changes in Fund Balances - Annual Budget and Actual - General Fund 5

Statement of Net Position – Proprietary Funds 6

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds 7

Statement of Cash Flows – Proprietary Funds 8

Notes to the Financial Statements 9

**Required Supplemental Financial Data:**

Law Enforcement Officers' Special Separation Allowance - Schedule of Funding Progress A-1

Law Enforcement Officers' Special Separation Allowance - Schedule of Employer Contributions A-2

Schedule of the Proportionate Share of the Net Pension Asset – Local Government Employees' Retirement System A-3

Schedule of Contributions – Local Government Employees' Retirement System A-4

VILLAGE OF BALD HEAD ISLAND, NORTH CAROLINA  
TABLE OF CONTENTS  
June 30, 2015

EXHIBIT

**Supplementary Statements:**

Schedule of Revenues, Expenditures, and Changes in  
Fund Balances - Budget and Actual - General Fund B-1

Schedules of Revenues, Expenditures, and Changes in  
Fund Balances - Budget and Actual:

Stormwater Management Capital Reserve Fund B-2

Beach Stabilization Capital Project Fund B-3

Village Facilities Improvement Capital Project Fund B-4

Schedule of Revenues, Expenditures and Changes in Fund Balance –  
Budget and Actual

Water and Sewer Fund C-1

Infiltration Pond Improvement Capital Project Fund C-2

**Other Schedules:**

Schedule of Ad Valorem Taxes Receivable D-1

Analysis of Current Tax Levy D-2

**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.

Schedule of Findings and Responses E-1

Summary Schedule of Prior Audit Findings E-2

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, 2015 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 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, 2015, 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 9, 2015 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, Pabrett & Chandler PLLC*  
Certified Public Accountants

November 9, 2015

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, 2015. 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

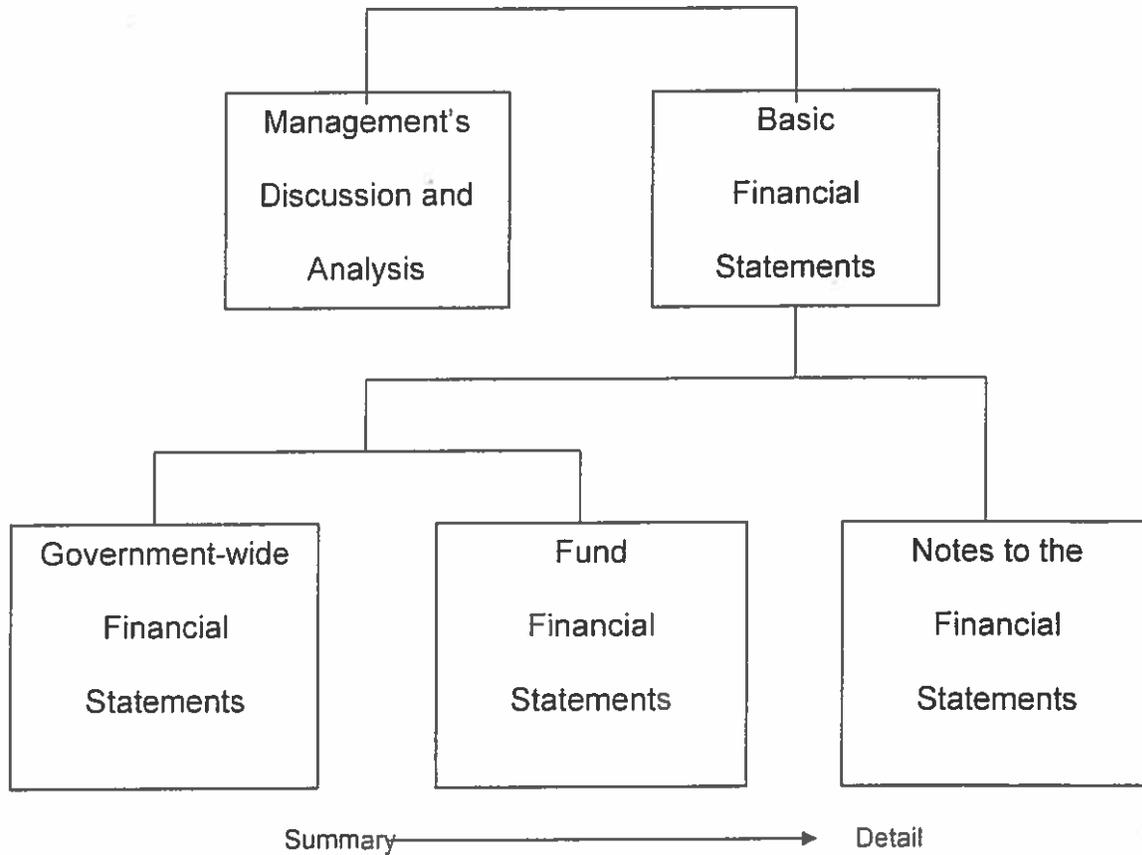
- The assets deferred outflows of resources of the Village of Bald Head Island *exceeded* its liabilities and deferred inflows of resources at the close of the fiscal year by \$23,995,784 (*net position*).
- The government's total net position *increased* by \$4,810,196, primarily due to the decrease 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 \$11,877,899, an increase of \$4,678,380 in comparison with the prior year. Approximately 43.6% percent of this total amount or \$5,183,334 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 \$5,183,334 which is a increase of \$151,047
- The Village of Bald Head Island's total debt increased by \$4,724,458 (60.1%) during the current fiscal year. The key factor in this increase was the issuance of general obligation bonds for the construction of a terminal groin.

### 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 2) 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** - 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**

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 14,008,860	\$ 7,824,994	\$ 1,573,303	\$ 1,264,137	\$ 15,582,163	\$ 9,089,131
Capital assets	12,709,160	7,370,660	10,767,889	10,900,044	23,477,049	18,270,704
Deferred outflows of resources	157,584	-	31,885	-	189,469	-
<b>Total assets and deferred outflows of resources</b>	<b>26,875,604</b>	<b>15,195,654</b>	<b>12,373,077</b>	<b>12,164,181</b>	<b>39,248,681</b>	<b>27,359,835</b>
Long term liabilities outstanding	9,631,867	3,729,290	2,956,148	3,449,866	12,588,015	7,179,156
Other liabilities	1,702,708	416,167	89,457	45,965	1,792,165	462,132
Deferred inflows of resources	690,816	-	181,901	28,600	872,717	28,600
<b>Total liabilities and deferred inflows of resources</b>	<b>12,025,391</b>	<b>4,145,457</b>	<b>3,227,506</b>	<b>3,524,431</b>	<b>15,252,897</b>	<b>7,669,888</b>
<b>Net position:</b>						
	4,044,160	7,370,660	7,845,435	7,482,443	11,889,595	14,853,103
	6,908,977	2,159,732	291,892	-	7,200,869	2,159,732
	3,897,076	1,519,805	1,008,244	1,157,307	4,905,320	2,677,112
<b>Total net position</b>	<b>\$ 14,850,213</b>	<b>\$ 11,050,197</b>	<b>\$ 9,145,571</b>	<b>\$ 8,639,750</b>	<b>\$ 23,995,784</b>	<b>\$ 19,689,947</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 \$23,995,784 as of June 30, 2015. The Village's net position *increased* by \$4,810,196 for the fiscal year ended June 30, 2015. However, the largest portion \$11,889,595 (49.6%) 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 \$7,200,869 represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$4,905,320 is unrestricted. Also, the Village of Bald Head Island implemented GASB Statement 68 this year. With the new reporting change, the Village is allocated its proportionate share of the Local Government Employees' Retirement System's net pension asset, deferred outflows of resources, deferred inflows of resources and pension expense. A restatement to record the effects of the new reporting guidance decreased beginning net position by \$504,359. Decisions regarding the allocations are made by the administrators of the pension plan, not by the Village of Bald Head Island's management.

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 99.12%, which is comparable to the statewide average of 98.35%.
- A 5.0% increase in accommodation taxes and an 185.8% increase in unrestricted intergovernmental revenue

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

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
<b>Revenues</b>						
<b>Program revenues:</b>						
Charges for services	401,416	340,422	2,084,684	2,097,657	2,486,100	2,438,079
Operating grants and contributions	216,449	155,160	19,201	83,904	235,650	239,064
Capital grants and contributions	38,482	784,690	106,100	135,200	144,582	919,890
<b>General revenues</b>						
Property taxes	7,806,332	7,788,377			7,806,332	7,788,377
Other taxes & licenses	1,490,853	1,145,926			1,490,853	1,145,926
Unrestricted investment earnings	7,099	8,569	567	905	7,666	9,474
Other	33,463	53,373	10,989	1,988	44,452	55,361
<b>Total revenues</b>	<b>9,994,094</b>	<b>10,276,517</b>	<b>2,221,541</b>	<b>2,319,654</b>	<b>12,215,635</b>	<b>12,596,171</b>
<b>Expenses:</b>						
General government	1,593,601	1,307,650			1,593,601	1,307,650
Public safety	2,074,821	2,172,169			2,074,821	2,172,169
Transportation	-	103,873			-	103,873
Environmental protection	1,198,915	1,129,138			1,198,915	1,129,138
Economic & physical development	683,378	767,488			683,378	767,488
Interest on long term debt	195,603	249,824			195,603	249,824
Water & Sewer			1,659,121	1,567,445	1,659,121	1,567,445
<b>Total expenses</b>	<b>5,746,318</b>	<b>5,730,142</b>	<b>1,659,121</b>	<b>1,567,445</b>	<b>7,405,439</b>	<b>7,297,587</b>
<b>Increase in net position before transfers</b>	<b>4,247,776</b>	<b>4,546,375</b>	<b>562,420</b>	<b>752,209</b>	<b>4,810,196</b>	<b>5,298,584</b>
<b>Transfers</b>	<b>(30,000)</b>	<b>(50,000)</b>	<b>30,000</b>	<b>50,000</b>	<b>-</b>	<b>-</b>
<b>Increase in net position</b>	<b>4,217,776</b>	<b>4,496,375</b>	<b>592,420</b>	<b>802,209</b>	<b>4,810,196</b>	<b>5,298,584</b>
<b>Net position, July 1 (consolidated)</b>	<b>11,050,197</b>	<b>6,553,822</b>	<b>8,639,750</b>	<b>7,837,541</b>	<b>19,689,947</b>	<b>14,391,363</b>
<b>Net position, beginning restated</b>	<b>10,632,437</b>	<b>6,553,822</b>	<b>8,553,151</b>	<b>7,837,541</b>	<b>19,185,588</b>	<b>14,391,363</b>
<b>Net position, June 30</b>	<b>14,850,213</b>	<b>11,050,197</b>	<b>9,145,571</b>	<b>8,639,750</b>	<b>23,995,784</b>	<b>19,689,947</b>

**Governmental activities.** Governmental activities increased the Village's net position by \$4,217,776 due to monitoring and maintaining department expenses while increasing capital assets.

**Business-type activities.** Business-type activities increased the Village's net position by \$592,420. Key element of this increase is a reduction in long term debt.

## **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 \$5,183,334 while total fund balance reached \$5,669,774. 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 58.8% of general fund expenditures, while total fund balance represents 64.3% of the same amount.

At June 30, 2015, the governmental funds of Village of Bald Head Island reported a combined fund balance of \$11,877,899, a 65.0 percent increase over last year.

**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, accommodation tax receipts, and intergovernmental revenues. 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 \$1,008,244. The total change in net position for the fund was \$592,420. 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, 2015, totals \$23,477,049 (net of accumulated depreciation). These assets include buildings, roads and bridges, land, machinery and equipment, creek access facilities, and vehicles.

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

**Figure 4**

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Land	\$1,894,558	\$1,297,159	\$35,000	\$35,000	\$1,929,558	\$1,332,159
Buildings	1,707,650	1,753,918	606,204	620,685	2,313,854	2,374,603
Other Improvements	378,296	401,930	-	-	378,296	401,930
Utility Systems	-	-	9,583,247	9,723,617	9,583,247	9,723,617
Furniture and equipment	142,536	58,885	110,632	82,791	253,168	141,676
Infrastructure	2,473,749	2,488,338	-	-	2,473,749	2,488,338
Vehicles and motored equipment	256,761	312,174	12,401	16,457	269,162	328,631
Construction in progress	5,855,610	1,058,256	420,405	421,494	6,276,015	1,479,750
<b>Total</b>	<b>\$12,709,160</b>	<b>\$7,370,660</b>	<b>\$10,767,889</b>	<b>\$10,900,044</b>	<b>\$23,477,049</b>	<b>\$18,270,704</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, 2015, the Village of Bald Head Island had total long-term debt of \$12,588,015. Of this, \$2,992,454 is an Installment Note with Branch Bank and Trust Company secured by a Deed of Trust on the water and sewer system. Proceeds from this financing were used to refund the 2001 Cape Fear Waterline and the acquisition of the Water and Sewer System in December 2005. This note was refinanced in May 2012 at 2.16%. \$710,075 is a debt service for a general obligation bond privately placed with RBC Bank in September 2009 with a rate of 4.82% for six years. \$8,500,000 is a debt service for a general obligation bond with a rate of 1.95% for 5 years.

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 \$99,989,960.

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.

**Budget Highlights for the Fiscal Year Ending June 30, 2016**

**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 final payment of the 2009 GO Bond for the Shoreline Beach Renourishment will be made this fiscal year. The Village has issued contracts for two major projects: the Marina Jetty Wall Extension Project, and the Terminal Groin Construction Project. Bald Head will be one of only four such projects allowed by the State. Payment will begin on the 2014 GO Bond that is funding both of these projects.

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 spring 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 to modify the existing loan to cover additional capital improvements 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, 2015

Exhibit 1

	<b>Primary Government</b>		<b>Total</b>
	<b>Governmental</b>	<b>Business-type</b>	
	<b>Activities</b>	<b>Activities</b>	
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and equivalents	5,065,427	715,532	5,780,959
Investments	636,666	113,446	750,112
Taxes receivable (net)	144,283	-	144,283
Accrued interest receivable on taxes	25,558	-	25,558
Accounts receivable	10,903	200,833	211,736
Due from other governmental agencies	416,157	25,957	442,114
Inventories	-	223,143	223,143
Prepaid expenses	7,500	2,500	10,000
<b>Restricted assets</b>			
Restricted cash and cash equivalents	6,673,797	236,625	6,910,422
Restricted investments	761,952	-	761,952
<b>Total current assets</b>	<b>13,742,243</b>	<b>1,518,036</b>	<b>15,260,279</b>
<b>Non-current assets</b>			
<b>Restricted assets</b>			
Net pension asset	266,617	55,267	321,884
<b>Capital assets</b>			
Land and improvements not being depreciated	7,750,168	455,405	8,205,573
Other capital assets, net of depreciation	4,958,992	10,312,484	15,271,476
<b>Total capital assets</b>	<b>12,709,160</b>	<b>10,767,889</b>	<b>23,477,049</b>
<b>Total non-current assets</b>	<b>12,975,777</b>	<b>10,823,156</b>	<b>23,798,933</b>
<b>Total assets</b>	<b>26,718,020</b>	<b>12,341,192</b>	<b>39,059,212</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Contribution to pension plan in current fiscal year	157,584	31,885	189,469
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	463,900	89,457	553,357
Accrued interest	8,205	-	8,205
Due to other governmental agencies	46,818	-	46,818
Customer deposits	21,000	-	21,000
Payable from restricted assets	1,162,785	-	1,162,785
<b>Long-term liabilities</b>			
Due within one year	2,440,471	536,000	2,976,471
<b>Total current liabilities</b>	<b>4,143,179</b>	<b>625,457</b>	<b>4,768,636</b>
Long-term liabilities	7,191,396	2,420,148	9,611,544
<b>Total liabilities</b>	<b>11,334,575</b>	<b>3,045,605</b>	<b>14,380,180</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Pension deferrals	690,816	143,201	834,017
Unearned income	-	38,700	38,700
<b>Total deferred inflows of resources</b>	<b>690,816</b>	<b>181,901</b>	<b>872,717</b>
<b>NET POSITION</b>			
Net investment in capital assets	4,044,160	7,845,435	11,889,595
<b>Restricted for:</b>			
Stabilization by State Statute	434,668	-	434,668
Net pension asset	266,617	55,267	321,884
Economic Development	6,207,692	-	6,207,692
Capital Outlay	-	236,625	236,625
<b>Unrestricted</b>	<b>3,897,076</b>	<b>1,008,244</b>	<b>4,905,320</b>
<b>Total net position</b>	<b>14,850,213</b>	<b>9,145,571</b>	<b>23,995,784</b>

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, 2015

Functions/Programs	Program Revenue			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Primary government</b>							
Governmental activities							
General Government	1,593,601	51,711	-	38,482	(1,503,408)	-	(1,503,408)
Public Safety	2,074,821	349,705	169,682	-	(1,555,434)	-	(1,555,434)
Transportation	-	-	44,857	-	44,857	-	44,857
Environmental protection	1,198,915	-	1,910	-	(1,197,005)	-	(1,197,005)
Economic and Physical Development	683,378	-	-	-	(683,378)	-	(683,378)
Interest on Long-term debt	195,603	-	-	-	(195,603)	-	(195,603)
Total governmental activities	5,746,318	401,416	216,449	38,482	(5,089,971)	-	(5,089,971)
<b>Business-type activities</b>							
Water and Sewer Operations	1,659,121	2,084,684	19,201	106,100	-	550,864	550,864
Total business-type activities	1,659,121	2,084,684	19,201	106,100	-	550,864	550,864
Total primary government	7,405,439	2,486,100	235,650	144,582	(5,089,971)	550,864	(4,539,107)
<b>General revenues:</b>							
Taxes:							
Property taxes, levied for general purposes					7,806,332	-	7,806,332
Other taxes					1,490,853	-	1,490,853
Unrestricted investment earnings					7,099	567	7,666
Miscellaneous					33,463	10,989	44,452
Total general revenues					9,337,747	11,556	9,349,303
Transfers					(30,000)	30,000	-
Total general revenues and transfers					9,307,747	41,556	9,349,303
Change in net position					4,217,776	592,420	4,810,196
Net position - beginning, previously reported					11,050,197	8,639,750	19,689,947
Restatement					(417,760)	(86,599)	(504,359)
Net position, beginning, restated					10,632,437	8,553,151	19,185,588
Net position - ending					14,850,213	9,145,571	23,995,784

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

VILLAGE OF BALD HEAD ISLAND  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2015

Exhibit 3  
Page 1 of 2

	<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	4,991,153	6,613,238	74,274	11,678,665
Restricted cash	60,559			60,559
Investments	627,817	757,239	8,849	1,393,905
Restricted investments	4,713			4,713
Taxes receivable, net	144,283	-	-	144,283
Receivable from other governments	416,157	-	-	416,157
Other receivables	10,903	-	-	10,903
Prepaid expenses	7,500			7,500
<b>Total assets</b>	<b>6,263,085</b>	<b>7,370,477</b>	<b>83,123</b>	<b>13,716,685</b>
<b>LIABILITIES</b>				
Liabilities				
Accounts payable and accrued liabilities	381,210	1,162,785	82,690	1,626,685
Payable to other governments	46,818	-	-	46,818
Deposits	21,000	-		21,000
<b>Total liabilities</b>	<b>449,028</b>	<b>1,162,785</b>	<b>82,690</b>	<b>1,694,503</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Property taxes receivable	144,283	-	-	144,283
<b>Total deferred inflows of resources</b>	<b>144,283</b>	<b>-</b>	<b>-</b>	<b>144,283</b>
<b>FUND BALANCES</b>				
Non Spendable				
Prepaid expenses	7,500			7,500
Restricted				
Stabilization by State Statute	434,668	-	-	434,668
Economic Development	44,272	6,207,692	433	6,252,397
Unassigned	5,183,334			5,183,334
<b>Total fund balances</b>	<b>5,669,774</b>	<b>6,207,692</b>	<b>433</b>	<b>11,877,899</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>6,263,085</b>	<b>7,370,477</b>	<b>83,123</b>	<b>13,716,685</b>

**VILLAGE OF BALD HEAD ISLAND**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET POSITION**  
**June 30, 2015**

Exhibit 3  
Page 2 of 2

Total fund balance, governmental funds	11,877,899
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.	12,709,160
Net pension asset	266,617
Contributions to the plan in the current fiscal year are deferred outflows of resources on the Statement Position	157,584
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.	25,558
Liabilities for earned revenues considered deferred inflows of resources in the fund statements.	144,283
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.	(9,631,867)
Pension related deferrals	(690,816)
Other long-term liabilities (accrued interest) are not due and payable in the current period and therefore are not reported in the funds.	<u>(8,205)</u>
Net position of governmental activities	<u><u>14,850,213</u></u>

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

**VILLAGE OF BALD HEAD ISLAND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**For the Year Ended June 30, 2015**

Exhibit 4  
Page 1 of 2

	<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	7,845,799	-		7,845,799
Other taxes	1,061,251	-		1,061,251
Unrestricted intergovernmental revenues	434,836	-		434,836
Restricted intergovernmental revenues	254,931	-		254,931
Licenses and permits	347,765	-		347,765
Sales and services	54,981	-		54,981
Investment earnings	3,205	3,840	54	7,099
Miscellaneous	26,899	-		26,899
<b>Total revenues</b>	<u>10,029,667</u>	<u>3,840</u>	<u>54</u>	<u>10,033,561</u>
<b>EXPENDITURES</b>				
<b>Current</b>				
General government	1,656,387	-	859,866	2,516,253
Public safety	2,193,312	-	61,032	2,254,344
Transportation	76,357	-	-	76,357
Environmental protection	1,128,217	-	-	1,128,217
Economic and physical development	797,996	4,247,217	-	5,045,213
<b>Debt Service</b>				
Principal	2,776,114	-	-	2,776,114
Interest and other charges	193,683	-	-	193,683
<b>Total expenditures</b>	<u>8,822,066</u>	<u>4,247,217</u>	<u>920,898</u>	<u>13,990,181</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>1,207,601</u>	<u>(4,243,377)</u>	<u>(920,844)</u>	<u>(3,956,620)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from long-term debt, net	-	8,500,000	165,000	8,665,000
Transfers in	-	487,663	415,000	902,663
Transfers out	(932,663)	-	-	(932,663)
<b>Total other financing sources and uses</b>	<u>(932,663)</u>	<u>8,987,663</u>	<u>580,000</u>	<u>8,635,000</u>
<b>Net change in fund balances</b>	274,938	4,744,286	(340,844)	4,678,380
<b>Fund balances - beginning</b>	<u>5,394,836</u>	<u>1,463,406</u>	<u>341,277</u>	<u>7,199,519</u>
<b>Fund balances - ending</b>	<u>5,669,774</u>	<u>6,207,692</u>	<u>433</u>	<u>11,877,899</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, 2015

Exhibit 4  
 Page 2 of 2

Net change in fund balances - total governmental funds: 4,678,380

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	5,580,945
Depreciation	(242,445)

Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities	157,584
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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.

Change in unavailable revenue for tax revenues	(39,029)
Increase in interest receivable on property taxes	(437)

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	(8,665,000)
Principal payments on long-term debt	2,776,114

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	(1,921)
Compensated absences	1,471
Pension expense	(6,439)
Net pension obligation	(21,447)

Change in net position of governmental activities	4,217,776
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**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, 2015**

Exhibit 5

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with</u> <u>Final Budget -</u> <u>Positive</u> <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Ad valorem taxes	7,780,811	7,780,811	7,845,799	64,988
Other taxes	978,120	978,120	1,061,251	83,131
Unrestricted intergovernmental revenues	126,477	126,477	434,836	308,359
Restricted intergovernmental revenues	306,243	306,243	254,931	(51,312)
Licenses and permits	287,838	287,838	347,765	59,927
Sales and services	2,635	89,635	54,981	(34,654)
Investment earnings	11,000	11,000	3,183	(7,817)
Miscellaneous	6,400	6,400	26,899	20,499
Total revenues	<u>9,499,524</u>	<u>9,586,524</u>	<u>10,029,645</u>	<u>443,121</u>
<b>EXPENDITURES</b>				
<b>Current</b>				
General government	1,651,192	1,864,692	1,656,387	208,305
Public safety	2,202,597	2,359,597	2,193,312	166,285
Transportation	82,469	82,469	76,357	6,112
Environmental protection	1,105,053	1,137,553	1,128,217	9,336
Economic and physical development	949,384	949,384	789,732	159,652
<b>Debt Service:</b>				
Principal	2,775,268	2,775,268	2,776,114	(846)
Interest and other charges	253,561	253,561	193,683	59,878
Contingency	250,000	250,000	-	250,000
Total expenditures	<u>9,269,524</u>	<u>9,672,524</u>	<u>8,813,802</u>	<u>858,722</u>
Excess (deficiency) of revenues over expenditures	<u>230,000</u>	<u>(86,000)</u>	<u>1,215,843</u>	<u>1,301,843</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	(230,000)	(932,663)	(932,663)	-
Total other financing sources and uses	<u>(230,000)</u>	<u>(932,663)</u>	<u>(932,663)</u>	<u>-</u>
Fund balance appropriated	-	1,018,663	-	1,018,663
Net change in fund balances	<u>-</u>	<u>-</u>	<u>283,180</u>	<u>(283,180)</u>
Fund balances - beginning			<u>5,342,322</u>	
Fund balances - ending			<u>5,625,502</u>	
Legally budgeted Stormwater Management Fund is consolidated into the General Fund for reporting purposes:				
Interest Income			22	
Expenditures			(8,264)	
Fund balances - beginning			<u>44,272</u>	
Fund balances - ending (Exhibit 4)			<u>5,661,532</u>	

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, 2015

Exhibit 6

	<u>Enterprise Funds</u>	
	<u>Water and Sewer Fund</u>	<u>Total</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	715,532	715,532
Investments	113,446	113,446
Accounts receivable, net	200,833	200,833
Receivables from other governments	25,957	25,957
Inventories	223,143	223,143
Prepaid expenses	2,500	2,500
Restricted assets		
Cash and cash equivalents	236,625	236,625
Total current assets	<u>1,518,036</u>	<u>1,518,036</u>
Non-current assets		
Restricted assets:		
Net pension asset	<u>55,267</u>	<u>55,267</u>
Capital assets:		
Land and construction in progress	455,405	455,405
Other capital assets, net of depreciation	10,312,484	10,312,484
Total capital assets	<u>10,767,889</u>	<u>10,767,889</u>
Total non-current assets	<u>10,823,156</u>	<u>10,823,156</u>
Total assets	<u>12,341,192</u>	<u>12,341,192</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Contributions to pension plan	<u>31,885</u>	<u>31,885</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	79,970	79,970
Salaries payable	9,487	9,487
Compensated absences - current	30,000	30,000
Bonds, notes and loans payable - current	506,000	506,000
Total current liabilities	<u>625,457</u>	<u>625,457</u>
Non-current liabilities:		
Compensated absences	3,694	3,694
Bonds, notes and loans payable	2,416,454	2,416,454
Total non-current liabilities	<u>2,420,148</u>	<u>2,420,148</u>
Total liabilities	<u>3,045,605</u>	<u>3,045,605</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Pension deferrals	143,201	143,201
Unearned income	38,700	38,700
Total deferred inflows of resources	<u>181,901</u>	<u>181,901</u>
<b>NET POSITION</b>		
Net investment in capital assets	7,845,435	7,845,435
Restricted for net pension asset	55,267	55,267
Restricted for capital outlay	236,625	236,625
Unrestricted	1,008,244	1,008,244
Total net position	<u>9,145,571</u>	<u>9,145,571</u>

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, 2015**

Exhibit 7

	<b>Enterprise Funds</b>	
	<b>Water and Sewer</b>	
	<b>Fund</b>	<b>Total</b>
<b>REVENUES</b>		
Charges for services	2,084,684	2,084,684
Miscellaneous operating revenue	9,439	9,439
Total operating revenues	2,094,123	2,094,123
<b>OPERATING EXPENSES</b>		
Water and sewer operations	1,318,738	1,318,738
Depreciation	270,556	270,556
Total operating expenses	1,589,294	1,589,294
Operating income (loss)	504,829	504,829
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Interest and investment revenue	567	567
Operating grants and contributions	19,201	19,201
Interest expense	(69,827)	(69,827)
Gain on sale of assets	1,550	1,550
Total non-operating revenue (expenses)	(48,509)	(48,509)
Income (loss) before contributions and transfers	456,320	456,320
Capital contributions	106,100	106,100
Transfers in	30,000	30,000
Change in net position	592,420	592,420
Total net position - beginning, as previously reported	8,639,750	8,639,750
Restatement	(86,599)	(86,599)
Total net position, restated	8,553,151	8,553,151
Total net position - ending	9,145,571	9,145,571

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

VILLAGE OF BALD HEAD ISLAND  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
June 30, 2015

EXHIBIT 8  
Page 1 of 2

	Enterprise Funds	
	Water & Sewer Fund	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from customers	2,147,668	2,147,668
Cash paid for goods and services	(866,995)	(866,995)
Cash paid to employees	(450,998)	(450,998)
Other operating revenue	9,439	9,439
Net cash provided (used) by operating activities	839,114	839,114
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Transfers from other funds	30,000	30,000
Total cash flows from noncapital financing activities	30,000	30,000
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Acquisition of capital assets	(143,220)	(143,220)
Principal paid on long-term debt	(495,147)	(495,147)
Interest paid on long-term debt	(69,827)	(69,827)
Contributions from customers	106,100	106,100
Capital contributions - federal grant	19,201	19,201
Proceeds from sale of assets	1,550	1,550
Net cash provided (used) for capital and related financing activities	(581,343)	(581,343)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Interest on investments	567	567
Investments liquidated	31,239	31,239
Net cash provided (used) for investing activities	31,806	31,806
Net increase (decrease) in cash and cash equivalents	319,577	319,577
Cash and cash equivalents at beginning of year	632,580	632,580
Cash and cash equivalents at end of year	952,157	952,157

VILLAGE OF BALD HEAD ISLAND  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
June 30, 2015

EXHIBIT 8  
Page 2 of 2

	Enterprise Funds	
	<u>Water &amp; Sewer Fund</u>	<u>Total</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	504,829	504,829
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	270,556	270,556
Pension expense	1,335	1,335
Changes in assets, deferred outflows, and liabilities:		
(Increase) decrease in accounts receivable	48,922	48,922
(Increase) decrease in inventory	(14,483)	(14,483)
Increase (decrease) in accounts payable	46,420	46,420
Increase (decrease) in accrued wages	1,891	1,891
Increase (decrease) in accrued vacation	1,429	1,429
Increase (decrease) in unearned income	10,100	10,100
(Increase) decrease in deferred outflows of resources for pensions	(31,885)	(31,885)
Total adjustments	334,285	334,285
Net cash provided (used) by operating activities	839,114	839,114

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, 2015

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 of 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 as determined by quoted market prices. The securities of the NCCMT Cash Portfolio, a SEC-registered (2a-7) money market mutual fund, are valued at fair value which is the NCCMT's share price. 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. Therefore all cash and investments are essentially demand deposits and are considered cash and cash equivalents.

3. Restricted Assets

That portion of sewer tap fees which are designated as plant modification charges are classified as restricted assets for the enterprise fund because their use is completely limited to the future expansion of the sewage treatment plant. 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 \$4,033,512 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.

Village of Bald Head Island Restricted Cash and Investments

Governmental Activities		
General Fund		
	Customer Deposits	\$ 21,000
	Stormwater Management - Cash	39,559
	Stormwater Management - Investments	<u>4,713</u>
Beach Stabilization Fund		
	Cash	\$ 6,613,238
	Investments	<u>757,239</u>
	Total governmental activities	<u>\$ 7,435,749</u>
Business-type Activities		
Water and Sewer Fund		
	Plant Modification Charges	<u>236,625</u>
	Total business-type activities	<u>\$ 236,625</u>
	Total Restricted Cash and Investments	<u><u>\$ 7,672,374</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, 2011.

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 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. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. General infrastructure assets acquired prior to July 1, 2003, 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 2015 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.

**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' 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

The Village's purchase of real property at 108 Lighthouse Wynd was not in accordance with State law [G.S. 160A-20(g)]. State law requires that a unit of local government hold a public hearing on the purchase of real property by installment contract. Additionally, a notice of the public hearing shall be published once at least 10 days before the date fixed for the hearing. The Village did not advertise or hold the public hearing before the purchase of the property.

## 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, 2015, the Village's deposits had a carrying amount of \$12,690,881 and a bank balance of \$13,652,647. Of the bank balance, \$2,599,996 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, 2015, the Village's petty cash fund totaled \$500.

2. Investments

At June 30, 2015, the Village's investment balances were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u>	<u>Rating</u>
NC Capital Management Trust – Term Portfolio	\$1,506,430	0.17 years	Unrated
NC Capital Management Trust – Cash Portfolio	<u>5,634</u>	N/A	AAAm
	<u>\$1,512,064</u>		

*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, 2015. 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, 2015 is net of the following allowance for doubtful accounts:

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

4. Capital Assets

Primary Government

Capital asset activity for the Primary Government for the year ended June 30, 2015, was as follows:

	<u>Beginning Balances</u>	<u>Reclassi- fications</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<b>Governmental activities:</b>					
Capital assets not being depreciated:					
Land	1,297,159	150,317	447,082	-	1,894,558
Construction in progress	1,058,256	(150,317)	4,947,671	-	5,855,610
Total capital assets not being depreciated	<u>2,355,415</u>	<u>-</u>	<u>5,394,753</u>	<u>-</u>	<u>7,750,168</u>
Capital assets being depreciated					
Buildings	2,259,402	-	-	-	2,259,402
Other improvements	873,715	-	-	-	873,715
Vehicles and motorized equipment	1,460,991	12,285	-	-	1,473,276
Furniture and equipment	564,972	87,580	97,550	116,418	633,684
Infrastructure	<u>2,728,242</u>	<u>76,357</u>	<u>-</u>	<u>-</u>	<u>2,804,599</u>
Total capital assets being depreciated	<u>7,887,322</u>	<u>176,222</u>	<u>97,550</u>	<u>116,418</u>	<u>8,044,676</u>
Less accumulated depreciation for:					
Buildings	505,483	-	46,269	-	551,752
Other improvements	471,783	-	23,636	-	495,419
Vehicles and motorized equipment	1,148,820	-	67,695	-	1,216,515
Furniture and equipment	506,088	87,580	13,898	116,418	491,148
Infrastructure	<u>239,903</u>	<u>-</u>	<u>90,947</u>	<u>-</u>	<u>330,850</u>
Total accumulated depreciation	<u>2,872,077</u>	<u>87,580</u>	<u>242,445</u>	<u>116,418</u>	<u>3,085,684</u>
Total capital assets being depreciated, net	<u>5,015,245</u>				<u>4,958,992</u>
Governmental activity capital assets, net	<u>7,370,660</u>				<u>12,709,160</u>

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

General government	14,659
Public safety	96,059
Public works	<u>131,727</u>
Total depreciation expense	<u>242,445</u>

Business-type activities:	Beginning	Reclassi-			Ending
<i>Utilities Fund</i>	<u>Balances</u>	<u>fications</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balances</u>
Capital assets not being depreciated:					
Land	35,000				35,000
Construction in progress	421,494	(83,941)	82,852		420,405
Other nondepreciable	-	-	-	-	-
Total capital assets not being depreciated	<u>456,494</u>	<u>(83,941)</u>	<u>82,852</u>	<u>-</u>	<u>455,405</u>
Capital assets being depreciated					
Buildings	705,853		-		705,853
Utility systems	11,463,553	34,069	55,549		11,553,171
Vehicles and motorized equipment	76,416		-	-	76,416
Furniture and equipment	228,561	49,872	-	5,000	273,433
Total capital assets being depreciated	<u>12,474,383</u>	<u>83,941</u>	<u>55,549</u>	<u>5,000</u>	<u>12,608,873</u>
Less accumulated depreciation for:					
Buildings	85,168		14,481		99,649
Utility systems	1,739,936		229,988		1,969,924
Vehicles and motorized equipment	59,959		4,056	-	64,015
Furniture and equipment	145,770	-	22,031	5,000	162,801
Total accumulated depreciation	<u>2,030,833</u>	<u>-</u>	<u>270,556</u>	<u>5,000</u>	<u>2,296,389</u>
Total capital assets being depreciated, net	<u>10,443,550</u>	<u>-</u>	<u>270,556</u>	<u>5,000</u>	<u>10,312,484</u>
Business-type activities capital assets, net	<u>10,900,044</u>	<u>-</u>	<u>270,556</u>	<u>5,000</u>	<u>10,767,889</u>

Constructions commitments

The government has active construction projects as of June 30, 2015. At year-end, the government's commitments with contractors are as follow:

<u>Project</u>	<u>Spent-to-date</u>	<u>Remaining commitment</u>
Jetty Extension	912,682	229,632
Terminal Groin	1,012,900	3,831,258
Total	<u>1,925,582</u>	<u>4,060,890</u>

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 School 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' contractually required contribution rate for the year ended June 30, 2015, was 7.41% of compensation for law enforcement officers and 7.07% 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 \$189,469 for the year ended June 30, 2015.

*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, 2015, the Village reported an asset of \$321,884 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2014. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2013. The total pension liability was then rolled forward to the measurement date of June 30, 2014 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, 2014, the Village's proportion was 0.05458%, which was an decrease of 0.00272% from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the Village recognized pension expense of \$7,774. At June 30, 2015, 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		35,171
Net difference between projected and actual earnings on pension plan investments		749,338
Changes in proportion and differences between Village contributions and proportionate share of contributions		49,508
Village contributions subsequent to the measurement date	<u>189,469</u>	
Total	<u><u>189,469</u></u>	<u><u>834,017</u></u>

\$189,469 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, 2016. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2016	(208,557)
2017	(208,557)
2018	(208,557)
2019	(208,346)
2020	-
Thereafter	-
Total	<u><u>(834,017)</u></u>

*Actuarial Assumptions.* The total pension liability in the December 31, 2013 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, 2013 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, 2014 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	36.0%	2.5%
Global Equity	40.5%	6.1%
Real Estate	8.0%	5.7%
Alternatives	6.5%	10.5%
Credit	4.5%	6.8%
Inflation Protection	4.5%	3.7%
Total	<u>100.0%</u>	

The information above is based on 30 year expectations developed with the consulting actuary for the 2013 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 3.19%. All rates of return and inflation are annualized.

A new asset allocation policy was finalized during the fiscal year ended June 30, 2014 to be effective July 1, 2014. The new asset allocation policy utilizes different asset classes, changes in the structure of certain asset classes, and adopts new benchmarks. Using the asset class categories in the preceding table, the new long-term expected arithmetic real rates of return are: Fixed Income 2.2%, Global Equity 5.8%, Real Estate 5.2%, Alternatives 9.8%, Credit 6.8% and Inflation Protection 3.4%.

*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)	1,092,612	(321,883)	(1,512,843)

*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, 2014, 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>18</u>
Total	<u>18</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, 2014 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 5.00% investment rate of return (net of administrative expenses) and (b) projected salary increases of 4.25 – 7.85% per year. Both (a) and (b) included an inflation component of 3.00%. The assumptions did not include 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	25,030
Interest on net pension obligation	5,196
Adjustment to annual required contribution	<u>( 8,779)</u>
Annual pension cost	21,447
Contributions made	<u>0</u>
Increase (decrease) in net pension obligation	21,447
Net pension obligation beginning of year	<u>103,919</u>
Net pension obligation end of year	<u>125,366</u>

Three Year Trend Information

For Year Ended <u>June 30</u>	Annual Pension <u>Cost (APC)</u>	Percentage of <u>APC Contributed</u>	Net Pension <u>Obligation</u>
2013	23,648	70.45%	88,261
2014	20,079	27.02%	103,919
2015	21,447	0.00%	125,366

(4) Funded Status and Funding Progress

As of December 31, 2014 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 \$115,914. The covered payroll (annual payroll of active employees covered by the plan) was \$888,448 and the ratio of the UAAL to the covered payroll was 13.05 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, 2015 were \$238,373, which consisted of \$129,113 from the Village and \$109,260 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, 2015, the Village made contributions to the State for death benefits of \$915. 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.

Due to a surplus in the death benefit, a decision was made by the State to temporarily stop employer contributions to the LGERS Death Benefit Plan beginning July 1, 2012. A temporary relief period based on the number of years the employer has contributed as of December 31, 2010 was established as follows:

<u>No. Years Contributing</u>	<u>Years Relief</u>	<u>FY Contributions Resume</u>
10-20	2	2015
20 or more	3	2016

The period of reprieve is determined separately for law enforcement officers. The Village of Bald Head Island will have a three year reprieve for law enforcement officers because it has been contributing for more than 20 years. Contributions will resume in the fiscal year beginning July 1, 2015.

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	\$ 189,469
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Deferred inflows of resources at year-end is comprised of the following:

Taxes Receivable, less penalties (General Fund)	\$ 144,283
Uninstalled taps (Water & Sewer Fund)	\$ 38,700
Pension deferrals	\$ 834,017

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 pools are reinsured through commercial companies for single occurrence claims against general liability, auto liability and property liability in excess of \$500,000 and \$300,000 statutory limits for workers' compensation. The property liability pool has an aggregate limit for the total property losses in a single year, with the reinsurance limit based upon a percentage of the total insurance values.

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, 2015, 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 Village's purchase of a real property lot on Lighthouse Wynd from Bald Head Island Limited dated November 26, 2014, due in an annual installment of \$165,000 in November 2015

Water and Sewer Fund

Installment purchase contract for the refinancing of the acquisition of the water and sewer systems and related assets from BB&T dated May 1, 2012, due in annual installments of \$141,244 including interest of 2.16% through December 2020.

The future minimum payments of the installment purchases as of June 30, 2015, including \$254,732 of interest are as follows:

Year Ending June 30	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2016	165,000	-	505,929	59,045
2017			516,946	48,028
2018			528,203	36,772
2019			539,704	25,270
2020			551,457	13,517
2021	-	-	280,215	2,272
Total	<u>165,000</u>	<u>-</u>	<u>2,922,454</u>	<u>184,904</u>

b. General Obligation Indebtedness

The Village's general obligation bonds serviced by the governmental funds were issued to finance the beach stabilization and renourishment project and for 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.

The bonds dated September 11, 2009 are "Build America Bonds". These bonds have provided a 35% federal subsidy of the interest paid on the bonds from their issuance until May 2013, when the rate was reduced to 31.955% due to federal sequestration. This new rate remained in effect until September 30, 2013 when it was changed to 32.48%. The final rate changed for the federal subsidy was made on September 30, 2014 when it was changed to 32.45%. The amounts of the subsidy received in the year ending June 30, 2015 was \$38,482.

Bonds payable at June 30, 2015 are comprised of the following individual issues:

General Obligation Bonds

Serviced by the General Fund

\$15,000,000 Beach Renourishment Bonds, series 2009 due in quarterly installments of \$723,457, including principal and interest at 4.82% through September 2015.

710,075

\$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.

8,500,000  
9,210,075

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

Year Ending June 30	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2016	2,159,471	166,980
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>9,210,075</u>	<u>427,484</u>

At June 30, 2015, the Village of Bald Head Island had a legal debt margin of \$99,989,960.

c. Changes in Long-Term Liabilities

	<u>Balance</u>			<u>Balance</u>	<u>Current</u>
	<u>July 1, 2014</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2015</u>	<u>Portion</u>
					<u>of Balance</u>
<b>Governmental activities:</b>					
General obligation bond	3,486,190	8,500,000	2,776,115	9,210,075	2,159,471
Installment notes		165,000		165,000	165,000
Compensated absences	132,897	110,380	111,851	131,426	111,000
Net pension obligation (LGERS)	572,094		572,094	-	-
Net pension obligation (LEO)	<u>103,919</u>	<u>21,447</u>	<u>-</u>	<u>125,366</u>	<u>5,000</u>
<b>Governmental activity</b>					
long-term liabilities	<u>4,295,100</u>	<u>8,796,827</u>	<u>3,460,060</u>	<u>9,631,867</u>	<u>2,440,471</u>
<b>Business type activities:</b>					
Installment note	3,417,601		495,147	2,922,454	506,000
Net pension obligation (LGERS)	118,591		118,591	-	-
Compensated absences	<u>32,265</u>	<u>29,276</u>	<u>27,847</u>	<u>33,694</u>	<u>30,000</u>
<b>Business-type activity</b>					
long-term liabilities	<u>3,568,457</u>	<u>29,276</u>	<u>641,585</u>	<u>2,956,148</u>	<u>536,000</u>

The LGERS plan had a net pension asset as of June 30, 2015, however, the plan had a net pension liability at the beginning of the fiscal year.

C. Interfund Balances and Activity

Transfers to/from other funds at June 30, 2015, consist of the following:

From the General Fund to the Beach Stabilization Fund	487,663
From the General Fund to the Village Facilities Improvement Fund	415,000
From the General Fund to the Water and Sewer Fund	<u>30,000</u>
Total	<u>932,663</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 2015 fiscal year, the Village made four transfers from the General Fund to various funds. Two of the transfers were to the Beach Stabilization Capital Project Fund totaling \$487,663. The first was the annual transfer of Accommodation Tax revenue less the amount needed to service the G.O. bond debt (\$487,008) and the second was the board designated portion of ad valorem tax revenue designated for beach renourishment projects (\$655).

The third transfer from the General Fund to the Village Facilities Improvement Fund of \$415,000 was to pay for capital project expenditures.

The final transfer from the General Fund to the Water and Sewer Fund of \$30,000 was to pay for capital project expenditures.

D. Net Investment in Capital Assets

	Governmental	Business-type
Capital assets	12,709,160	10,767,889
Less: long-term debt	<u>8,665,000</u>	<u>2,922,454</u>
Net investment in capital asset	<u>4,044,160</u>	<u>7,845,435</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>\$5,669,774</u>
Less:	
Prepaid expenses	7,500
Stabilization by State Statute	434,668
Economic Development	44,272
Remaining Fund Balance	5,183,334

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>
	\$7,608	\$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, 2015.

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 lightning 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, 2015, 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, 2015. 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, 2015 were evaluated by management on November 9, 2015 to ensure that any subsequent events that met the criteria for recognition and/or disclosure in these financial statements have been included. There are no significant subsequent events needing disclosure.

VIII. CHANGE IN ACCOUNTING PRINCIPLES/RESTATEMENT

The Village implemented Governmental Accounting Standards Board (GASB) statement 68, *Accounting and Financial Reporting for Pensions (an amendment of GASB Statement No. 27)* in the fiscal year ending June 30, 2015. The implementation of the statement required the Village to record beginning net pension liability and the effects on net position of contributions made by the City during the measurement period (fiscal year ending June 30, 2014). As a result, net position for the governmental and business-type activities decreased by \$417,760 and \$86,599, respectively.

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 Employer Contributions 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%

**VILLAGE OF BALD HEAD ISLAND, NORTH CAROLINA  
 LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF EMPLOYER CONTRIBUTIONS**

EXHIBIT A-2

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2006	8,858	0.00%
2007	9,482	0.00%
2008	11,839	0.00%
2009	11,796	0.00%
2010	16,907	98.53%
2011	22,930	72.65%
2012	25,380	65.64%
2013	23,648	70.45%
2014	22,857	19.34%
2015	25,030	0.00%

Notes to the Required Schedules:

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

Valuation date	12/31/14
Actuarial cost method	Projected unit credit
Amortization method	Level dollar closed
Remaining amortization period	16 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return*	5.00%
Projected salary increases*	4.25-7.85%
*Includes inflation at	3.00%
Cost-of-living adjustments	N/A

\* Information not available

**VILLAGE OF BALD HEAD ISLAND, NORTH CAROLINA** **EXHIBIT A-3**  
**VILLAGE OF BALD HEAD ISLAND'S PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET)**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**LAST TWO FISCAL YEARS**

**LOCAL GOVERNMENT EMPLOYEE'S RETIREMENT SYSTEM**

	<u>2015</u>	<u>2014</u>
Village of Bald Head Island's proportion of the net pension liability (asset) (%)	0.05458%	0.05730%
Village of Bald Head Island's proportion of the net pension liability (asset) (\$)	(321,884)	690,685
Village of Bald Head Island's covered-employee payroll	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	(12.32%)	26.72%
Plan fiduciary net position as a percentage of the total pension liability	102.64%	94.35%

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

EXHIBIT A-4

LOCAL GOVERNMENT EMPLOYEE'S RETIREMENT SYSTEM

	<u>2015</u>	<u>2014</u>
Contractually required Contribution	189,469	186,326
Contributions in relation to the contractually required contribution	<u>189,469</u>	<u>186,326</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>
Village of Bald Head Island's covered-employee payroll	2,626,893	2,612,413
Contributions as a percentage of covered-employee payroll	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, 2015 and 2014**

EXHIBIT B-1  
Page 1 of 5

	2015		Variance Favorable (Unfavorable)	2014
	Budget	Actual		Actual
<b>Revenues</b>				
Ad valorem taxes				
Current year	7,642,106	7,718,455	76,349	7,652,154
Prior year	116,604	102,001	(14,603)	119,225
Penalties and interest	22,101	25,343	3,242	25,105
Total	<u>7,780,811</u>	<u>7,845,799</u>	<u>64,988</u>	<u>7,796,484</u>
Other taxes				
Accommodations tax	978,120	1,061,251	83,131	1,014,741
Total	<u>978,120</u>	<u>1,061,251</u>	<u>83,131</u>	<u>1,014,741</u>
Unrestricted intergovernmental				
Local option sales tax	34,257	39,381	5,124	35,683
Utility franchise tax	87,720	389,434	301,714	94,793
Beer and wine	800	787	(13)	709
CAMA - State portion	1,100	1,912	812	1,390
Intergovernmental revenue	2,600	3,322	722	19,562
Total	<u>126,477</u>	<u>434,836</u>	<u>308,359</u>	<u>152,137</u>
Restricted intergovernmental				
Powell Bill allocation	42,466	44,857	2,391	41,633
Federal interest subsidy	38,500	38,482	(18)	80,290
Mosquito control	2,000	1,910	(90)	-
Grant revenue	109,777	56,164	(53,613)	-
Brunswick County - fire and rescue	113,500	113,518	18	113,527
Total	<u>306,243</u>	<u>254,931</u>	<u>(51,312)</u>	<u>235,450</u>
Permits and fees				
Building permits	43,275	73,970	30,695	63,164
Daily vehicle permits	43,293	79,374	36,081	64,360
Annual vehicle permits	102,115	98,400	(3,715)	104,321
Golf cart registration	44,800	52,810	8,010	50,245
EMS fees	16,355	12,341	(4,014)	18,977
Creek access permits	38,000	30,870	(7,130)	35,200
Total	<u>287,838</u>	<u>347,765</u>	<u>59,927</u>	<u>336,267</u>
Sales and services				
Sale of assets	-	1,330	1,330	19,703
Public Safety security service	735	1,940	1,205	2,255
Island Parcel Center Receipts	87,000	49,811	(37,189)	-
Post office operations	1,900	1,900	-	1,900
Total	<u>89,635</u>	<u>54,981</u>	<u>(34,654)</u>	<u>23,858</u>
Investment earnings				
Interest earned	11,000	3,183	(7,817)	6,506
Total	<u>11,000</u>	<u>3,183</u>	<u>(7,817)</u>	<u>6,506</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, 2015 and 2014

EXHIBIT B-1  
Page 2 of 5

	2015		Variance Favorable (Unfavorable)	2014
	Budget	Actual		Actual
Miscellaneous				
Fines	5,000	4,675	(325)	5,900
Insurance reimbursements	-	14,157	14,157	1,589
Miscellaneous	1,400	8,067	6,667	5,229
Total	<u>6,400</u>	<u>26,899</u>	<u>20,499</u>	<u>12,718</u>
 Total revenues	 <u>9,586,524</u>	 <u>10,029,645</u>	 <u>443,121</u>	 <u>9,578,161</u>
 <u>Expenditures</u>				
General government				
Governing body				
Codification	2,500	2,489	11	250
Travel	22,500	10,132	12,368	14,098
Manager's supplemental funds	40,000	7,892	32,108	19,275
Total	<u>65,000</u>	<u>20,513</u>	<u>44,487</u>	<u>33,623</u>
 Administration				
Salaries and wages	471,160	465,069	6,091	495,527
Employee benefits	170,671	142,804	27,867	150,177
Utilities	5,222	5,579	(357)	5,167
Telephone	20,600	21,945	(1,345)	19,166
Travel	11,845	5,656	6,189	10,575
Ferry costs	34,564	41,333	(6,769)	35,356
Parking	7,500	6,860	640	8,437
Equipment maintenance	13,000	15,448	(2,448)	16,127
Building maintenance	7,416	9,731	(2,315)	11,057
Office supplies	7,210	8,764	(1,554)	7,687
Copies and printing	2,575	165	2,410	965
Postage	2,060	2,671	(611)	1,586
Advertising	3,708	5,019	(1,311)	1,873
Dues and subscriptions	4,120	7,928	(3,808)	3,617
Training and certification	5,665	6,098	(433)	4,338
Bank charges	9,500	12,561	(3,061)	9,532
Miscellaneous	2,060	1,231	829	655
Professional services	391,220	285,120	106,100	228,759
Medical services	30,000	34,541	(4,541)	25,753
County collection fee	60,421	58,844	1,577	58,476
BHI Conservancy	122,835	122,835	-	-
Insurance	166,200	145,387	20,813	155,185
Capital outlay	14,000	31,833	(17,833)	-
Capital outlay - nondepreciable	15,500	3,871	11,629	3,876
Post office operation	-	-	-	1,837
Village events/wellness	16,000	9,694	6,306	12,696
Total	<u>1,595,052</u>	<u>1,450,987</u>	<u>144,065</u>	<u>1,268,424</u>
 Island Parcel Center				
Salaries and wages	81,276	73,993	7,283	-
Employee benefits	20,921	22,179	(1,258)	-
Utilities	925	3,803	(2,878)	-
Telephone	475	1,060	(585)	-
Ferry expenses	9,297	3,123	6,174	-
Parking expenses	2,250	2,500	(250)	-
Equipment maintenance	200	438	(238)	-
Barge and shipping expense	50,400	46,442	3,958	-
Building and grounds maintenance	-	1,006	(1,006)	-

**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, 2015 and 2014**

EXHIBIT B-1  
Page 3 of 5

	2015		Variance Favorable (Unfavorable)	2014
	Budget	Actual		Actual
Office supplies	150	1,084	(934)	-
Miscellaneous	945	3,306	(2,361)	-
Liability insurance	2,801	2,486	315	-
Capital outlay	-	11,737	(11,737)	-
Capital outlay - nondepreciable	35,000	11,730	23,270	-
Total	<u>204,640</u>	<u>184,887</u>	<u>19,753</u>	<u>-</u>
Total general government	<u>1,864,692</u>	<u>1,656,387</u>	<u>208,305</u>	<u>1,302,047</u>
Public safety				
Police, fire and EMS				
Salaries	1,305,638	1,273,467	32,171	1,235,794
LEO Separation allowance	-	-	-	4,421
Employee benefits	416,968	348,132	68,836	373,866
Utilities	13,000	15,999	(2,999)	14,969
Telephone	15,000	16,000	(1,000)	16,143
Communications	1,500	3,118	(1,618)	918
Gas and oil	19,000	19,293	(293)	18,346
LP gas	3,000	2,831	169	3,866
Travel	10,000	10,731	(731)	8,192
Ferry costs	43,000	49,260	(6,260)	45,032
Parking	45,000	45,650	(650)	43,946
Barge expenses	3,500	4,170	(670)	2,569
Repairs - equipment	5,000	912	4,088	1,598
Repairs - vehicles	12,200	19,912	(7,712)	19,120
Vehicle permits	9,000	6,810	2,190	8,480
Repairs - building & grounds	8,000	7,028	972	7,465
Maintenance contracts	22,700	31,084	(8,384)	21,343
Supplies	28,002	22,814	5,188	14,474
EMS billing expense	800	664	136	640
Dosher medical clinic supplies	40,000	259	39,741	-
Law enforcement supplies	5,000	3,559	1,441	-
Safety equipment and programs	13,000	5,708	7,292	11,863
EMS supplies	10,000	12,488	(2,488)	9,096
ALS medication	10,000	3,879	6,121	1,826
Water rescue supplies	119,000	1,261	117,739	1,111
Fire supplies	5,000	5,328	(328)	6,791
Volunteer incentive	2,500	1,883	617	3,979
Copies and printing	3,900	2,252	1,648	3,046
Munitions	3,500	1,623	1,877	4,355
Dues and subscriptions	4,000	4,127	(127)	5,991
Uniforms	12,000	8,647	3,353	8,983
Training and certification	15,000	10,257	4,743	9,953
Public education	2,500	4,765	(2,265)	2,640
Miscellaneous	1,000	2,209	(1,209)	-
Animal control	8,000	-	8,000	37,600
Capital outlay - Nondepreciable	-	-	-	1,763
Capital outlay	27,000	141,956	(114,956)	25,100
Total	<u>2,242,708</u>	<u>2,088,076</u>	<u>154,632</u>	<u>1,975,279</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, 2015 and 2014**

EXHIBIT B-1  
Page 4 of 5

	2015		Variance Favorable (Unfavorable)	2014
	Budget	Actual		Actual
Development services				
Salaries	66,044	65,992	52	64,435
Employee benefits	28,516	27,858	658	25,864
Travel	1,600	-	1,600	148
Ferry	4,421	3,087	1,334	3,292
Parking	750	750	-	750
Repair and maintenance - equipment	4,200	2,797	1,403	3,303
Supplies	1,030	3	1,027	12
Dues	1,307	289	1,018	-
Training	2,500	311	2,189	264
Miscellaneous	500	-	500	169
Professional services	6,021	4,149	1,872	4,197
Total	<u>116,889</u>	<u>105,236</u>	<u>11,653</u>	<u>102,434</u>
Total public safety	<u>2,359,597</u>	<u>2,193,312</u>	<u>166,285</u>	<u>2,077,713</u>
Transportation				
Road maintenance	82,469	76,357	6,112	103,873
Total	<u>82,469</u>	<u>76,357</u>	<u>6,112</u>	<u>103,873</u>
Environmental protection				
Public works				
Salaries and wages	379,614	370,104	9,510	361,015
Employee benefits	180,208	145,832	34,376	146,703
Utilities	13,000	19,577	(6,577)	13,609
Telephone	3,500	3,228	272	4,288
Gas and oil	11,000	9,796	1,204	9,188
LP gas	2,500	2,597	(97)	2,606
Travel	750	482	268	375
Ferry expense	35,711	33,621	2,090	30,793
Parking	6,750	6,897	(147)	6,780
Barge expense	18,300	21,826	(3,526)	23,515
Repairs - equipment	14,000	17,125	(3,125)	11,686
Vehicle permits	4,180	5,210	(1,030)	4,180
Maintenance - building & grounds	14,300	14,619	(319)	16,247
Right-of-way maintenance	25,000	25,224	(224)	16,371
Contract - mulch site	60,000	65,000	(5,000)	20,000
Contract services	316,740	334,676	(17,936)	321,687
Office supplies	1,000	1,047	(47)	835
Safety equipment supplies	2,500	1,181	1,319	2,319
Building supplies	3,000	1,506	1,494	1,062
Signs	36,500	3,987	32,513	3,623
Uniforms	3,000	1,647	1,353	1,874
Training and certification	1,000	118	882	244
Miscellaneous	500	57	443	351
Mosquito control	4,500	1,551	2,949	3,587
Capital outlay	-	41,309	(41,309)	20,092
Total environmental protection	<u>1,137,553</u>	<u>1,128,217</u>	<u>9,336</u>	<u>1,023,030</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, 2015 and 2014

EXHIBIT B-1  
Page 5 of 5

	2015		Variance Favorable (Unfavorable)	2014
	Budget	Actual		Actual
<b>Economic and physical development</b>				
Shoreline preservation				
Salaries	84,803	85,046	(243)	82,957
Employee benefits	23,856	23,221	635	22,197
Travel	5,000	1,511	3,489	4,899
Ferry	4,422	2,820	1,602	3,340
Parking	1,245	750	495	750
Office supplies	300	159	141	359
Dues and subscriptions	1,740	1,658	82	2,580
Training and certification	6,600	6,243	357	-
Engineering	93,523	36,088	57,435	29,224
Monitoring	178,175	238,131	(59,956)	177,864
Legal	115,000	76,536	38,464	122,443
Dune restoration/vegetation	100,000	71,670	28,330	26,559
Lobbying	118,000	117,740	260	117,848
Stormwater management	-	2,281	(2,281)	67,439
Baldhead Creek access expansion	216,720	125,878	90,842	1,996
Total	<u>949,384</u>	<u>789,732</u>	<u>159,652</u>	<u>660,455</u>
Debt service				
Principal	2,775,268	2,776,114	(846)	2,705,226
Interest and fees	253,561	193,683	59,878	247,701
Total	<u>3,028,829</u>	<u>2,969,797</u>	<u>59,032</u>	<u>2,952,927</u>
Contingency	<u>250,000</u>	<u>-</u>	<u>250,000</u>	<u>-</u>
Total expenditures	<u>9,672,524</u>	<u>8,813,802</u>	<u>858,722</u>	<u>8,120,045</u>
Revenues over (under) expenditures	<u>(86,000)</u>	<u>1,215,843</u>	<u>1,301,843</u>	<u>1,458,116</u>
Other financing sources (uses)				
Fund balance appropriated	1,018,663	-	(1,018,663)	-
Operating transfers out				
Beach Stabilization Fund	(487,663)	(487,663)	-	(546,973)
Village Facilities Fund	(415,000)	(415,000)	-	(350,000)
Infiltration / RO Fund	(30,000)	(30,000)	-	(50,000)
Total	<u>86,000</u>	<u>(932,663)</u>	<u>(1,018,663)</u>	<u>(946,973)</u>
Revenues and other financing sources over (under) expenditures	<u>-</u>	<u>283,180</u>	<u>283,180</u>	<u>511,143</u>
Fund balance				
Beginning of year - July 1		<u>5,342,322</u>		<u>4,831,179</u>
End of year - June 30		<u>5,625,502</u>		<u>5,342,322</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, 2015

EXHIBIT B-2

	Project Author- ization	Prior Year(s)	Actual Current Year	Total To Date	Variance Positive (Negative)
<b>Revenues</b>					
Investment earnings					
Interest earned	42,789	43,102	22	43,124	335
Total revenues	<u>42,789</u>	<u>43,102</u>	<u>22</u>	<u>43,124</u>	<u>335</u>
<b>Expenditures</b>					
Capital outlay					
Administration	9,000	7,635	-	7,635	1,365
Construction	993,789	946,461	8,264	954,725	39,064
Engineering	184,500	189,002	-	189,002	(4,502)
Legal	24,000	15,990	-	15,990	8,010
Total expenditures	<u>1,211,289</u>	<u>1,159,088</u>	<u>8,264</u>	<u>1,167,352</u>	<u>43,937</u>
Revenues over (under) expenditures	(1,168,500)	(1,115,986)	(8,242)	(1,124,228)	44,272
<b>Other financing sources (uses)</b>					
Operating transfer from General Fund	<u>1,168,500</u>	<u>1,168,500</u>	-	<u>1,168,500</u>	-
Revenues and other financing sources over (under) expenditures	<u>-</u>	<u>52,514</u>	(8,242)	<u>44,272</u>	<u>44,272</u>
Fund balance, beginning			<u>52,514</u>		
Fund balance, ending			<u>44,272</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, 2015

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	161,372	3,840	165,212	5,442
Interest on bond proceeds	6,201	6,200	-	6,200	(1)
Miscellaneous					
Refund State of NC	421,627	421,626	-	421,626	(1)
<b>Total revenues</b>	<b>1,328,949</b>	<b>1,330,549</b>	<b>3,840</b>	<b>1,334,389</b>	<b>5,440</b>
<b>Expenditures</b>					
<b>Capital outlay:</b>					
<b>Beach Renourishment</b>					
Administration/Engineering	1,739,757	1,280,114	6,241	1,286,355	453,402
Monitoring	738,346	715,116	-	715,116	23,230
Legal	762,008	718,467	-	718,467	43,541
Construction	1,104,701	601,859	9,999	611,858	492,843
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	-
Subtotal	<u>5,137,290</u>	<u>4,079,016</u>	<u>16,240</u>	<u>4,095,256</u>	<u>1,042,034</u>
<b>Engineered Beach</b>					
Administration/Engineering	340,063	340,062	-	340,062	1
Legal	212,868	212,867	-	212,867	1
Subtotal	<u>552,931</u>	<u>552,929</u>	<u>-</u>	<u>552,929</u>	<u>2</u>
<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	-
Subtotal	<u>340,834</u>	<u>340,833</u>	<u>-</u>	<u>340,833</u>	<u>1</u>
<b>BHI Creek Dredging</b>					
Administration/Engineering	217,687	217,687	-	217,687	-
Subtotal	<u>217,687</u>	<u>217,687</u>	<u>-</u>	<u>217,687</u>	<u>-</u>
<b>Jetty Extension Project</b>					
Administration/Engineering	495,383	-	190,478	190,478	304,905
Construction	1,007,771	-	546,938	546,938	460,833
Subtotal	<u>1,503,154</u>	<u>-</u>	<u>737,416</u>	<u>737,416</u>	<u>765,738</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, 2015

EXHIBIT B-3  
 Page 2 of 2

	Project Author- ization	Prior Year(s)	Actual Current Year	Total To Date	Variance Positive (Negative)
<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	1,195,186	496,897	1,692,083	714,381
Legal	389,110	118,158	63,769	181,927	207,183
Construction	6,148,143	-	2,932,895	2,932,895	3,215,248
Subtotal	<u>8,943,717</u>	<u>1,313,344</u>	<u>3,493,561</u>	<u>4,806,905</u>	<u>4,136,812</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>25,577,905</u>	<u>4,247,217</u>	<u>29,825,122</u>	<u>5,944,589</u>
Revenues over (under) expenditures	<u>(34,440,762)</u>	<u>(24,247,356)</u>	<u>(4,243,377)</u>	<u>(28,490,733)</u>	<u>5,950,029</u>
<b>Other financing sources (uses)</b>					
Operating transfer from General Fund	7,558,567	7,328,567	487,663	7,816,230	257,663
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>25,710,762</u>	<u>8,987,663</u>	<u>34,698,425</u>	<u>257,663</u>
Revenues and other financing sources over (under) expenditures	<u>-</u>	<u>1,463,406</u>	<u>4,744,286</u>	<u>6,207,692</u>	<u>6,207,692</u>
Fund balance, beginning			<u>1,463,406</u>		
Fund balance, ending			<u>6,207,692</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, 2015

EXHIBIT B-4

	Project Author- ization	Prior Year	Actual Current Year	Total To Date	Variance Favorable (Unfavorable)
<b>Revenues</b>					
Investment earnings					
Interest earned	105,160	105,558	54	105,612	452
Total revenues	<u>105,160</u>	<u>105,558</u>	<u>54</u>	<u>105,612</u>	<u>452</u>
<b>Expenditures</b>					
<b>General Government</b>					
Capital outlay:					
Administration - village hall	238,686	198,685	25,412	224,097	14,589
Construction - village hall	526,316	26,316	504,372	530,688	(4,372)
Furnishings/Equipment - village hall	41,802	41,276	-	41,276	526
Computer Equipment - village hall	-	-	-	-	-
Purchase of real property	330,082	-	330,082	330,082	-
Total	<u>1,136,886</u>	<u>266,277</u>	<u>859,866</u>	<u>1,126,143</u>	<u>10,743</u>
<b>Public Safety</b>					
Capital outlay:					
Administration and engineering	214,720	164,802	61,032	225,834	(11,114)
Legal and professional services	5,131	5,131	-	5,131	-
Construction	10,000	9,653	-	9,653	347
Total	<u>229,851</u>	<u>179,586</u>	<u>61,032</u>	<u>240,618</u>	<u>(10,767)</u>
Total expenditures	<u>1,366,737</u>	<u>445,863</u>	<u>920,898</u>	<u>1,366,761</u>	<u>(24)</u>
Revenues over (under) expenditures	<u>(1,261,577)</u>	<u>(340,305)</u>	<u>(920,844)</u>	<u>(1,261,149)</u>	<u>(428)</u>
<b>Other financing sources (uses)</b>					
Loan proceeds	165,000	-	165,000	165,000	-
Operating transfer from General Fund	2,764,673	2,349,678	415,000	2,764,678	5
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>1,261,577</u>	<u>681,582</u>	<u>580,000</u>	<u>1,261,582</u>	<u>5</u>
Revenues and other financing sources over (under) expenditures	<u>-</u>	<u>341,277</u>	<u>(340,844)</u>	<u>433</u>	<u>433</u>
Fund balance, beginning			<u>341,277</u>		
Fund balance, ending			<u>433</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, 2015

EXHIBIT C-1  
Page 1 of 3

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>Revenues:</b>			
<b>Water charges</b>			
Water service	813,368	778,803	(34,565)
Water tap fees	114,210	125,160	10,950
Pipeline surcharge	221,769	220,117	(1,652)
Miscellaneous revenue	5,000	9,439	4,439
Total	<u>1,154,347</u>	<u>1,133,519</u>	<u>(20,828)</u>
<b>Sewer charges</b>			
Sewer service	867,894	882,819	14,925
Sewer tap fees	137,900	33,600	(104,300)
Septic maintenance	24,256	23,862	(394)
Port-O-John rentals	17,850	20,323	2,473
Total	<u>1,047,900</u>	<u>960,604</u>	<u>(87,296)</u>
Total operating revenues	<u>2,202,247</u>	<u>2,094,123</u>	<u>(108,124)</u>
<b>Nonoperating revenues</b>			
Interest income	-	567	567
Sale of assets	-	1,550	1,550
Grant revenue	-	19,201	19,201
Contributions from customers	-	106,100	106,100
Total nonoperating revenues	<u>-</u>	<u>127,418</u>	<u>127,418</u>
Total revenues	<u>2,202,247</u>	<u>2,221,541</u>	<u>19,294</u>
<b>Expenditures</b>			
<b>Operating expenditures</b>			
Salaries and wages	524,131	518,889	5,242
Employee benefits	144,496	137,735	6,761
Utilities	88,400	91,103	(2,703)
Telephone	30,100	30,127	(27)
Gas and oil	7,000	10,783	(3,783)
Travel	4,200	1,907	2,293
Ferry expense	35,865	31,676	4,189
Parking	7,150	7,327	(177)
Barges and shipping	20,200	19,687	513
Equipment maintenance	9,000	8,671	329
Non-expendable supplies	1,000	5,104	(4,104)
Cart maintenance	3,000	2,032	968
Vehicle maintenance	8,650	6,384	2,266
Building and grounds maintenance	7,500	8,771	(1,271)
System repairs and maintenance	199,800	184,337	15,463
Office supplies	2,000	1,484	516
Water supplies	10,000	10,070	(70)
Sewer supplies	26,800	17,676	9,124
Safety equipment	3,000	2,581	419

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, 2015

EXHIBIT C-1  
Page 2 of 3

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Tools	3,500	3,443	57
Building supplies	1,200	18	1,182
Copies and printing	10,200	8,912	1,288
Postage	500	-	500
Dues and subscriptions	1,250	996	254
Uniforms	3,600	3,592	8
Training and certification	2,500	1,459	1,041
Permits	4,500	4,880	(380)
Miscellaneous	2,000	1,806	194
Bill adjustments	1,000	-	1,000
Professional services	80,450	117,864	(37,414)
Lab fees	19,550	18,249	1,301
Medical fees	1,000	-	1,000
Purchase of water	32,000	32,590	(590)
Insurance	62,800	52,333	10,467
Equipment rental	2,800	1,664	1,136
Manager's contingency	10,000	3,709	6,291
Total	<u>1,371,142</u>	<u>1,347,859</u>	<u>23,283</u>
Debt service			
Principal payments	505,929	495,147	10,782
Interest and other costs	59,045	69,827	(10,782)
Total	<u>564,974</u>	<u>564,974</u>	<u>-</u>
Capital outlay			
Capital asset additions	<u>449,081</u>	<u>135,044</u>	<u>314,037</u>
Total expenditures	<u>2,385,197</u>	<u>2,047,877</u>	<u>337,320</u>
Revenues over (under) expenditures	<u>(182,950)</u>	<u>173,664</u>	<u>356,614</u>
Other financing sources (uses)			
Fund balance appropriated	<u>182,950</u>	<u>-</u>	<u>(182,950)</u>
Total other financing sources (uses)	<u>182,950</u>	<u>-</u>	<u>(182,950)</u>
Revenues and other sources over expenditures and other uses	<u>-</u>	<u>173,664</u>	<u>173,664</u>
Fund Balance			
Beginning of year		<u>1,144,216</u>	
End of year		<u>1,317,880</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, 2015**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Reconciliation from budgetary basis (modified accrual) to full accrual			
Revenues and other sources over expenditures and other uses		173,664	
Reconciling items:			
Principal retirement		495,147	
Capital outlay		135,044	
Increase in accrued vacation pay		(1,429)	
Deferred outflows of resources ofr contributions made to pension plan in current year		31,885	
Pension expense		(1,335)	
Depreciation		(270,556)	
Transfer from General Fund in capital project		<u>30,000</u>	
Change in net position per exhibit 7		<u>592,420</u>	

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, 2015

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	-	23,122	372
Total revenues	22,750	23,122	-	23,122	372
<b>Expenditures</b>					
Capital outlay:					
Infiltration pond					
Administration	45,000	43,894	395	44,289	711
Engineering	804,505	801,958	2,962	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	1,706,420	3,357	1,709,777	20,803
Aquifer study					
Administration	83,700	34,080	-	34,080	49,620
Engineering/Legal	332,860	331,658	-	331,658	1,202
Construction	91,739	91,739	-	91,739	-
Total	508,299	457,477	-	457,477	50,822
Total expenditures	2,238,879	2,163,897	3,357	2,167,254	71,625
Revenues over (under) expenditures	(2,216,129)	(2,140,775)	(3,357)	(2,144,132)	71,997
<b>Other financing sources (uses)</b>					
Operating transfer from					
General Fund	1,768,505	1,738,507	30,000	1,768,507	2
Water and Sewer Fund	447,624	447,624	-	447,624	-
Net other financing sources (uses)	2,216,129	2,186,131	30,000	2,216,131	2
Revenues and other financing sources over (under) expenditures	-	45,356	26,643	71,999	71,999
Fund balance, beginning			45,356		
Fund balance, ending			71,999		

## 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, 2015

EXHIBIT D-1

Fiscal Year	Uncollected Balance <u>June 30, 2014</u>	<u>Additions</u>	<u>Collections and Credits</u>	Uncollected Balance <u>June 30, 2015</u>
2014-2015	-	7,786,821	7,718,447	68,374
2013-2014	108,791	-	80,076	28,715
2012-2013	33,598	-	14,243	19,355
2011-2012	14,606	-	6,097	8,509
2010-2011	7,063	-	2,771	4,292
2009-2010	11,022	-	-	11,022
2008-2009	5,913	-	4,217	1,696
2007-2008	2,174	-	-	2,174
2006-2007	146	-	-	146
2005-2006	-	-	-	-
<b>Totals</b>	<u>183,313</u>	<u>7,786,821</u>	<u>7,825,851</u>	<u>144,283</u>

Reconciliation with revenues

Taxes - ad valorem - General Fund	7,845,799
Less interest and penalties	25,343
Other adjustments	<u>5,395</u>
<b>Total collections</b>	<u>7,825,851</u>

VILLAGE OF BALD HEAD ISLAND, NORTH CAROLINA  
 ANALYSIS OF CURRENT TAX LEVY  
 VILLAGE-WIDE LEVY  
 For the Year Ended June 30, 2015

EXHIBIT D-2

	Village-Wide			Total Levy	
	Property Valuation	Rate	Amount of Levy	Property excluding Registered Motor Vehicles	Registered Motor Vehicles
<b>Original Levy:</b>					
Property taxed at current year's rate	1,248,475,524	0.005900	7,366,006	7,366,006	
Special district taxes			412,578	412,578	
Registered motor vehicles taxed at current year's rate	19,830	0.005900	117		117
Registered motor vehicles taxed at prior year's rate	-	0.005910	-	-	-
<b>Total original levy</b>	<b>1,248,495,354</b>		<b>7,778,701</b>	<b>7,778,584</b>	<b>117</b>
<b>Discoveries:</b>					
Property taxed at current year's rate	1,992,975	0.005900	11,759	11,759	
Special district taxes			392	392	
Prior year taxes			-	-	
Prior year special district taxes	-		-	-	-
<b>Total discoveries</b>	<b>1,992,975</b>		<b>12,151</b>	<b>12,151</b>	<b>-</b>
<b>Abatelements:</b>					
Property taxed at current year's rate	613,829	0.005900	3,622	3,622	
Special district taxes			409	409	
Registered motor vehicles taxed at current and prior year's rate	-	0.005900	-	-	-
<b>Total abatelements</b>	<b>613,829</b>		<b>4,031</b>	<b>4,031</b>	<b>-</b>
<b>Net levy</b>	<b>1,249,874,500</b>		<b>7,786,821</b>	<b>7,786,704</b>	<b>117</b>
Uncollected taxes at June 30, 2015			68,374	68,374	-
Current year's taxes collected			7,718,447	7,718,330	117
Current levy collection percentage			99.12%	99.12%	100.00%

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, 2015, 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 9, 2015.

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.

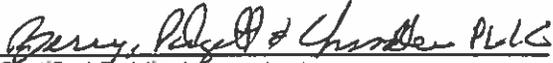
Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant 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 2015-1 to be a significant deficiency 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

  
Barry, Pettit & Chandler PLLC  
Certified Public Accountants

November 9, 2015

VILLAGE OF BALD HEAD ISLAND  
SCHEDULE OF FINDINGS AND RESPONSES  
For the Year Ended June 30, 2015

EXHIBIT E-1  
Page 1 of 1

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 Deficiency identified that are not considered to be Material weaknesses  yes  no

Noncompliance material to financial statements noted  yes  no

II. Financial Statement Findings

SIGNIFICANT DEFICIENCY

**2015-1 Purchase of Capital Assets with Debt or Similar Obligations**

Criteria: In order to issue debt or use obligations similar to debt to purchase capital assets State Statutes must be followed.

Condition: A real property lot was purchased during this fiscal year. One half of the cost was paid in cash; the remainder was financed with a one year purchase money installment note. State Statute 160A-20(g) states that "Before entering into a contract under this section involving real property, a unit of local government shall hold a public hearing on the contract. A notice of the public hearing shall be published once at least 10 days before the date fixed for the hearing". Although the purchase of the property was discussed and approved by the Board during an open meeting, no public hearing or advertisement 10 days in advance of the public hearing was made.

Effect: The purchase of the real property is in violation of State Statute 160A-20.

Cause: The staff was unfamiliar with all requirements for purchases of capital assets with debt or obligations similar to debt.

Recommendation: A public hearing should be held and advertised 10 days in advance of the hearing to reauthorize the purchase. In addition, staff should review requirements for making purchases by local governments in North Carolina to avoid a similar error in the future.

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

**VILLAGE OF BALD HEAD ISLAND  
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS  
For the Year Ended June 30, 2015**

**EXHIBIT E-2**

No matters reportable from prior year.