

VILLAGE OF BALD HEAD ISLAND, NORTH CAROLINA

AUDITED FINANCIAL STATEMENTS

June 30, 2018

Village Council Members

J. Andrew Sayre, Mayor  
Kit Adcock, Mayor Pro Tempore  
John Pitera  
John May  
Betsi Stephen

Administrative and Financial Staff

Chris McCall, Village Manager  
Virginia Cummings, Finance Director  
Kelli J. Carbone, Tax Administrator

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Financial Section

## Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Bald Head Island, North Carolina, as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise the Village of Bald Head Island's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

*Opinions*

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Bald Head Island, North Carolina as of June 30, 2018, 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 Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability and Contributions and the Law Enforcement Officers' Special Separation Allowance Schedules of the Changes in Total Pension Liability and the Total Pension Liability as a Percentage of Covered Payroll 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.

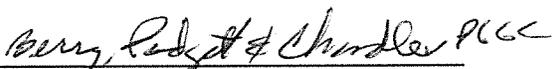
*Supplementary and Other Information*

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 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.

*Other Reporting Required by Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated May 13, 2019 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, Reddy & Chandler PLLC  
Certified Public Accountants

May 13, 2019

## 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, 2018. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Village's financial statements, which follow this narrative.

### Financial Highlights

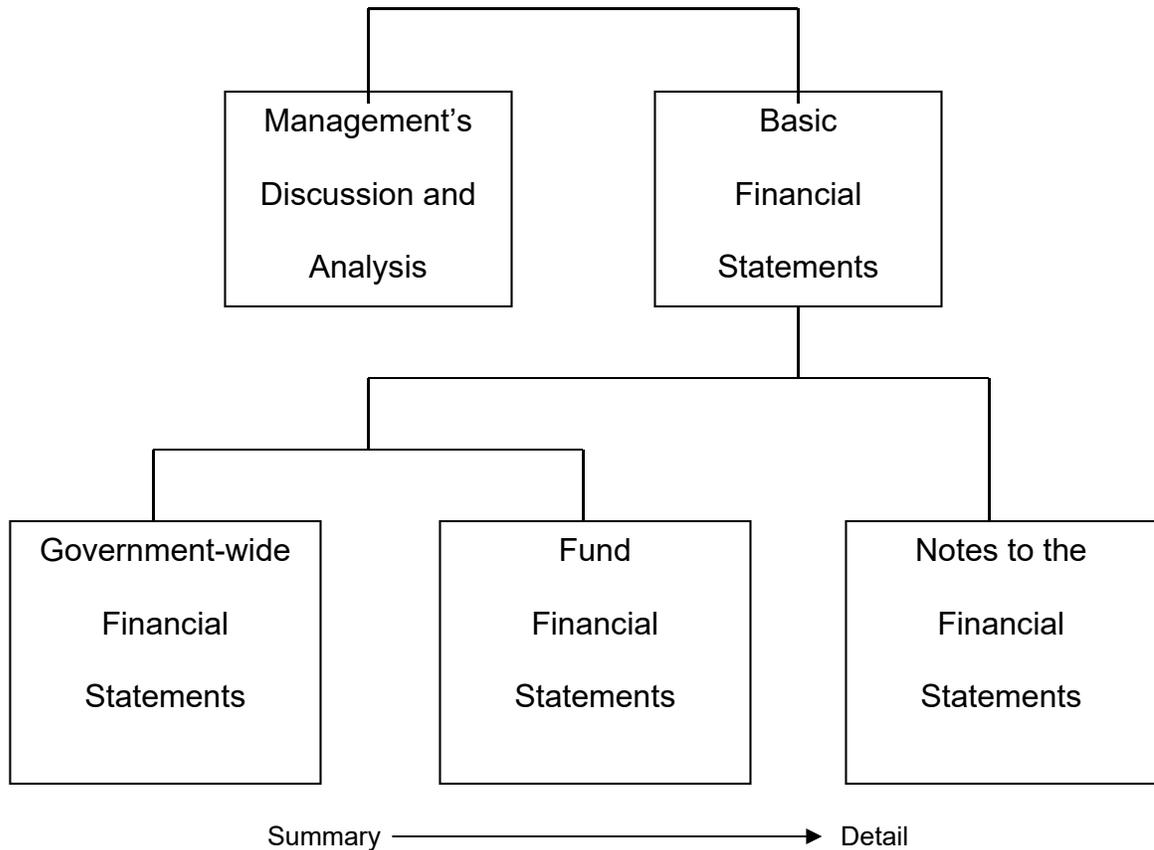
- The assets and deferred outflows of resources of the Village of Bald Head Island *exceeded* its liabilities and deferred inflows of resources at the close of the fiscal year by \$36,393,962 (*net position*).
- The government's total net position *increased* by \$3,721,049 primarily due to the decrease 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 \$8,297,847 a decrease of \$6,657,931 in comparison with the prior year. Approximately 77% percent of this total amount or \$6,600,538 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 \$6,408,357 which is a decrease of \$192,181.
- The Village of Bald Head Island's total debt decreased by \$3,590,465 during the current fiscal year. The decrease is primarily due to the payment of current year debt service.

### Overview of the Financial Statements

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

## Required Components of Annual Financial Report

Figure 1



### Basic Financial Statements

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

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

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

### Government-wide Financial Statements

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

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

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

The government-wide financial statements are on Exhibits 1 and 2 of this report.

### **Fund Financial Statements**

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

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

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

**Proprietary Funds** – The Village of Bald Head Island has one kind of proprietary fund, an enterprise fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Village of Bald Head Island uses the enterprise fund to account for its water and sewer activity. This fund is the same as those functions shown in the business-type activities in the Statement of Net Position and the Statement of Activities.

**Notes to the Financial Statements** – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on Exhibit 9 of this report.

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

**Interdependence with Other Entities** – The Village depends on financial resources flowing from, or associated with, both the Federal Government and the State of North Carolina. Because of this dependency, the Village is subject to changes in specific flows of intergovernmental revenues based on modifications to Federal and State laws and Federal and State appropriations. It is also subject to changes in investment earnings and asset values associated with U.S. Treasury Securities because of actions by foreign government and other holders of publicly held U.S. Treasury Securities.

## Government-Wide Financial Analysis

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

	Government Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 9,070,505	\$ 16,593,363	\$ 2,100,198	\$ 2,090,741	\$ 11,170,703	\$ 18,684,104
Capital assets	29,190,177	21,894,372	11,851,751	11,980,428	41,041,928	33,874,800
Deferred outflows of resources	555,069	842,783	91,401	152,670	646,470	995,453
<b>Total assets and deferred outflows of resources</b>	<b>38,815,751</b>	<b>39,330,518</b>	<b>14,043,350</b>	<b>14,223,839</b>	<b>52,859,101</b>	<b>53,554,357</b>
Long term liabilities outstanding	12,989,887	15,734,361	2,412,177	3,258,168	15,402,064	18,992,529
Other liabilities	779,723	1,607,433	90,500	124,806	870,223	1,732,239
Deferred inflows of resources	76,237	81,402	116,615	75,274	192,852	156,676
<b>Total liabilities and deferred inflows of resources</b>	<b>13,845,847</b>	<b>17,423,196</b>	<b>2,619,292</b>	<b>3,458,248</b>	<b>16,465,139</b>	<b>20,881,444</b>
<b>Net position:</b>						
Net Investment Capital Assets	17,262,329	14,242,547	9,604,611	8,946,027	26,866,940	23,188,574
Restricted	1,862,885	8,297,011			1,862,885	8,297,011
Unrestricted	5,844,690	(632,236)	1,819,447	1,819,564	7,664,137	1,187,328
<b>Total net position</b>	<b>\$ 24,969,904</b>	<b>\$ 21,907,322</b>	<b>\$ 11,424,058</b>	<b>\$ 10,765,591</b>	<b>\$ 36,393,962</b>	<b>\$ 32,672,913</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 \$36,393,962 as of June 30, 2018. The Village's net position *increased* by \$3,721,049 for the fiscal year ended June 30, 2018. However, the largest portion \$26,866,940 (74%) 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 to liquidate these liabilities. An additional portion of the Village of Bald Head Island's net position of \$1,862,885 represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$7,664,137 is unrestricted.

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

	Government Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues						
Program Revenues:						
Charges for services	1,093,619	1,016,265	2,428,437	2,383,437	3,522,056	3,399,702
Operating grants and contributions	389,733	402,988			389,733	402,988
Capital grants and contributions		193,376	193,290	209,738	193,290	403,114
General revenues						
Property taxes	7,763,876	7,690,283			7,763,876	7,690,283
Other taxes & licenses	1,696,549	1,538,608			1,696,549	1,538,608
Unrestricted investment earnings	71,866	30,462	13,132	3,056	84,998	33,518
Other	41,937	28,177	664	6,178	42,601	34,355
<b>TOTAL Revenues</b>	<b>11,057,580</b>	<b>10,900,159</b>	<b>2,635,523</b>	<b>2,602,409</b>	<b>13,693,103</b>	<b>13,502,568</b>
Expenses:						
General government	2,211,815	2,332,820			2,211,815	2,332,820
Public Safety	2,467,741	2,536,074			2,467,741	2,536,074
Transportation	88,750	98,987			88,750	98,987
Environmental protection	1,745,894	1,594,649			1,745,894	1,594,649
Economic & physical development	1,154,101	2,227,960			1,154,101	2,227,960
Interest on long term debt	326,697	272,392			326,697	272,392
Water & Sewer			1,977,056	1,728,608	1,977,056	1,728,608
<b>TOTAL Expenses</b>	<b>7,994,998</b>	<b>9,062,882</b>	<b>1,977,056</b>	<b>1,728,608</b>	<b>9,972,054</b>	<b>10,791,490</b>
Increase in net position	3,062,582	1,837,277	658,467	873,801	3,721,049	2,711,078
Net position, July 1	21,907,322	20,070,045	10,765,591	9,891,790	32,672,913	29,961,835
Net position, June 30	24,969,904	21,907,322	11,424,058	10,765,591	36,393,962	32,672,913

**Governmental activities.** Governmental activities increased the Village's net position by \$3,062,582 due to monitoring and maintaining department expenses while increasing capital assets.

**Business-type activities.** Business-type activities increased the Village's net position by \$658,467. Key elements of this increase are improvements to the wastewater system and the potable well construction.

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

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

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

The general fund is the chief operating fund of the Village of Bald Head Island. At the end of the current fiscal year, Village of Bald Head's fund balance available in the General Fund was \$6,408,357 while total fund balance reached \$6,914,134. 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 51% of general fund expenditures, while total fund balance represents 55% of the same amount.

At June 30, 2018, the governmental funds of Village of Bald Head Island reported a combined fund balance of \$8,297,847 a 45% percent decrease over last year. This decrease is mainly due to the construction of the new Public Safety building.

**General Fund Budgetary Highlights:** During the fiscal year, the Village revised the budget on several occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as loan proceeds, federal and state grants; and 3) increases in appropriations that become necessary to maintain services.

Revenues were more than the budgeted amounts primarily due to greater than anticipated property tax collections, intergovernmental revenues and an increase in the Accommodation Tax revenue. 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 \$1,819,447. The total change in net position for the fund was an increase of \$658,467.

#### **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, 2018, totals \$41,041,928 (net of accumulated depreciation). These assets include buildings, roads and bridges, land, machinery and equipment, the water and sewer system, and vehicles.

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

	Government Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	6,036,723	5,211,723	35,000	35,000	6,071,723	5,246,723
Buildings	9,547,611	1,702,454	610,271	604,865	10,157,882	2,307,319
Other Improvements	541,826	575,852			541,826	575,852
Utility Systems			11,037,979	10,882,249	11,037,979	10,882,249
Furniture and equipment	271,908	154,381	136,554	91,900	408,462	246,281
Infrastructure	12,204,948	11,253,676			12,204,948	11,253,676
Vehicles and motorized equipment	320,883	403,183	31,947	42,400	352,830	445,583
Construction in progress	266,278	2,593,103		324,014	266,278	2,917,117
<b>TOTAL</b>	<b>29,190,177</b>	<b>21,894,372</b>	<b>11,851,751</b>	<b>11,980,428</b>	<b>41,041,928</b>	<b>33,874,800</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, 2018, the Village of Bald Head Island had total long-term debt of \$15,402,064. Of this, \$2,247,140 is an Installment Note with PNC secured by a Deed of Trust on the water and sewer system. Proceeds from this financing were used to refinance existing debt and to fund the refurbishing of the wastewater treatment plant. \$3,080,557 is a debt service for a general obligation bond privately placed with PNC Bank in 2014 with a rate of 1.95% for five years. Proceeds were used to fund the Terminal Groin, Marina Jetties project, and various Shoreline projects. \$4,250,000 and \$2,550,000 are Installment Notes with PNC secured by a Deed of Trust on the Public Safety Complex.

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 \$88,594,821.

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.** In September 2018, Hurricane Florence arrived and left extensive damage on Bald Head Island. Although the housing market continues to thrive in other parts of the County, the Village of Bald Head Island expects fiscal years 2019 and 2020 to be rehabilitation years, with little to no growth, and possibly a decrease in collections from accommodations taxes.

**Budget Highlights for the Fiscal Year Ending June 30, 2019**

**Governmental Activities:** Property taxes and accommodation taxes are expected to lead the increase in budgeted revenue, although there is an expected decrease from accommodation taxes as a whole. The Village will use these revenues to finance programs currently in place as well as the debt service.

**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 2% annual rate increase in this budget year. It is expected that this increase will result in cash flows from operations sufficient to cover the cash flows necessary to provide water and sewer service to our customers and the related debt service payments for the existing loan to cover the capital improvements made for the waste water treatment plant. The utilities department is continuing with improvements that will result in re-use quality effluent from our waste water treatment facility. The process improvements and additions will improve the quality of the effluent. The Village continues to work 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 [pharan@villagebhi.org](mailto:pharan@villagebhi.org) for more information.

## Basic Financial Statements

**VILLAGE OF BALD HEAD ISLAND**  
**STATEMENT OF NET POSITION**  
**June 30, 2018**

Exhibit 1

	<b>Primary Government</b>		<b>Total</b>
	<b><u>Governmental</u></b> <b><u>Activities</u></b>	<b><u>Business-type</u></b> <b><u>Activities</u></b>	
<b>ASSETS</b>			
Current assets			
Cash and equivalents	5,972,663	1,339,076	7,311,739
Investments	1,109,112	244,983	1,354,095
Taxes receivable (net)	26,620	-	26,620
Accrued interest receivable on taxes	3,769	-	3,769
Accounts receivable	11,505	199,893	211,398
Due from other governmental agencies	552,737	37,980	590,717
Inventories	19,105	275,766	294,871
Prepaid expenses	10,000	2,500	12,500
Restricted assets			
Restricted cash and cash equivalents	1,167,845	-	1,167,845
Restricted investments	197,149	-	197,149
Total current assets	<u>9,070,505</u>	<u>2,100,198</u>	<u>11,170,703</u>
Non-current assets			
Capital assets			
Land and improvements not being depreciated	6,303,001	35,000	6,338,001
Other capital assets, net of depreciation	22,887,176	11,816,751	34,703,927
Total capital assets	<u>29,190,177</u>	<u>11,851,751</u>	<u>41,041,928</u>
Total non-current assets	<u>29,190,177</u>	<u>11,851,751</u>	<u>41,041,928</u>
Total assets	<u>38,260,682</u>	<u>13,951,949</u>	<u>52,212,631</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension deferrals	<u>555,069</u>	<u>91,401</u>	<u>646,470</u>
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	664,909	81,768	746,677
Accrued interest	37,454	8,732	46,186
Due to other governmental agencies	44,543	-	44,543
Customer deposits	17,500	-	17,500
Payable from restricted assets	15,317	-	15,317
Long-term liabilities			
Due within one year	3,649,117	833,629	4,482,746
Total current liabilities	<u>4,428,840</u>	<u>924,129</u>	<u>5,352,969</u>
Long-term liabilities	701,369	120,393	821,762
Total pension liability	187,620	-	187,620
Due in more than one year	8,451,781	1,458,155	9,909,936
Total liabilities	<u>13,769,610</u>	<u>2,502,677</u>	<u>16,272,287</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Prepaid taxes	76,237	15,464	91,701
Pension deferrals	-	101,151	101,151
Unearned income	-	-	-
Total deferred inflows of resources	<u>76,237</u>	<u>116,615</u>	<u>192,852</u>
<b>NET POSITION</b>			
Net investment in capital assets	17,262,329	9,604,611	26,866,940
Restricted for:			
Stabilization by State Statute	602,560	-	602,560
Economic Development	1,260,325	-	1,260,325
Unrestricted	5,844,690	1,819,447	7,664,137
Total net position	<u>24,969,904</u>	<u>11,424,058</u>	<u>36,393,962</u>

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

**VILLAGE OF BALD HEAD ISLAND  
STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2018**

Exhibit 2

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenue</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>			
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Government</u>		
<u>Primary government</u>					<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Governmental activities							
General Government	2,211,815	611,899	-	-	(1,599,916)		(1,599,916)
Public Safety	2,467,741	481,720	342,746	-	(1,643,275)		(1,643,275)
Transportation	88,750	-	44,980	-	(43,770)		(43,770)
Environmental protection	1,745,894	-	2,007	-	(1,743,887)		(1,743,887)
Economic and Physical Development	1,154,101	-	-	-	(1,154,101)		(1,154,101)
Interest on Long-term debt	326,697	-	-	-	(326,697)		(326,697)
Total governmental activities	<u>7,994,998</u>	<u>1,093,619</u>	<u>389,733</u>	<u>-</u>	<u>(6,511,646)</u>		<u>(6,511,646)</u>
Business-type activities							
Water and Sewer Operations	1,977,056	2,428,437	-	193,290		644,671	644,671
Total business-type activities	<u>1,977,056</u>	<u>2,428,437</u>	<u>-</u>	<u>193,290</u>		<u>644,671</u>	<u>644,671</u>
Total primary government	<u>9,972,054</u>	<u>3,522,056</u>	<u>389,733</u>	<u>193,290</u>	<u>(6,511,646)</u>	<u>644,671</u>	<u>(5,866,975)</u>
<b>General revenues:</b>							
Taxes:							
Property taxes, levied for general purposes					7,763,876	-	7,763,876
Other taxes					1,696,549	-	1,696,549
Unrestricted investment earnings					71,866	13,132	84,998
Miscellaneous					41,937	664	42,601
Total general revenues					<u>9,574,228</u>	<u>13,796</u>	<u>9,588,024</u>
Change in net position					<u>3,062,582</u>	<u>658,467</u>	<u>3,721,049</u>
Net position, beginning					<u>21,907,322</u>	<u>10,765,591</u>	<u>32,672,913</u>
Net position - ending					<u>24,969,904</u>	<u>11,424,058</u>	<u>36,393,962</u>

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

**VILLAGE OF BALD HEAD ISLAND  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2018**

Exhibit 3  
Page 1 of 2

	<u>Major Funds</u>			
	<u>General Fund</u>	<u>Beach Stabilization Fund</u>	<u>Village Facilities Improvement Fund</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash and cash equivalents	5,732,772	995,201	239,891	6,967,864
Restricted cash	172,644			172,644
Investments	1,065,224	168,765	43,888	1,277,877
Restricted investments	28,384			28,384
Taxes receivable, net	26,620	-	-	26,620
Receivable from other governments	447,780	-	104,957	552,737
Other receivables	11,505	-	-	11,505
Prepaid expenses	10,000			10,000
Inventory	19,105		-	19,105
Total assets	<u>7,514,034</u>	<u>1,163,966</u>	<u>388,736</u>	<u>9,066,736</u>
<b>LIABILITIES</b>				
Liabilities:				
Accounts payable and accrued liabilities	511,237	15,317	153,672	680,226
Payable to other governments	44,543	-	-	44,543
Deposits	17,500	-		17,500
Total liabilities	<u>573,280</u>	<u>15,317</u>	<u>153,672</u>	<u>742,269</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Property taxes receivable	26,620	-	-	26,620
Total deferred inflows of resources	<u>26,620</u>	<u>-</u>	<u>-</u>	<u>26,620</u>
<b>FUND BALANCES</b>				
Non Spendable				
Prepaid expenses	7,500			7,500
Inventories	19,105			19,105
Restricted				
Stabilization by State Statute	462,798	-	139,762	602,560
Economic Development	16,374	1,148,649	95,302	1,260,325
Unassigned	6,408,357			6,408,357
Total fund balances	<u>6,914,134</u>	<u>1,148,649</u>	<u>235,064</u>	<u>8,297,847</u>
Total liabilities, deferred inflows of resources and fund balances	<u>7,514,034</u>	<u>1,163,966</u>	<u>388,736</u>	<u>9,066,736</u>

**VILLAGE OF BALD HEAD ISLAND**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET POSITION**  
**June 30, 2018**

Exhibit 3  
Page 2 of 2

Total fund balance, governmental funds	8,297,847
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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.	29,190,177
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Deferred outflows of resources related to pensions are not reported in the funds	555,069
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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.	3,769
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Liabilities for earned revenues considered deferred inflows of resources in the fund statements.	26,620
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Some liabilities, (such as notes payable, capital lease contract payable, long-term compensated absences, and bonds payable ), are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the statement of net position.

Gross long-term debt	(12,100,898)	
Net pension liability	(701,369)	
Total pension liability	(187,620)	(12,989,887)

Deferred inflows of resources related to pensions are not reported in the funds	(76,237)
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Other long-term liabilities (accrued interest) are not due and payable in the current period and therefore are not reported in the funds.	(37,454)
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Net position of governmental activities	24,969,904
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The accompanying notes are an integral part of the financial statements.

**VILLAGE OF BALD HEAD ISLAND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**For the Year Ended June 30, 2018**

	<u>Major Funds</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	7,815,765	-		7,815,765
Other taxes	1,241,645	-		1,241,645
Unrestricted intergovernmental revenues	459,120	-		459,120
Restricted intergovernmental revenues	389,733	-		389,733
Licenses and permits	476,670	-		476,670
Sales and services	616,975	-		616,975
Investment earnings	60,534	8,993	2,339	71,866
Miscellaneous	43,665	-		43,665
Total revenues	<u>11,104,107</u>	<u>8,993</u>	<u>2,339</u>	<u>11,115,439</u>
 Current:				
General government	2,210,953	-	-	2,210,953
Public safety	2,359,000	-	6,106,208	8,465,208
Transportation	88,750	-	-	88,750
Environmental protection	1,325,999	-	-	1,325,999
Economic and physical development	1,881,255	964,464	-	2,845,719
Debt Service:				
Principal	4,345,372	-	-	4,345,372
Interest and other charges	341,369	-	-	341,369
Total expenditures	<u>12,552,698</u>	<u>964,464</u>	<u>6,106,208</u>	<u>19,623,370</u>
Excess (deficiency) of revenues over expenditures	<u>(1,448,591)</u>	<u>(955,471)</u>	<u>(6,103,869)</u>	<u>(8,507,931)</u>
 <b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from long-term debt, net	1,850,000	-	-	1,850,000
Transfers in	-	554,844	190,000	744,844
Transfers out	(744,844)	-	-	(744,844)
Total other financing sources and uses	<u>1,105,156</u>	<u>554,844</u>	<u>190,000</u>	<u>1,850,000</u>
 Net change in fund balances	(343,435)	(400,627)	(5,913,869)	(6,657,931)
Fund balances - beginning	<u>7,257,569</u>	<u>1,549,276</u>	<u>6,148,933</u>	<u>14,955,778</u>
 Fund balances - ending	<u>6,914,134</u>	<u>1,148,649</u>	<u>235,064</u>	<u>8,297,847</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, 2018**

Exhibit 4  
Page 2 of 2

Net change in fund balances - total governmental funds: (6,657,931)

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 expenditures that were capitalized	7,865,867
Depreciation	(564,092)

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

(5,970)

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

203,084

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	(44,562)
Increase in interest receivable on property taxes	(7,327)

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	(1,850,000)
Principal payments on long-term debt	4,345,372

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	14,672
Compensated absences	(5,707)
Pension expense (LGERS)	(169,414)
Net pension expense (LEO)	(61,410)

Change in net position of governmental activities

3,062,582

**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, 2018**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Ad valorem taxes	7,672,585	7,672,585	7,815,765	143,180
Other taxes	1,184,074	1,184,074	1,241,645	57,571
Unrestricted intergovernmental revenues	434,682	434,682	459,120	24,438
Restricted intergovernmental revenues	308,660	340,660	389,733	49,073
Licenses and permits	384,351	384,351	476,670	92,319
Sales and services	540,261	540,261	616,975	76,714
Investment earnings	20,000	20,000	59,022	39,022
Miscellaneous	5,703	55,703	43,665	(12,038)
Total revenues	<u>10,550,316</u>	<u>10,632,316</u>	<u>11,102,595</u>	<u>470,279</u>
<b>EXPENDITURES</b>				
Current:				
General government	2,316,578	2,346,576	2,210,953	135,623
Public safety	2,640,271	2,560,273	2,359,000	201,273
Transportation	130,000	180,000	88,750	91,250
Environmental protection	1,222,370	1,317,870	1,325,999	(8,129)
Economic and physical development	824,758	1,515,383	1,450,278	65,105
Debt Service:				
Principal	3,135,996	4,345,371	4,345,372	(1)
Interest and other charges	332,676	332,676	341,369	(8,693)
Contingency	100,000	100,000	-	100,000
Total expenditures	<u>10,702,649</u>	<u>12,698,149</u>	<u>12,121,721</u>	<u>576,428</u>
Excess (deficiency) of revenues over expenditures	<u>(152,333)</u>	<u>(2,065,833)</u>	<u>(1,019,126)</u>	<u>1,046,707</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Installment debt proceeds	-	1,850,000	1,850,000	-
Transfers in	-	-	-	-
Transfers out	(280,285)	(1,091,252)	(918,094)	(173,158)
Total other financing sources and uses	<u>(280,285)</u>	<u>758,748</u>	<u>931,906</u>	<u>(173,158)</u>
Fund balance appropriated	<u>432,618</u>	<u>1,307,085</u>	<u>-</u>	<u>1,307,085</u>
Net change in fund balances	<u>-</u>	<u>-</u>	<u>(87,220)</u>	<u>87,220</u>
Fund balances - beginning			<u>6,984,980</u>	
Fund balances - ending			<u>6,897,760</u>	
Legally budgeted Stormwater Management Fund is consolidated into the General Fund for reporting purposes:				
Interest Income			1,512	
Expenditures			(430,977)	
Other sources			173,250	
Fund balances - beginning			<u>272,589</u>	
Fund balances - ending (Exhibit 4)			<u>6,914,134</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, 2018**

Exhibit 6

	<b>Enterprise Funds</b>	
	<b>Water and Sewer Fund</b>	<b>Total</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	1,339,076	1,339,076
Investments	244,983	244,983
Accounts receivable, net	199,893	199,893
Receivables from other governments	37,980	37,980
Inventories	275,766	275,766
Prepaid expenses	2,500	2,500
Total current assets	2,100,198	2,100,198
Non-current assets:		
Capital assets:		
Land and construction in progress	35,000	35,000
Other capital assets, net of depreciation	11,816,751	11,816,751
Total capital assets	11,851,751	11,851,751
Total non-current assets	11,851,751	11,851,751
Total assets	13,951,949	13,951,949
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Pension deferrals	91,401	91,401
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	62,517	62,517
Salaries payable	19,251	19,251
Accrued interest payable	8,732	8,732
Compensated absences - current	30,000	30,000
Bonds, notes and loans payable - current	803,629	803,629
Total current liabilities	924,129	924,129
Non-current liabilities:		
Compensated absences	14,644	14,644
Net pension liability	120,393	120,393
Bonds, notes and loans payable	1,443,511	1,443,511
Total non-current liabilities	1,578,548	1,578,548
Total liabilities	2,502,677	2,502,677
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Pension deferrals	15,464	15,464
Unearned income	101,151	101,151
Total deferred inflows of resources	116,615	116,615
<b>NET POSITION</b>		
Net investment in capital assets	9,604,611	9,604,611
Unrestricted	1,819,447	1,819,447
Total net position	11,424,058	11,424,058

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, 2018**

Exhibit 7

	<b>Enterprise Funds</b>	
	<b>Water and Sewer</b>	
	<b>Fund</b>	<b>Total</b>
<b>REVENUES</b>		
Charges for services	2,428,437	2,428,437
Miscellaneous operating revenue	664	664
Total operating revenues	2,429,101	2,429,101
<b>OPERATING EXPENSES</b>		
Water and sewer operations	1,594,946	1,594,946
Depreciation	324,422	324,422
Total operating expenses	1,919,368	1,919,368
Operating income (loss)	509,733	509,733
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Interest and investment revenue	13,132	13,132
Interest expense	(51,693)	(51,693)
Gain on sale of assets	(5,995)	(5,995)
Total non-operating revenue (expenses)	(44,556)	(44,556)
Income (loss) before contributions and transfers	465,177	465,177
Capital contributions	193,290	193,290
Change in net position	658,467	658,467
Total net position - beginning	10,765,591	10,765,591
Total net position - ending	11,424,058	11,424,058

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

**VILLAGE OF BALD HEAD ISLAND  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
June 30, 2018**

EXHIBIT 8  
Page 1 of 2

	<b>Enterprise Funds</b>	
	<b>Water &amp; Sewer Fund</b>	<b>Total</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from customers	2,476,098	2,476,098
Cash paid for goods and services	(1,120,873)	(1,120,873)
Cash paid to employees	(531,562)	(531,562)
Other operating revenue	664	664
Net cash provided (used) by operating activities	824,327	824,327
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Proceeds from notes	-	-
Acquisition of capital assets	(201,740)	(201,740)
Principal paid on long-term debt	(787,261)	(787,261)
Interest paid on long-term debt	(54,753)	(54,753)
Contributions from customers	193,290	193,290
Net cash provided (used) for capital and related financing activities	(850,464)	(850,464)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Interest on investments	13,132	13,132
Investments purchased	(107,232)	(107,232)
Net cash provided (used) for investing activities	(94,100)	(94,100)
Net increase (decrease) in cash and cash equivalents	(120,237)	(120,237)
Cash and cash equivalents at beginning of year	1,459,313	1,459,313
Cash and cash equivalents at end of year	1,339,076	1,339,076

**VILLAGE OF BALD HEAD ISLAND  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
June 30, 2018**

EXHIBIT 8  
Page 2 of 2

	<b>Enterprise Funds</b>	
	<b><u>Water &amp; Sewer Fund</u></b>	<b><u>Total</u></b>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	<u>509,733</u>	<u>509,733</u>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	324,422	324,422
Changes in assets, deferred outflows, and liabilities:		
(Increase) decrease in accounts receivable	2,873	2,873
(Increase) decrease in inventory	(25,335)	(25,335)
Increase in deferred outflows of resources - pensions	61,269	61,269
Increase in net pension liability	(58,595)	(58,595)
Decrease in deferred inflows of resources - pensions	(1,902)	(1,902)
Increase (decrease) in accounts payable	(32,932)	(32,932)
Increase (decrease) in accrued wages	1,686	1,686
Increase (decrease) in accrued vacation	(135)	(135)
Increase (decrease) in unearned income	<u>43,243</u>	<u>43,243</u>
Total adjustments	<u>314,594</u>	<u>314,594</u>
Net cash provided (used) by operating activities	<u>824,327</u>	<u>824,327</u>

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

**VILLAGE OF BALD HEAD ISLAND, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2018**

EXHIBIT 9  
Page 1 of 26

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Village of Bald Head Island, North Carolina conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies:

A. Reporting Entity

The Village of Bald Head Island is a municipal corporation governed by an elected Mayor and a four-member Council.

B. Basis of Presentation

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

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

*Fund Financial Statements:* The fund financial statements provide information about the Village's funds. Separate statements for each fund category—governmental and proprietary are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as non-major funds.

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

The Village reports the following major governmental funds:

**General Fund.** The General Fund is the general operating fund of the Village. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund. The primary revenue sources are ad valorem taxes, federal and State grants, and various other taxes and licenses. The primary expenditures are for administration, public safety, shoreline maintenance 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.

**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. Issuance 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 beer and wine tax, collected and held by the State at year end on behalf of the Village are recognized as revenue. Sales taxes are considered a shared revenue for the Village of Bald Head Island because the tax is levied by Brunswick County and then remitted to and distributed by the State. Most intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. All taxes, including those dedicated for specific purposes, are reported as general revenues rather than program revenues. Under the terms of grant agreements, the Village funds certain programs by a combination of specific cost-reimbursements grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position available to finance the program. It is the Village's policy to first apply cost-reimbursement grant resources to such programs followed by categorical block grants, and then by general revenues.

D. Budgetary Data

The Village's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund and the Water and Sewer Fund. All annual appropriations lapse at the fiscal-year end. Project ordinances are adopted for all the Capital Projects Funds. The enterprise fund projects are consolidated with their respective operating fund for reporting purposes. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the project level for the multi-year funds. All amendments must be approved by the governing Board and the Board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

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

1. Deposits and Investments

All deposits of the Village are made in board-designated official depositories and are secured as required by State law [G.S. 159-31]. The Village may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the Village may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

State law [G.S. 159-30(c)] authorizes the Village to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust (NCCMT).

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

2. Cash and Cash Equivalents

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

3. Restricted Assets

Customer deposits held by the Village before any services are supplied are restricted to the service for which the deposit was collected. Money in the Stormwater Management Fund is classified as restricted assets because its use is restricted to the Stormwater Management Fund per NC G.S. Chapter 159, Article 3, Part 2. Cash and investments in the Beach Stabilization Capital Project Fund are classified as restricted because they represent unspent accommodation tax receipts.

Village of Bald Head Island Restricted Cash and Investments

Governmental Activities		
General Fund		
	Customer Deposits	\$ 17,500
	Stormwater Management - Cash	155,144
	Stormwater Management - Investments	<u>28,384</u>
Beach Stabilization Fund		
	Cash	\$ 995,201
	Investments	<u>168,765</u>
	Total governmental activities	<u>\$ 1,364,994</u>
	Total Restricted Cash and Investments	<u><u>\$ 1,364,994</u></u>

4. Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Village levies ad valorem taxes on property other than motor vehicles on July 1st, the beginning of the fiscal year. The taxes are due on September 1st (lien date); however, interest does not accrue until the following January 6th. These taxes are based on the assessed values as of January 1, 2015.

5. Allowances for Doubtful Accounts

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

6. Inventory and Prepaid Items

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

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements and expensed as the items are used.

7. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization costs are as follows: land, \$10,000; buildings, improvements, substations, lines, and other plant and distribution systems, \$15,000; infrastructure, \$20,000; furniture and equipment, \$5,000; and vehicles, \$5,000. Donated capital assets received prior to June 30, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 30, 2015 are recorded at acquisition cost. All other purchased or constructed capital assets are recorded at cost or estimated historical cost. General infrastructure assets acquired prior to July 1, 2003, consisted mainly of road networks, and were not recorded, because the Village is a Phase III entity under GASB 34, and not required to report those assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	30
Buildings	50
Improvements	20-25
Vehicles	6-15
Furniture and equipment	3-10
Computer equipment	3
Computer software	5

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, pension deferrals for the 2018 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 several items that meet the criterion for this category – property taxes receivable, prepaid water and sewer tap fees and pension deferrals.

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 (or 258 hours for public safety) may be converted to the employee's sick leave benefit account for retirement purposes only. For the Village's government-wide and proprietary funds, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned. The Village has assumed a first-in, first-out method of using accumulated compensated time. The portion of that time that is estimated to be used in the next fiscal year has been designated as a current liability in the government-wide financial statements.

The Village's sick leave policy provides for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since the Village does not have any obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

## 11. Net Position/Fund Balances

### Net Position

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

### Fund Balances

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

The governmental fund types classify fund balances as follows:

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

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

**Prepaid expenses-** portion of fund balance that is not an available resource because it represents the year-end balance of ending prepaid expense, which are not spendable resources

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

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

**Restricted for Economic Development –** portion of fund balance restricted for economic development due to the source of funding for Beach Stabilization, Village Facilities Improvement and Stormwater Management [G.S. 159, Article 3, Part 2].

**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. Defined Benefit Cost-Sharing Plans

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

### II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

#### Significant Violations of Finance-Related Legal and Contractual Provisions

##### Noncompliance with North Carolina General Statutes

##### Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2018, the expenditures made in the Village's General Fund exceeded the authorized appropriations made by the governing board for the Island Parcel Center by \$2,161, for the Public Works department by \$8,129 and debt service by \$8,693. This over-expenditures occurred because of difficulties in the transition to new accounting software which resulted in significant delays in the reconciliation of the fund's bank accounts. Management and the Council will more closely review the budget reports to ensure compliance in future years.

### 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, 2018, the Village's deposits had a carrying amount of \$8,479,084 and a bank balance of \$8,598,122. Of the bank balance, \$281,721 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, 2018, the Village's petty cash fund totaled \$500.

## 2. Investments

At June 30, 2018, the Village's investment balances were as follows:

Investment Type	Valuation Measurement Method	Book Value at 6/30/18	Maturity	Rating
NC Capital Management Trust - Term Portfolio	Fair Value Level 1	1,545,505	0.9 years	Unrated
NC Capital Management Trust - Government Portfolio	Amortized Cost	<u>5,739</u>	N/A	<u>AAAm</u>
Total		<u>1,551,244</u>		

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

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

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

*Credit Risk.* The Village has no formal policy regarding credit risk, but has internal management procedures that limits the Village's investments to the provisions of G.S. 159-30 and restricts the purchase of securities to the highest possible ratings whenever particular types of securities are rated. The Village's investment in the NC Capital Management Trust Government Portfolio carried a rating of AAAM by Standard & Poor's as of June 30, 2018. 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.

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, 2018 is net of the following allowance for doubtful accounts:

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

4. Capital Assets

Primary Government

Capital asset activity for the Primary Government for the year ended June 30, 2018, was as follows:

	Beginning Balances	Reclassi- fications	Increases	Decreases	Ending Balances
Governmental activities:					
Capital assets not being depreciated:					
Land	5,211,723	-	825,000	-	6,036,723
Construction in progress	<u>2,593,103</u>	<u>(2,326,825)</u>	-	-	<u>266,278</u>
Total capital assets not being depreciated	<u>7,804,826</u>	<u>(2,326,825)</u>	<u>825,000</u>	-	<u>6,303,001</u>
Capital assets being depreciated					
Buildings	2,130,358	1,879,490	6,022,523	-	10,032,371
Other improvements	1,132,651	-	-	-	1,132,651
Vehicles and motorized equipment	1,449,796	-	-	12,285	1,437,511
Furniture and equipment	702,265	-	150,209	-	852,474
Infrastructure	<u>12,122,394</u>	<u>447,335</u>	<u>868,135</u>	-	<u>13,437,864</u>
Total capital assets being depreciated	<u>17,537,464</u>	<u>2,326,825</u>	<u>7,040,867</u>	<u>12,285</u>	<u>26,892,871</u>
Less accumulated depreciation for:					
Buildings	427,904	-	56,856	-	484,760
Other improvements	556,799	-	34,026	-	590,825
Vehicles and motorized equipment	1,046,613	-	76,330	6,315	1,116,628
Furniture and equipment	547,884	-	32,682	-	580,566
Infrastructure	<u>868,718</u>	-	<u>364,198</u>	-	<u>1,232,916</u>
Total accumulated depreciation	<u>3,447,918</u>	-	<u>564,092</u>	<u>6,315</u>	<u>4,005,695</u>
Total capital assets being depreciated, net	<u>14,089,546</u>				<u>22,887,176</u>
Governmental activity capital assets, net	<u>21,894,372</u>				<u>29,190,177</u>

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

General government	45,115
Public safety	101,403
Public works	<u>417,574</u>
Total depreciation expense	<u>564,092</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	<u>324,014</u>	<u>(324,014)</u>	-	-	-
Total capital assets not being depreciated	<u>359,014</u>	<u>(324,014)</u>	-	-	<u>35,000</u>
Capital assets being depreciated					
Buildings	734,040		20,727		754,767
Utility systems	13,332,717	324,014	105,852		13,762,583
Vehicles and motorized equipment	118,797		-	-	118,797
Furniture and equipment	<u>293,724</u>	<u>-</u>	<u>75,161</u>	<u>7,653</u>	<u>361,232</u>
Total capital assets being depreciated	<u>14,479,278</u>	<u>324,014</u>	<u>201,740</u>	<u>7,653</u>	<u>14,997,379</u>
Less accumulated depreciation for:					
Buildings	129,175		15,321		144,496
Utility systems	2,450,468		274,136		2,724,604
Vehicles and motorized equipment	76,397		10,453	-	86,850
Furniture and equipment	<u>201,824</u>	<u>-</u>	<u>24,512</u>	<u>1,658</u>	<u>224,678</u>
Total accumulated depreciation	<u>2,857,864</u>	<u>-</u>	<u>324,422</u>	<u>1,658</u>	<u>3,180,628</u>
Total capital assets being depreciated, net	<u>11,621,414</u>				<u>11,816,751</u>
Business-type activities capital assets, net	<u>11,980,428</u>				<u>11,851,751</u>

### Constructions commitments

The government has no active construction projects as of June 30, 2018.

### B. Liabilities

#### 1. Pension Plan Obligation

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

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

supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454 or at [www.osc.nc.gov](http://www.osc.nc.gov).

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

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

*Contributions.* Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Village of Bald Head Island employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Village of Bald Head Island's contractually required contribution rate for the year ended June 30, 2018, was 8.25% of compensation for law enforcement officers and 7.50% 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 \$243,270 for the year ended June 30, 2018.

*Refunds of Contributions* – Village 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, 2018, the Village reported a liability of \$821,762 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016. The total pension liability was then rolled forward to the measurement date of June 30, 2017

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, 2017, the Village's proportion was 0.05379%, which was a decrease of 0.00259% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the Village recognized pension expense of \$247,945. At June 30, 2018, 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	47,341	23,261
Changes of assumptions	117,359	
Net difference between projected and actual earnings on pension plan investments	199,525	-
Changes in proportion and differences between Village contributions and proportionate share of contributions		66,212
Village contributions subsequent to the measurement date	<u>243,270</u>	
Total	<u><u>607,495</u></u>	<u><u>89,473</u></u>

\$243,270 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, 2019. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2019	13,007
2020	221,441
2021	110,123
2022	(69,819)
2023	-
Thereafter	<u>-</u>
Total	<u><u>274,752</u></u>

*Actuarial Assumptions.* The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary Increases	3.50 to 8.10 percent, including inflation and productivity factor
Investment rate of return	7.20 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, 2016 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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, 2017 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	29.0%	1.4%
Global Equity	42.0%	5.3%
Real Estate	8.0%	4.3%
Alternatives	8.0%	8.9%
Credit	7.0%	6.0%
Inflation Protection	<u>6.0%</u>	4.0%
Total	<u>100.0%</u>	

The information above is based on 30 year expectations developed with the consulting actuary for the 2016 asset, liability and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

*Discount rate.* The discount rate used to measure the total pension liability was 7.20%. 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 7.20 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 (6.20 percent) or one percentage point higher (8.20 percent) than the current rate:

	<u>1% Decrease (6.20%)</u>	<u>Discount Rate (7.20%)</u>	<u>1% Increase (8.20%)</u>
Village's proportionate share of the net pension liability (asset)	2,466,949	821,672	(551,449)

*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 under the age of 62 who have completed at least 30 years of creditable service or have attained 55 years of age and have completed five or more years of creditable service. 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, 2016, the Separation Allowance's membership consisted of:

Retirees receiving benefits	1
Terminated plan members entitled to but not yet receiving benefits	0
Active plan members	<u>18</u>
Total	<u>19</u>

(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 Statement 73.

(3) Actuarial Assumptions

The entry age actuarial cost method was used in the December 31, 2016 valuation. The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5 percent
Salary increases	3.50 to 7.35 percent, including inflation and productivity factor
Discount rate	3.16 percent

The discount rate is the weekly average of the Bond Buyer General Obligation 20 Year Municipal Bond Index as of December 31, 2017.

Mortality rates are based on the RP-2000 Mortality tables with adjustments for mortality improvements based on Scale AA.

(4) Contributions

The Village is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned on a pay as you go basis through appropriations made in the General Fund operating budget. There were no contributions made by employees. The Village's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. Administration costs of the Separation Allowance are financed through investment earnings. The Village paid \$5,094 as benefits came due for the reporting period.

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

At June 30, 2018, the Village reported a total pension liability of \$187,620. The total pension liability was measured as of December 31, 2017 based on a December 31, 2016 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2017 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2018, the Village recognized pension expense of \$30,801.

	<u>Deferred Outflows of</u>	<u>Deferred Inflows of</u>
Differences between expected and actual experience	21,234	-
Changes of assumptions	12,647	2,228
Village benefit payments and administrative expense made subsequent to the measurement date	<u>5,094</u>	
Total	<u><u>38,975</u></u>	<u><u>2,228</u></u>

\$5,094 reported as deferred outflows of resources related to pensions resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ended June 30, 2019. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**Year ended June 30:**

2019	6,582
2020	6,582
2021	6,582
2022	6,582
2023	5,325
Thereafter	<u>-</u>
	<u><u>31,653</u></u>

*Sensitivity of the Village's total pension liability to changes in the discount rate.* The following presents the Village's total pension liability calculated using the discount rate of 3.16 percent, as well as what the Village's total pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.16 percent) or 1-percentage point higher (4.16 percent) than the current rate:

	<u>1% Decrease (2.16%)</u>	<u>Discount Rate (3.16%)</u>	<u>1% Increase (4.16%)</u>
Total pension Liability	204,419	187,620	172,326

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

Beginning balance	126,210
Service cost	19,064
Interest on the total pension liability	4,806
Changes of benefit terms	-
Differences between expected and actual experience in the measurement of the total pension liability	25,649
Changes of assumptions or other inputs	15,276
Benefit payments	(3,385)
Other charges	-
	-
Ending balance of the total pension liability	187,620

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

The actuarial assumptions used in the December 31, 2016 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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

Following is information related to the proportionate share and pension expense for all pension plans:

	<u>LGERS</u>	<u>LEOSSA</u>	<u>Total</u>
Pension expense	247,945	30,801	278,746
Pension liability	821,762	187,620	1,009,382
Proportionate share of net pension liability	0.05379%	n/a	
<b>Deferred Outflows of Resources</b>			
Differences between expected and actual experience	47,341	21,234	68,575
Changes of assumptions	117,359	12,647	130,006
Net difference between projected and actual earnings on plan investments	199,525	-	199,525
Changes in porportion and differences between contributions and proportionate share of contributions	-	-	-
Benefit payments and administrative costs paid subsequent to measurement date	<u>243,270</u>	<u>5,094</u>	<u>248,364</u>
Total	<u><u>607,495</u></u>	<u><u>38,975</u></u>	<u><u>646,470</u></u>
<b>Deferred Inflows of Resources</b>			
Differences between expected and actual experience	23,261		23,261
Changes of assumptions	-	2,228	2,228
Net difference between projected and actual earnings on plan investments	-	-	-
Changes in porportion and differences between contributions and proportionate share of contributions	<u>66,212</u>		<u>66,212</u>
Total	<u><u>89,473</u></u>	<u><u>2,228</u></u>	<u><u>91,701</u></u>

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, 2018 were \$260,636, which consisted of \$152,825 from the Village and \$107,811 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, 2018, the Village made contributions to the State for death benefits of \$1,184. The Village's required contributions for employees not engaged in law enforcement and for law enforcement officers represented 0.06% and 0.00% of covered payroll, respectively.

2. Deferred Outflows and Inflows of Resources

The Village has several deferred outflows of resources. Deferred outflows of resources is comprised of the following:

Contributions to pension plan in current fiscal year	\$ 243,270
Benefit payments made and administrative expenses for LEOSSA	5,094
Differences between expected and actual experience	68,575
Changes of assumptions	130,006
Net difference between projected and actual	<u>199,525</u>
Total	<u>\$ 646,470</u>

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

	Statement of Net Position	General Fund Balance Sheet
Taxes Receivable, less penalties (General Fund)	\$ -	\$ 26,620
Uninstalled taps (Water & Sewer Fund)	101,151	
Changes in assumptions	2,228	
Differences between expected and actual experience	23,261	
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>66,212</u>	<u>-</u>
Total	<u>\$ 192,852</u>	<u>\$ 26,620</u>

### 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 \$5 million per occurrence, police professional and public officers liability coverage of \$5 million per occurrence with a \$5 million aggregate, property coverage up to the total insurance values of the property policy, and workers' compensation coverage up to statutory limits. The liability and property exposures are reinsured through commercial carriers for claims in excess of retentions as selected by the Board of Trustees each year. Excess insurance coverage is purchased by the Board of Trustees to protect against large workers' compensation claims that exceed certain dollar cost levels. Specific information on the limits of the reinsurance and excess loss policies purchased by the Board of Trustees can be obtained by contacting the Risk Management Services Department of the NC League of Municipalities. The pools are audited annually by certified public accountants, and the audited financial statements are available to the Village upon request.

The Village carries flood, health and all other insurance through a commercial carrier. There have been no significant reductions in insurance coverage in the prior year and settled claims have not exceeded coverage in any of the past three fiscal years.

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

### 4. Claims, Judgments and Contingent Liabilities

According to the Village attorney and Village management at June 30, 2018, the Village was not a defendant in any lawsuit whose outcome could affect the Village's ability to pay its obligations as they become due.

5. Long-Term Obligations

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

General Fund

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

Installment purchase contract for to refinance the current debt on Keelson Row real property dated November 21, 2017, due in quarterly installments of \$67,188 plus 2.14% interest through November 2021.

Installment purchase contract for the construction of a new public safety building dated December 12, 2016 due in quarterly installments of \$125,000 plus 2.34% interest through December 2026.

Installment purchase contract for additional construction on a new public safety building dated January 12, 2017, due in quarterly installments of \$75,000 plus 2.82% interest through December 2026.

Installment purchase contract for the purchase of real property on Quartermaster Row dated December 12, 2017, due in annual installments of \$75,000, a balloon payment of \$550,000 plus 3.5% interest through December 2021.

Water and Sewer Fund

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

Annual debt service payments of the installment purchases as of June 30, 2018, including \$960,448 of interest are as follows:

Year Ending June 30	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2019	1,475,416	222,164	803,629	38,384
2020	1,143,750	180,362	819,578	22,435
2021	1,143,750	151,825	623,933	6,170
2022	1,484,375	123,648		
2023	800,000	83,160		
2024-2027	2,800,000	132,300	-	-
Total	8,847,291	893,459	2,247,140	66,989

b. General Obligation Indebtedness

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

Bonds payable at June 30, 2018 are comprised of the following individual issues:

General Obligation Bonds

Serviced by the General Fund

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

3,080,557  
3,080,557

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

<u>Year Ending</u> <u>June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2019	2,043,701	45,187
2020	<u>1,036,856</u>	<u>7,588</u>
Total	<u>3,080,557</u>	<u>52,775</u>

At June 30, 2018, the Village of Bald Head Island had a legal debt margin of \$88,594,821.

b. Changes in Long-Term Liabilities

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

	Balance <u>July 1, 2017</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>June 30, 2018</u>	Current Portion <u>of Balance</u>
Governmental activities:					
General obligation bond	5,084,887	-	2,004,330	3,080,557	2,043,701
Installment notes	9,338,333	1,850,000	2,341,042	8,847,291	1,475,416
Compensated absences	167,343	133,290	127,583	173,050	130,000
Net pension liability (LGERS)	1,017,588	-	316,219	701,369	-
Net pension obligation (LEO)	<u>126,210</u>	<u>61,410</u>	<u>-</u>	<u>187,620</u>	<u>-</u>
Governmental activity long-term liabilities	<u>15,734,361</u>	<u>2,044,700</u>	<u>4,789,174</u>	<u>12,989,887</u>	<u>3,649,117</u>
Business type activities:					
Installment note	3,034,401	-	787,261	2,247,140	803,629
Compensated absences	44,779	28,840	28,975	44,644	30,000
Net pension liability (LGERS)	<u>178,988</u>	<u>-</u>	<u>58,595</u>	<u>120,393</u>	<u>-</u>
Business-type activity long-term liabilities	<u>3,258,168</u>	<u>28,840</u>	<u>874,831</u>	<u>2,412,177</u>	<u>833,629</u>

C. Interfund Balances and Activity

Transfers to/from other funds at June 30, 2018, consist of the following:

From the General Fund to the Beach Stabilization Fund	554,844
From the General Fund to the Stormwater Management Fund	173,250
From the General Fund to the Village Facilities Improvement Fund	<u>190,000</u>
Total	<u>918,094</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 2018 fiscal year, the Village made two transfers from the General Fund to the Beach Stabilization Capital Project Fund totaling \$554,844. The first was the annual transfer of Accommodation Tax revenue less the amount needed to service the G.O. bond debt (\$554,664), and, the second was the board designated portion of ad valorem tax revenue designated for beach renourishment projects (\$180).

The transfer from the General Fund to the Stormwater Management Fund was a one-time transfer for expansion of stormwater infrastructure.

The transfer from the General Fund to the Village Facilities Improvement Fund was a one-time transfer to complete construction of the new Public Safety building.

D. Net Investment in Capital Assets

	<u>Governmental</u>	<u>Business-type</u>
Capital assets	29,190,177	11,851,751
Less: long-term debt	<u>11,927,848</u>	<u>2,247,140</u>
Net investment in capital asset	<u>17,262,329</u>	<u>9,604,611</u>

E. Fund Balance

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

Total fund balance- General Fund	<u>\$6,914,134</u>
Less:	
Prepaid expenses	7,500
Inventories	19,105
Stabilization by State Statute	462,798
Economic Development	16,374
Remaining Fund Balance	6,408,357

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</u> <u>Fund</u>	<u>Facilities Improvement</u> <u>Fund</u>	<u>Non-major Funds</u>
	\$18,541	\$0	\$34,805	\$411

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 \$331 to the Council during the fiscal year ended June 30, 2018.

V. JOINT VENTURES

Firemen's Relief Fund

The Village and the members of the Village's Public Safety department each appoint two members to the five-member local board of trustees for the Firemen's Relief Fund. The State Insurance Commissioner appoints one additional member to the local board of trustees. The Firemen's Relief Fund is funded by a portion of the fire and lightening insurance premiums that insurers remit to the State. The State passes these moneys to the local board of the Firemen's Relief Fund. The funds are used to assist fire fighters in various ways. The Village obtains an ongoing financial benefit from the Fund for the on-behalf of payments for salaries and fringe benefits made to members of the Village's fire department by the board of trustees. During the fiscal year ended June 30, 2018, 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, 2018. 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, 2018 were evaluated by management on May 13, 2019 to ensure that any subsequent events that met the criteria for recognition and/or disclosure in these financial statements have been included. There are no significant subsequent events needing disclosure.

Required  
Supplemental Financial Data

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

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- Schedule of the Proportionate Share of the Net Pension Liability – Local Government Employees' Retirement System
- Schedule of Contributions – Local Government Employees' Retirement System
- Schedule of Changes in Total Pension Liability – Law Enforcement Officers' Special Separation Allowance
- Schedule of Total Pension Liability as a Percentage of Covered Payroll

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

EXHIBIT A-1

**LOCAL GOVERNMENT EMPLOYEE'S RETIREMENT SYSTEM**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Village of Bald Head Island's proportion of the net pension liability (asset) (%)	0.05379%	0.05638%	0.05336%	0.05458%	0.05730%
Village of Bald Head Island's proportion of the net pension liability (asset) (\$)	821,762	1,196,576	239,476	(321,884)	690,685
Village of Bald Head Island's covered-employee payroll	3,030,523	3,010,950	2,626,893	2,612,413	2,584,649
Village of Bald Head Island's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	27.12%	39.74%	9.12%	(12.32%)	26.72%
Plan fiduciary net position as a percentage of the total pension liability	94.18%	91.47%	98.09%	102.64%	94.35%

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

EXHIBIT A-2

**LOCAL GOVERNMENT EMPLOYEE'S RETIREMENT SYSTEM**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required Contribution	243,270	227,594	204,876	189,469	186,326
Contributions in relation to the contractually required contribution	<u>243,270</u>	<u>227,594</u>	<u>204,876</u>	<u>189,469</u>	<u>186,326</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Village of Bald Head Island's covered-employee payroll	3,128,062	3,030,523	3,010,950	2,626,893	2,612,413
Contributions as a percentage of covered-employee payroll	7.78%	7.51%	6.80%	7.21%	7.13%

**VILLAGE OF BALD HEAD ISLAND, NORTH CAROLINA  
SCHEDULE OF CHANGES IN TOTAL PENSION LIABILITY  
LAW ENFORCEMENT OFFICERS' SPECIAL ALLOWANCE  
JUNE 30, 2018**

EXHIBIT A-3

	<b>2018</b>	<b>2017</b>
Beginning balance	126,210	108,672
Service cost	19,064	17,605
Interest on the total pension liability	4,806	3,866
Difference between expected and actual experience in the measurement of the total pension liability	25,649	-
Changes of assumptions or other inputs	15,276	(3,152)
Benefit payments	(3,385)	(781)
Ending balance of the total pension liability	187,620	126,210

The amounts presented were determined as of the prior year fiscal year ending December 31.

**VILLAGE OF BALD HEAD ISLAND, NORTH CAROLINA**  
**SCHEDULE OF TOTAL PENSION LIABILITY AS A PERCENTAGE OF COVERED PAYROLL**  
**LAW ENFORCEMENT OFFICERS' SPECIAL ALLOWANCE**  
**JUNE 30, 2018**

EXHIBIT A-4

	<u>2018</u>	<u>2017</u>
Total pension liability	187,620	126,210
Covered payroll	1,031,058	799,951
Total pension liability as a percentage of covered payroll	18.20%	15.78%

Notes to the schedules:

The Village of Bald Head Island has no assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 73 to pay related benefits.

## 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, 2018 and 2017**

EXHIBIT B-1  
Page 1 of 6

	2018		Variance Favorable (Unfavorable)	2017
	Budget	Actual		Actual
<b>Revenues</b>				
<b>Ad valorem taxes</b>				
Current year	7,582,585	7,735,562	152,977	7,641,416
Prior year	75,000	62,208	(12,792)	104,003
Penalties and interest	15,000	17,995	2,995	27,247
Total	<u>7,672,585</u>	<u>7,815,765</u>	<u>143,180</u>	<u>7,772,666</u>
<b>Other taxes</b>				
Accommodations tax	1,184,074	1,241,645	57,571	1,104,404
Total	<u>1,184,074</u>	<u>1,241,645</u>	<u>57,571</u>	<u>1,104,404</u>
<b>Unrestricted intergovernmental</b>				
Local option sales tax	42,687	47,006	4,319	44,385
Utility franchise tax	387,000	407,140	20,140	389,045
Beer and wine	775	758	(17)	774
CAMA - State portion	1,100	400	(700)	500
Intergovernmental revenue	3,120	3,816	696	4,997
Total	<u>434,682</u>	<u>459,120</u>	<u>24,438</u>	<u>439,701</u>
<b>Restricted intergovernmental</b>				
Powell Bill allocation	43,300	44,980	1,680	44,443
FEMA reimbursement	-	-	-	130,500
Mosquito control	1,860	2,007	147	1,865
Grant revenue	32,000	79,245	47,245	180
Brunswick County - fire and rescue	263,500	263,501	1	226,000
Total	<u>340,660</u>	<u>389,733</u>	<u>49,073</u>	<u>402,988</u>
<b>Permits and fees</b>				
Building permits	97,451	97,363	(88)	126,119
Daily vehicle permits	85,000	154,442	69,442	128,307
Annual vehicle permits	110,000	116,983	6,983	116,416
Golf cart registration	53,000	59,280	6,280	55,900
EMS fees	12,000	16,102	4,102	18,349
Creek access permits	26,900	32,500	5,600	31,350
Total	<u>384,351</u>	<u>476,670</u>	<u>92,319</u>	<u>476,441</u>
<b>Sales and services</b>				
Sale of assets	2,000	5,076	3,076	8,841
Public Safety security service	2,000	-	(2,000)	-
Contractor Services Sales	307,068	339,356	32,288	285,222
Island Parcel Center Receipts	162,598	188,335	25,737	206,523
Marina park lease	-	9,338	9,338	-
Post office operations	66,595	74,870	8,275	44,504
Total	<u>540,261</u>	<u>616,975</u>	<u>76,714</u>	<u>545,090</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, 2018 and 2017**

EXHIBIT B-1  
Page 2 of 6

	2018		Variance Favorable (Unfavorable)	2017
	Budget	Actual		Actual
Investment earnings				
Interest earned	20,000	59,022	39,022	14,427
Unrealized appreciation	-	-	-	-
Total	20,000	59,022	39,022	14,427
Miscellaneous				
Fines	3,000	4,650	1,650	3,075
Insurance reimbursements	-	17,926	17,926	4,829
Donations	50,000	-	(50,000)	-
Special events	-	216	216	-
Miscellaneous	2,703	20,873	18,170	13,906
Total	55,703	43,665	(12,038)	21,810
Total revenues	10,632,316	11,102,595	470,279	10,777,527
<u>Expenditures</u>				
General government				
Governing body				
Codification	2,500	2,059	441	2,715
Travel	20,000	10,774	9,226	10,120
Manager's supplemental funds	35,000	12,671	22,329	19,406
Total	57,500	25,504	31,996	32,241
Administration				
Salaries and wages	527,667	506,605	21,062	509,778
Employee benefits	184,071	167,755	16,316	183,363
Utilities	8,000	8,146	(146)	7,426
Telephone	15,000	24,926	(9,926)	15,166
Travel	6,000	4,666	1,334	7,875
Ferry costs	28,009	26,148	1,861	25,496
Parking	8,000	6,517	1,483	7,922
Equipment maintenance	8,500	11,126	(2,626)	8,410
Non-depreciable equipment	-	-	-	3,262
Building maintenance	9,100	10,788	(1,688)	10,067
Office supplies	6,500	7,300	(800)	4,984
Copies and printing	500	311	189	120
Postage	1,800	1,841	(41)	1,813
Advertising	3,500	3,069	431	3,932
Dues and subscriptions	10,000	9,168	832	7,552
HR Dues and subscriptions	3,500	274	3,226	-
Training and certification	3,500	8,442	(4,942)	5,333
HR Professional	3,000	611	2,389	-
Bank charges	21,000	22,889	(1,889)	19,653
Miscellaneous	1,000	5,591	(4,591)	5,041
Professional services	362,310	307,952	54,358	474,312
Medical services	28,600	28,809	(209)	21,016
County collection fee	56,869	58,609	(1,740)	58,261
BHI Conservancy	130,000	132,547	(2,547)	116,483
Insurance	178,694	181,623	(2,929)	200,267
Golf cart lease	19,502	17,422	2,080	8,555

**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, 2018 and 2017**

EXHIBIT B-1  
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	2018		Variance Favorable (Unfavorable)	2017
	Budget	Actual		Actual
Capital outlay	59,000	50,000	9,000	-
Capital outlay - nondepreciable	-	4,500	(4,500)	9,132
Village events/wellness	18,500	13,138	5,362	8,897
Education assistance	5,000	525	4,475	2,623
Total	<u>1,707,122</u>	<u>1,621,298</u>	<u>85,824</u>	<u>1,726,739</u>
<b>Island Parcel Center</b>				
Salaries and wages	85,957	92,153	(6,196)	85,017
Employee benefits	34,811	35,399	(588)	37,261
Utilities	-	303	(303)	-
Telephone	360	450	(90)	348
Travel	1,000	-	1,000	836
Ferry expenses	7,124	8,375	(1,251)	6,408
Parking expenses	2,250	2,322	(72)	2,276
Equipment maintenance	500	125	375	579
Equipment and software leases	1,799	1,859	(60)	1,734
Barge and shipping expense	85,377	88,345	(2,968)	76,649
Shipping supplies	3,500	2,132	1,368	3,450
Building and grounds maintenance	3,730	6,880	(3,150)	3,258
Office supplies	2,000	3,268	(1,268)	2,457
Copies and printing	1,000	260	740	1,159
Postage	45,000	43,959	1,041	43,025
Miscellaneous	2,000	381	1,619	1,136
Liability insurance	10,607	4,815	5,792	5,199
Capital outlay	1,850	-	1,850	-
Total	<u>288,865</u>	<u>291,026</u>	<u>(2,161)</u>	<u>270,792</u>
<b>Contractor Services</b>				
Salaries and wages	65,162	63,080	2,082	62,758
Employee benefits	16,565	15,085	1,480	17,036
Utilities	7,571	8,393	(822)	6,114
Telephone	2,888	2,425	463	2,260
Purchase for resale	154,446	157,162	(2,716)	122,941
Barge cost	-	3,750	(3,750)	3,650
Ferry cost	5,627	6,604	(977)	4,772
Parking	2,250	1,725	525	2,250
Tram and bus expense	1,317	1,833	(516)	1,038
Equipment maintenance	1,000	70	930	1,243
Building and grounds maintenance	10,000	10,519	(519)	9,342
Other expense	2,500	182	2,318	1,496
Office supplies	1,963	2,297	(334)	1,490
Capital outlay	21,800	-	21,800	-
Total	<u>293,089</u>	<u>273,125</u>	<u>19,964</u>	<u>236,390</u>
Total general government	<u>2,346,576</u>	<u>2,210,953</u>	<u>135,623</u>	<u>2,266,162</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, 2018 and 2017**

EXHIBIT B-1  
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	2018		Variance Favorable (Unfavorable)	2017
	Budget	Actual		Actual
Public safety				
Police, fire and EMS				
Salaries	1,493,438	1,393,081	100,357	1,411,647
LEO Separation allowance	-	4,250	(4,250)	-
Employee benefits	453,753	409,888	43,865	484,940
Utilities	12,000	19,837	(7,837)	11,331
Telephone	15,000	9,734	5,266	9,867
Communications	4,940	5,219	(279)	5,934
Gas and oil	15,000	16,901	(1,901)	15,313
LP gas	2,000	3,777	(1,777)	790
Travel	5,000	3,930	1,070	3,410
Ferry costs	50,766	40,827	9,939	40,908
Parking	40,750	46,203	(5,453)	40,627
Barge expenses	4,000	2,645	1,355	3,065
Repairs - equipment	2,000	840	1,160	1,603
Repairs - vehicles	20,000	19,121	879	13,272
Vehicle permits	8,000	7,498	502	7,680
Repairs - building & grounds	7,000	7,903	(903)	9,866
Maintenance contracts	29,214	19,618	9,596	15,017
Supplies	37,800	34,374	3,426	15,207
EMS billing expense	800	1,322	(522)	793
Doshier medical clinic supplies	10,000	3,275	6,725	10,611
Law enforcement supplies	7,000	1,040	5,960	5,423
Safety equipment and programs	-	-	-	2,575
EMS supplies	10,000	8,454	1,546	3,333
ALS medication	6,000	4,303	1,697	4,979
Water rescue supplies	2,500	1,267	1,233	737
Fire supplies	25,828	23,013	2,815	19,186
Volunteer incentive	2,000	1,913	87	1,822
Copies and printing	2,000	2,459	(459)	1,857
Munitions	5,000	4,249	751	3,255
Dues and subscriptions	8,600	4,884	3,716	8,377
Uniforms	8,000	8,624	(624)	26,131
Training and certification	8,000	2,398	5,602	3,412
Public education	2,500	2,473	27	2,495
Miscellaneous	2,000	2,021	(21)	1,661
Animal control	500	-	500	-
Rent	115,248	113,708	1,540	105,644
Capital outlay - Nondepreciable	-	8,196	(8,196)	720
Golf cart lease	-	-	-	-
Capital outlay	18,500	16,524	1,976	88,782
Total	2,435,137	2,255,769	179,368	2,382,270
Development services				
Salaries	73,169	73,060	109	71,012
Employee benefits	30,148	18,467	11,681	9,944
Travel	700	357	343	194
Ferry	3,446	2,717	729	2,028
Parking	750	575	175	750
Repair and maintenance - equipment	1,000	539	461	779
Supplies	1,030	611	419	60
Dues	780	-	780	-
Training	6,492	285	6,207	422
Miscellaneous	500	20	480	-

**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, 2018 and 2017**

EXHIBIT B-1  
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	2018		Variance Favorable (Unfavorable)	2017
	Budget	Actual		Actual
Professional services	7,121	6,600	521	4,687
Total	125,136	103,231	21,905	89,876
Total public safety	2,560,273	2,359,000	201,273	2,472,146
Transportation				
Road maintenance	130,000	88,750	41,250	98,987
Transportation funding	50,000	-	50,000	-
Total	180,000	88,750	91,250	98,987
Environmental protection				
Public works				
Salaries and wages	450,421	449,108	1,313	402,100
Employee benefits	175,359	173,003	2,356	169,778
Utilities	17,000	20,808	(3,808)	17,122
Telephone	4,500	5,772	(1,272)	4,528
Gas and oil	12,000	10,436	1,564	9,288
LP gas	2,500	3,201	(701)	1,800
Travel	600	640	(40)	357
Ferry expense	29,510	28,217	1,293	23,132
Parking	7,500	5,790	1,710	6,795
Barge expense	33,000	30,935	2,065	29,150
Repairs - equipment	15,000	15,794	(794)	16,351
Vehicle permits	5,290	5,450	(160)	4,580
Maintenance - building & grounds	21,700	19,154	2,546	26,302
Right-of-way maintenance	38,500	62,113	(23,613)	24,387
Contract - mulch site	112,000	117,370	(5,370)	87,341
Contract services	352,990	352,748	242	353,779
Office supplies	1,000	1,123	(123)	892
Safety equipment supplies	5,200	5,706	(506)	2,056
Building supplies	5,000	4,631	369	1,635
Signs	15,000	7,022	7,978	4,368
Uniforms	4,500	2,199	2,301	2,373
Training and certification	500	177	323	-
Miscellaneous	300	145	155	94
Mosquito control	5,000	4,457	543	4,986
Equipment rental	3,500	-	3,500	-
Capital outlay	-	-	-	34,864
Total environmental protection	1,317,870	1,325,999	(8,129)	1,228,058
Economic and physical development				
Shoreline preservation				
Salaries	91,233	91,623	(390)	85,269
Employee benefits	22,861	21,567	1,294	20,679
Telephone	-	523	(523)	455
Travel	3,500	516	2,984	661
Ferry	3,107	2,778	329	1,966
Parking	750	575	175	750
Equipment maintenance	-	1,616	(1,616)	2,366
Cart maintenance	800	1,729	(929)	-
Office supplies	200	23	177	17

**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, 2018 and 2017**

EXHIBIT B-1  
Page 6 of 6

	2018		Variance Favorable (Unfavorable)	2017
	Budget	Actual		Actual
Dues and subscriptions	2,148	904	1,244	3,725
Training and certification	2,959	2,744	215	105
Professional services	-	-	-	7,268
Capital outlay - nondepreciable	4,000	3,976	24	-
Engineering	45,000	-	45,000	25,949
Monitoring	200,000	228,977	(28,977)	189,054
Legal	75,000	14,143	60,857	30,341
Dune restoration/vegetation	40,000	20,209	19,791	6,994
Lobbying	118,200	114,161	4,039	114,214
Stormwater management	-	351	(351)	-
Marina channel maintenance	-	118,863	(118,863)	-
Capital outlay - Marina property	905,625	825,000	80,625	1,175,000
Total	<u>1,515,383</u>	<u>1,450,278</u>	<u>65,105</u>	<u>1,664,813</u>
Debt service				
Principal	4,345,371	4,345,372	(1)	2,697,384
Interest and fees	332,676	341,369	(8,693)	255,684
Total	<u>4,678,047</u>	<u>4,686,741</u>	<u>(8,694)</u>	<u>2,953,068</u>
Contingency	<u>100,000</u>	<u>-</u>	<u>100,000</u>	<u>-</u>
Total expenditures	<u>12,698,149</u>	<u>12,121,721</u>	<u>576,428</u>	<u>10,683,234</u>
Revenues over (under) expenditures	<u>(2,065,833)</u>	<u>(1,019,126)</u>	<u>1,046,707</u>	<u>94,293</u>
Other financing sources (uses)				
Fund balance appropriated	1,307,085	-	(1,307,085)	-
Operating transfers in				
Capital Projects Funds	-	-	-	420,970
Operating transfers out				
Beach Stabilization Fund	(728,002)	(554,844)	173,158	(687,793)
Stormwater management fund	(173,250)	(173,250)	-	-
Village Facilities Fund	(190,000)	(190,000)	-	-
Installment debt proceeds	1,850,000	1,850,000	-	1,075,000
Total	<u>2,065,833</u>	<u>931,906</u>	<u>(1,133,927)</u>	<u>808,177</u>
Revenues and other financing sources over (under) expenditures	<u>-</u>	<u>(87,220)</u>	<u>(87,220)</u>	<u>902,470</u>
Fund balance				
Beginning of year - July 1		<u>6,984,980</u>		<u>6,082,510</u>
End of year - June 30		<u>6,897,760</u>		<u>6,984,980</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, 2018**

EXHIBIT B-2

	Project Author- ization	Prior Year(s)	Actual Current Year	Total To Date	Variance Positive (Negative)
<u>Revenues</u>					
Investment earnings					
Interest earned	42,789	43,919	1,512	45,431	2,642
Total revenues	<u>42,789</u>	<u>43,919</u>	<u>1,512</u>	<u>45,431</u>	<u>2,642</u>
<u>Expenditures</u>					
Capital outlay:					
Administration	12,000	9,171	505	9,676	2,324
Construction	1,413,039	1,013,040	420,418	1,433,458	(20,419)
Engineering	232,500	198,644	10,054	208,698	23,802
Legal	27,000	18,975	-	18,975	8,025
Total expenditures	<u>1,684,539</u>	<u>1,239,830</u>	<u>430,977</u>	<u>1,670,807</u>	<u>13,732</u>
Revenues over (under) expenditures	(1,641,750)	(1,195,911)	(429,465)	(1,625,376)	16,374
Other financing sources (uses)					
Operating transfer from General Fund	<u>1,641,750</u>	<u>1,468,500</u>	<u>173,250</u>	<u>1,641,750</u>	<u>-</u>
Revenues and other financing sources over (under) expenditures	<u>-</u>	<u>272,589</u>	<u>(256,215)</u>	<u>16,374</u>	<u>16,374</u>
Fund balance, beginning			<u>272,589</u>		
Fund balance, ending			<u>16,374</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, 2018**

	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	170,564	8,993	179,557	19,787
Interest on bond proceeds	6,201	6,200	-	6,200	(1)
Total	<u>165,971</u>	<u>176,764</u>	<u>8,993</u>	<u>185,757</u>	<u>19,786</u>
Miscellaneous					
Marina Entrance Channel Agreement	830,514	830,514	-	830,514	-
Refund State of NC	526,968	526,967	-	526,967	(1)
Total	<u>1,357,482</u>	<u>1,357,481</u>	<u>-</u>	<u>1,357,481</u>	<u>(1)</u>
Total revenues	<u>2,264,804</u>	<u>2,275,596</u>	<u>8,993</u>	<u>2,284,589</u>	<u>19,785</u>
<b>Expenditures</b>					
Capital outlay:					
Beach Renourishment					
Administration/Engineering	1,464,757	1,339,659	55,642	1,395,301	69,456
Monitoring	765,346	765,036	-	765,036	310
Legal	779,008	763,020	31,037	794,057	(15,049)
Construction	1,307,937	1,191,297	470,818	1,662,115	(354,178)
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>5,109,526</u>	<u>4,822,472</u>	<u>557,497</u>	<u>5,379,969</u>	<u>(270,443)</u>
Engineered Beach					
Administration/Engineering	340,063	340,062	-	340,062	1
Legal	212,867	212,867	-	212,867	-
Subtotal	<u>552,930</u>	<u>552,929</u>	<u>-</u>	<u>552,929</u>	<u>1</u>
Marine Groins - Harbor Groin System					
Administration/Engineering	86,818	86,818	-	86,818	-
Legal	17,460	17,460	-	17,460	-
Construction	236,555	236,555	-	236,555	-
Subtotal	<u>340,833</u>	<u>340,833</u>	<u>-</u>	<u>340,833</u>	<u>-</u>
BHI Creek Dredging					
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>
Jetty Extension Project					
Administration/Engineering	208,241	208,241	-	208,241	-
Legal	2,303	2,303	-	2,303	-
Construction	1,245,771	1,245,771	-	1,245,771	-
Subtotal	<u>1,456,315</u>	<u>1,456,315</u>	<u>-</u>	<u>1,456,315</u>	<u>-</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, 2018**

EXHIBIT B-3  
 Page 2 of 3

	Project Author- ization	Actual		Total To Date	Variance Positive (Negative)
		Prior Year(s)	Current Year		
<b>Sand Replacement Project</b>					
Administration/Engineering	402,893	402,893	-	402,893	-
Monitoring	50,804	50,804	-	50,804	-
Legal	160,795	160,795	-	160,795	-
Construction	16,047,974	16,047,974	-	16,047,974	-
Dune Restoration/Vegetation	20,000	20,000	-	20,000	-
Subtotal	<u>16,682,466</u>	<u>16,682,466</u>	<u>-</u>	<u>16,682,466</u>	<u>-</u>
<b>Terminal Groins Project</b>					
Administration/Engineering	2,764,184	2,493,291	363,576	2,856,867	(92,683)
Legal	416,349	376,207	15,639	391,846	24,503
Construction	<u>5,826,381</u>	<u>5,826,381</u>	<u>-</u>	<u>5,826,381</u>	<u>-</u>
Subtotal	<u>9,006,914</u>	<u>8,695,879</u>	<u>379,215</u>	<u>9,075,094</u>	<u>(68,180)</u>
<b>BHI Creek Dredging</b>					
Administration/Engineering	365,113	365,113	-	365,113	-
Monitoring	45,944	45,944	-	45,944	-
Construction	<u>1,241,869</u>	<u>1,241,869</u>	<u>-</u>	<u>1,241,869</u>	<u>-</u>
Subtotal	<u>1,652,926</u>	<u>1,652,926</u>	<u>-</u>	<u>1,652,926</u>	<u>-</u>
<b>Sandtube Groins</b>					
Administration/Engineering	62,267	62,167	100	62,267	-
Construction	<u>676,537</u>	<u>676,537</u>	<u>116</u>	<u>676,653</u>	<u>(116)</u>
Subtotal	<u>738,804</u>	<u>738,704</u>	<u>216</u>	<u>738,920</u>	<u>(116)</u>
<b>Row Boat Row Beach</b>					
Administration/Engineering	309,165	278,835	24,695	303,530	5,635
Construction	<u>964,395</u>	<u>961,554</u>	<u>2,841</u>	<u>964,395</u>	<u>-</u>
Subtotal	<u>1,273,560</u>	<u>1,240,389</u>	<u>27,536</u>	<u>1,267,925</u>	<u>5,635</u>
<b>Total expenditures</b>	<u>37,031,961</u>	<u>36,400,600</u>	<u>964,464</u>	<u>37,365,064</u>	<u>(333,103)</u>
<b>Revenues over (under) expenditures</b>	<u>(34,767,157)</u>	<u>(34,125,004)</u>	<u>(955,471)</u>	<u>(35,080,475)</u>	<u>(313,318)</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, 2018**

	Project Author- ization	Actual		Total To Date	Variance Positive (Negative)
		Prior Year(s)	Current Year		
Other financing sources (uses)					
Operating transfer from					
General Fund	7,884,962	8,792,085	554,844	9,346,929	1,461,967
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	<u>8,500,000</u>	<u>8,500,000</u>	<u>-</u>	<u>8,500,000</u>	<u>-</u>
Total other financing sources (uses)	<u>34,767,157</u>	<u>35,674,280</u>	<u>554,844</u>	<u>36,229,124</u>	<u>1,461,967</u>
Revenues and other financing sources over (under) expenditures	<u>-</u>	<u>1,549,276</u>	<u>(400,627)</u>	<u>1,148,649</u>	<u>1,148,649</u>
Fund balance, beginning			<u>1,549,276</u>		
Fund balance, ending			<u>1,148,649</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, 2018**

EXHIBIT B-4

	Project Author- ization	Actual		Total To Date	Variance Favorable (Unfavorable)
		Prior Year	Current Year		
<u>Revenues</u>					
Investment earnings					
Interest earned	105,160	118,666	2,339	121,005	15,845
Total revenues	105,160	118,666	2,339	121,005	15,845
<u>Expenditures</u>					
General Government					
Capital outlay:					
Administration - village hall	238,686	225,097	-	225,097	13,589
Construction - village hall	724,316	533,813	-	533,813	190,503
Furnishings/Equipment - village hall	41,802	41,276	-	41,276	526
Purchase of real property	330,082	330,082	-	330,082	-
Total	1,334,886	1,130,268	-	1,130,268	204,618
Public Safety					
Capital outlay:					
Administration and engineering	683,512	660,214	122,102	782,316	(98,804)
Legal and professional services	5,131	15,972	-	15,972	(10,841)
Construction	7,448,098	1,377,889	5,984,106	7,361,995	86,103
Total	8,136,741	2,054,075	6,106,208	8,160,283	(23,542)
Total expenditures	9,471,627	3,184,343	6,106,208	9,290,551	181,076
Revenues over (under) expenditures	(9,366,467)	(3,065,677)	(6,103,869)	(9,169,546)	(196,921)
Other financing sources (uses)					
Loan proceeds	8,000,000	8,165,000	-	8,165,000	165,000
Operating transfer from General Fund	3,455,533	3,138,676	190,000	3,328,676	(126,857)
Operating transfers to General Fund	(425,596)	(425,596)	-	(425,596)	-
Beach Stabilization Fund	(1,663,470)	(1,663,470)	-	(1,663,470)	-
Net other financing sources (uses)	9,366,467	9,214,610	190,000	9,404,610	38,143
Revenues and other financing sources over (under) expenditures	-	6,148,933	(5,913,869)	235,064	235,064
Fund balance, beginning			6,148,933		
Fund balance, ending			235,064		

**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, 2018**

EXHIBIT C-1  
Page 1 of 3

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>Revenues:</b>			
Water charges			
Water service	844,783	885,819	41,036
Water tap fees	239,194	161,451	(77,743)
Pipeline surcharge	242,322	242,426	104
Miscellaneous revenue	4,000	664	(3,336)
Total	<u>1,330,299</u>	<u>1,290,360</u>	<u>(39,939)</u>
 Sewer charges			
Sewer service	968,826	989,399	20,573
Sewer tap fees	322,792	93,444	(229,348)
Septic maintenance	20,856	13,862	(6,994)
Port-O-John rentals	30,090	42,036	11,946
Total	<u>1,342,564</u>	<u>1,138,741</u>	<u>(203,823)</u>
 Total operating revenues	<u>2,672,863</u>	<u>2,429,101</u>	<u>(243,762)</u>
 Nonoperating revenues			
Interest income	-	12,638	12,638
Contributions from customers	-	193,290	193,290
Total nonoperating revenues	<u>-</u>	<u>205,928</u>	<u>205,928</u>
 Total revenues	<u>2,672,863</u>	<u>2,635,029</u>	<u>(37,834)</u>
 <b>Expenditures</b>			
Operating expenditures			
Salaries and wages	631,784	603,256	28,528
Employee benefits	169,697	162,230	7,467
Utilities	107,800	103,519	4,281
Telephone	36,720	45,196	(8,476)
Gas and oil	6,940	8,687	(1,747)
Travel	5,000	1,607	3,393
Ferry expense	30,500	28,672	1,828
Parking	8,300	5,228	3,072
Barges and shipping	49,800	54,452	(4,652)
Equipment maintenance	15,250	9,671	5,579
Non-expendable supplies	1,500	636	864
Cart maintenance	1,800	2,065	(265)
Vehicle maintenance	10,550	9,538	1,012
Building and grounds maintenance	8,700	14,436	(5,736)
System repairs and maintenance	271,200	229,610	41,590
Office supplies	1,380	1,281	99
Water supplies	10,000	10,233	(233)
Sewer supplies	62,400	43,235	19,165
Safety equipment	2,550	1,620	930
Tools	3,060	3,393	(333)
Building supplies	2,000	823	1,177
Copies and printing	9,900	9,017	883

**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, 2018**

EXHIBIT C-1  
Page 2 of 3

	Budget	Actual	Variance Positive (Negative)
Postage	500	462	38
Dues and subscriptions	1,200	1,110	90
Uniforms	3,700	1,820	1,880
Training and certification	2,500	1,653	847
Permits	5,500	4,880	620
Miscellaneous	2,000	504	1,496
Bill adjustments	2,500	672	1,828
Professional services	55,450	75,956	(20,506)
Lab fees	23,850	25,324	(1,474)
Medical fees	500	-	500
Purchase of water	33,660	47,288	(13,628)
Insurance	69,528	71,670	(2,142)
Golf cart lease	3,637	3,805	(168)
Equipment rental	2,000	1,253	747
Non-depreciable equipment	-	6,971	(6,971)
Manager's supplemental funds	10,000	2,536	7,464
Total	1,663,356	1,594,309	69,047
Debt service			
Principal payments	787,991	787,261	730
Interest and other costs	54,022	54,753	(731)
Total	842,013	842,014	(1)
Capital outlay			
Capital asset additions	228,000	201,740	26,260
Total expenditures	2,733,369	2,638,063	95,306
Revenues over (under) expenditures	(60,506)	(3,034)	57,472
Other financing sources (uses)			
Fund balance appropriated	112,500	-	(112,500)
Transfer to capital reserve	(51,994)	-	51,994
Total other financing sources (uses)	60,506	-	(60,506)
Revenues and other sources over expenditures and other uses	-	(3,034)	(3,034)
Fund Balance			
Beginning of year		1,819,241	
End of year		1,816,207	

**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, 2018**

EXHIBIT C-1  
Page 3 of 3

	Budget	Actual	Variance Positive (Negative)
Reconciliation from budgetary basis (modified accrual) to full accrual			
Revenues and other sources over expenditures and other uses		(3,034)	
Reconciling items:			
Principal retirement		787,261	
Capital outlay		201,740	
Book value of assets sold		(5,995)	
Increase in interest expense accrued		3,060	
Increase in accrued vacation pay		135	
Increase in deferred outflows of resources - pensions		(61,269)	
Increase in net pension liability		58,595	
Decrease in deferred inflows of resources - pensions		1,902	
Depreciation		(324,422)	
Interest income recorded in capital projects		494	
Change in net position per exhibit 7		658,467	

**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, 2018**

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	23,351	494	23,845	1,095
Total revenues	22,750	23,351	494	23,845	1,095
<b>Expenditures</b>					
Capital outlay:					
Infiltration pond					
Administration	45,000	44,289	-	44,289	711
Engineering	804,505	804,920	-	804,920	(415)
Legal	468,624	458,069	-	458,069	10,555
Construction	412,451	402,499	-	402,499	9,952
Total	1,730,580	1,709,777	-	1,709,777	20,803
Aquifer study					
Administration	112,050	34,080	-	34,080	77,970
Engineering/Legal	332,860	331,658	-	331,658	1,202
Construction	91,739	91,739	-	91,739	-
Total	536,649	457,477	-	457,477	79,172
Total expenditures	2,267,229	2,167,254	-	2,167,254	99,975
Revenues over (under) expenditures	(2,244,479)	(2,143,903)	494	(2,143,409)	101,070
Other financing sources (uses)					
Operating transfer from					
General Fund	1,796,855	1,796,857	-	1,796,857	2
Water and Sewer Fund	447,624	447,624	-	447,624	-
Net other financing sources (uses)	2,244,479	2,244,481	-	2,244,481	2
Revenues and other financing sources over (under) expenditures	-	100,578	494	101,072	101,072
Fund balance, beginning			100,578		
Fund balance, ending			101,072		

## 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, 2018**

EXHIBIT D-1

Fiscal Year	Uncollected Balance <u>June 30, 2017</u>	<u>Additions</u>	<u>Collections and Credits</u>	Uncollected Balance <u>June 30, 2018</u>
2017-2018	-	7,753,355	7,735,562	17,793
2016-2017	44,673	-	39,727	4,946
2015-2016	9,191	-	7,615	1,576
2014-2015	8,394	-	8,198	196
2013-2014	1,950	-	1,741	209
2012-2013	725		649	76
2011-2012	619		619	-
2010-2011	1,553		1,147	406
2009-2010	2,236		1,602	634
2008-2009	1,695		911	784
2007-2008	-		-	-
2006-2007	<u>146</u>	<u>-</u>	<u>146</u>	<u>-</u>
Totals	<u><u>71,182</u></u>	<u><u>7,753,355</u></u>	<u><u>7,797,917</u></u>	<u><u>26,620</u></u>

Reconciliation with revenues

Taxes - ad valorem - General Fund	7,815,765
Less interest and penalties	17,995
Taxes written off	<u>147</u>
Total collections	<u><u>7,797,917</u></u>

**VILLAGE OF BALD HEAD ISLAND, NORTH CAROLINA**  
**ANALYSIS OF CURRENT TAX LEVY**  
**VILLAGE-WIDE LEVY**  
**For the Year Ended June 30, 2018**

EXHIBIT D-2

	Village-Wide			Total Levy	
	<u>Property Valuation</u>	<u>Rate</u>	<u>Amount of Levy</u>	<u>Property excluding Registered Motor Vehicles</u>	<u>Registered Motor Vehicles</u>
Original Levy:					
Property taxed at current year's rate	1,100,811,895	0.006663	7,334,710	7,334,710	
Special district taxes			373,507	373,507	
Registered motor vehicles taxed at current year's rate	84,496	0.006663	563		563
Registered motor vehicles taxed at prior year's rate	<u>120,847</u>	0.005900	<u>713</u>	<u>-</u>	<u>713</u>
Total original levy	<u>1,101,017,238</u>		<u>7,709,493</u>	<u>7,708,217</u>	<u>1,276</u>
Discoveries:					
Property taxed at current year's rate	7,000,559	0.006663	46,645	46,645	
Special district taxes			299	299	
Prior year taxes			-	-	
Prior year special district taxes	<u>-</u>		<u>-</u>	<u>-</u>	<u>-</u>
Total discoveries	<u>7,000,559</u>		<u>46,944</u>	<u>46,944</u>	<u>-</u>
Abatements:					
Property taxed at current year's rate	461,688	0.006663	3,076	3,076	
Special district taxes			6	6	
Registered motor vehicles taxed at current and prior year's rate	<u>-</u>	0.006663	<u>-</u>	<u>-</u>	<u>-</u>
Total abatements	<u>461,688</u>		<u>3,082</u>	<u>3,082</u>	<u>-</u>
Net levy	<u>1,107,556,109</u>		7,753,355	7,752,079	1,276
Uncollected taxes at June 30, 2018			<u>17,793</u>	<u>17,793</u>	<u>-</u>
Current year's taxes collected			<u>7,735,562</u>	<u>7,734,286</u>	<u>1,276</u>
Current levy collection percentage			<u>99.77%</u>	<u>99.77%</u>	<u>100.00%</u>

## Compliance Section

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

Independent Auditor's Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Bald Head Island, North Carolina, as of and for the year ended June 30, 2018, 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 May 13, 2019.

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 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.

Our consideration of internal control was for the limited described in the preceding paragraph 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. However, as described in the accompanying Schedule of Findings and Responses we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies 2018-1 and 2018-2 described in the accompanying Schedule of Findings and Responses to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider deficiencies 2018-3 and 2018-4 described in the accompanying Schedule of Findings and Responses to be significant deficiencies.

Compliance and Other Matters

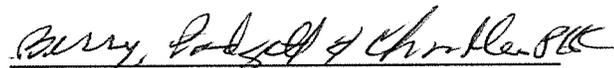
As part of obtaining reasonable assurance about whether the Village of Bald Head Island's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying schedule of findings and responses as item 2018-4.

Village of Bald Head Island's Response to Findings

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

Purpose of this Report

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

  
Barry, Rodwell & Chandler, LLC  
Certified Public Accountants

May 13, 2019

**VILLAGE OF BALD HEAD ISLAND, NORTH CAROLINA  
SCHEDULE OF FINDINGS AND RESPONSES  
For the Fiscal Year Ended June 30, 2018**

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness identified? X\_yes      \_\_no
  
- Significant Deficiencies identified that are not considered to be material weaknesses X\_yes      \_\_no
  
- Noncompliance material to financial statements noted X\_yes      \_\_no

II. Financial Statement Findings

MATERIAL WEAKNESSES

**2018-1 Bank Accounts and Utility Revenues and Receivables Not Timely Reconciled to the General Ledger**

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

Condition: Bank accounts and utility revenues and receivables accounts were not timely reconciled every month.

Effect: Financial reports may not correctly reflect the current cash, revenue, receivables, allowance and inactive (bad debt) accounts

Cause: Failure to follow and enforce Village policy.

Recommendation: Reconcile accounts in time to present to council and management reconciled monthly reports.

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

**VILLAGE OF BALD HEAD ISLAND, NORTH CAROLINA**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**For the Fiscal Year Ended June 30, 2018**

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

**2018-2 Failure to File Timely Audit Report**

Criteria: The Local Government Commission requires that audited financial statements be submitted to them no later than October 31 following the financial year end.

Condition: Audited financial statements were submitted to the Local Government Commission significantly later than the due date.

Effect: The Local Government Commission cannot timely monitor the financial condition of the Village to fulfill their responsibility to the State Treasurer and State Legislature. The governing body and management do not have timely information for monitoring, oversight and planning.

Cause: Failure to timely provide reconciliations of cash and accounts receivable ledgers.

Recommendation: Establish a given time to have subsidiary ledgers, general ledger and financial statements reconciled soon after month-end.

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

**SIGINIFICANT DEFICIENCIES**

**2018-3 Significant Audit Adjustments**

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

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

Effect: Financial reporting could be misleading.

Cause: Transition to new accounting software was more difficult than planned. Additionally, the Village accounting staff is still relatively new to governmental generally accepted accounting principles and is still learning on the job.

Indication of a repeat finding: This is a repeat finding of the previous two years: 2016-1 and 2017-3.

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

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

**VILLAGE OF BALD HEAD ISLAND, NORTH CAROLINA**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**For the Fiscal Year Ended June 30, 2018**

**EXHIBIT E-1**  
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**2018-4 Expenditures in Excess of Appropriations**

Criteria: G.S. 159-8(a) states that all moneys received and expended by a local government of public authority should be included in the budget ordinance.

Condition: The Village of Bald Head Island expended funds in excess of amounts appropriated in the annual budget ordinance.

Effect: Funds expended that had not been appropriated in the budget jeopardizes the financial position of the Village.

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

Indication of a repeat finding: This is a repeat finding of the previous two years: 2016-1 and 2017-3.

Recommendation: Budget amendments should be adopted prior to the expenditure of funds.

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

**VILLAGE OF BALD HEAD ISLAND, NORTH CAROLINA  
CORRECTIVE ACTION PLAN  
For the Year Ended June 30, 2018**

**Exhibit E-2**

I. Financial Statement Findings

**Finding 2018-1**

Name of contact person: Pauline Haran, Finance Director

Corrective Action: Will train staff to timely reconcile subsidiary ledgers to the general ledger.

Proposed completion date: June 30, 2019

**Finding 2018-2**

Name of contact person: Pauline Haran, Finance Director

Corrective Action: To timely provide required information.

Proposed completion date: June 30, 2019

**Finding 2018-3**

Name of contact person: Pauline Haran, Finance Officer

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

Proposed completion date: June 30, 2019

**Finding 2018-4**

Name of contact person: Pauline Haran, Finance Officer

Corrective Action: To closely monitor budget expenditures and pre-audit requirements.

Proposed completion date: June 30, 2019

**VILLAGE OF BALD HEAD ISLAND, NORTH CAROLINA**  
**SUMMARY SCHEDULE OF PRIOR YEAR FINDING**  
**For the Year Ended June 30, 2018**

**Exhibit E-3**

**Finding: 2017-1**

Status: The condition has been corrected

**Finding: 2017-2**

Status: The condition has been corrected

**Finding: 2017-3**

Status: The condition continues