

VILLAGE OF BALD HEAD ISLAND, NORTH CAROLINA

AUDITED FINANCIAL STATEMENTS

June 30, 2011

Village Council Members

J. Andrew Sayre, Mayor  
John Fisher, Mayor Pro Tempore  
Gene Douglas  
Art Morris  
John Pitera

Administrative and Financial Staff

Calvin R. Peck, Jr., Village Manager  
Debra Straub, Finance Director  
Daralyn Spivey, Tax Administrator

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**Financial Section**

Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Bald Head Island, North Carolina, as of and for the year ended June 30, 2011, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Bald Head Island's management. Our responsibility is to express an opinion 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 Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Bald Head Island, North Carolina as of June 30, 2011, 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 conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 24, 2011 on our consideration of the Village of Bald Head Island's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing. Not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and the Law Enforcement Officers' Special Separation Allowance Schedule of Funding Progress and Employer Contributions are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements of the Village of Bald Head Island, North Carolina. The introductory information, the combining and individual fund 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 have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory information has not been subjected to the auditing procedures applied by us in the audit of basic financial statements and, accordingly, we express no opinion on them.

  
Certified Public Accountants

October 24, 2011

**Management's Discussion and Analysis**

## Management's Discussion and Analysis

As management of the Village of Bald Head Island, 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, 2011. 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

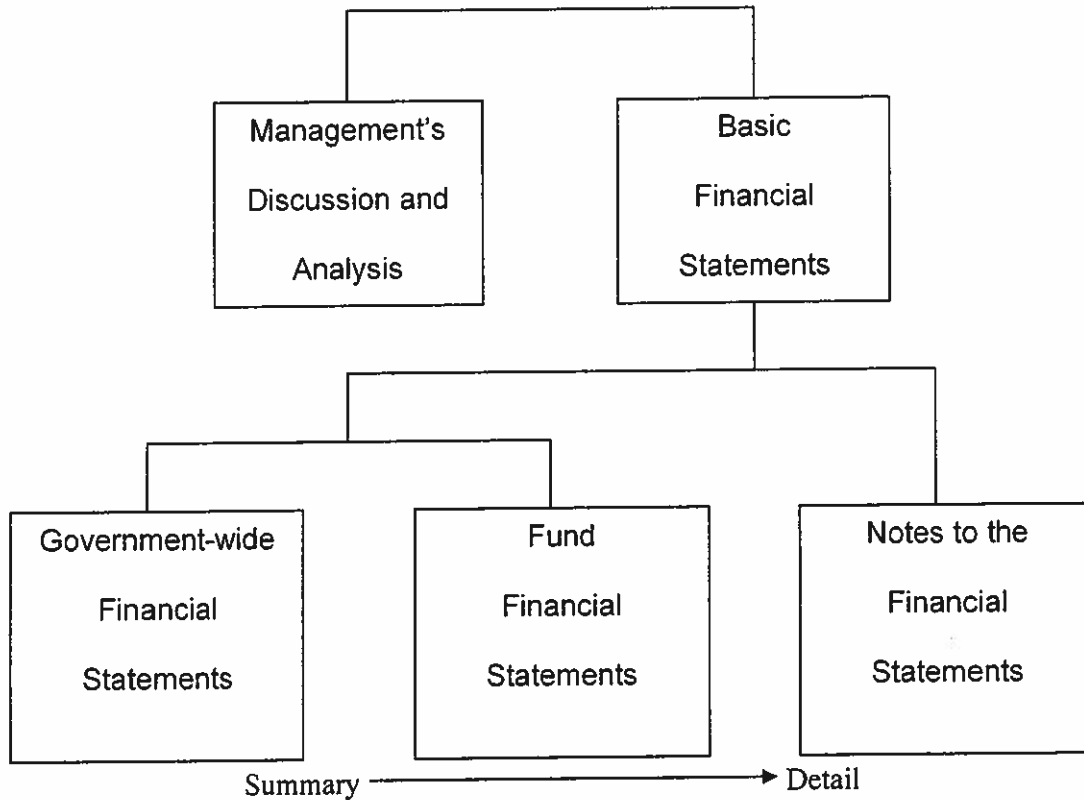
- The assets of the Village of Bald Head Island exceeded its liabilities at the close of the fiscal year by \$5,766,051 (*net assets*).
- The government's total net assets increased by \$2,131,845, primarily due to the decrease in operating expenditures.
- As of the close of the current fiscal year, the Village of Bald Head Island's governmental funds reported combined ending fund balances of \$5,294,212, a decrease of \$220,392 in comparison with the prior year. Approximately 94.96 percent of this total amount, or \$5,027,224, is available for appropriation at the government's direction.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$4,005,913, or 45.2 percent of the total General Fund expenditures for the year.
- The Village of Bald Head Island's total debt decreased by \$2,687,548 during the current fiscal year primarily due to the debt payments for the Village's water and sewer utility system as well as debt payment on a six year general obligation bond.

### 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 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 assets and how they have changed. Net assets are the difference between the Village's total assets and total liabilities. Measuring net assets is one way to gage 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 finance 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 of Bald Head Island.

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, uses 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 Village of Bald Head Island can be divided into three categories: governmental funds, proprietary funds, and fiduciary 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* which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Village's programs. The relationship between government activities (reported in the Statement of Net Assets 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 legal budget document. The statement shows four columns: 1) the original budget as adopted by the board; 2) the final budget as amended by the board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges.

**Proprietary Funds** – Village of Bald Head Island has one 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 Assets 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 begin 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.

## Government-Wide Financial Analysis

### Village of Bald Head Island's Net Assets

Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 5,776,603	\$ 6,222,801	\$ 1,113,231	\$ 1,233,944	\$ 6,889,834	\$ 7,456,745
Capital assets	4,706,823	4,913,396	10,655,324	10,678,791	15,362,147	15,592,187
Total assets	<u>10,483,426</u>	<u>11,136,197</u>	<u>11,768,555</u>	<u>11,912,735</u>	<u>22,251,981</u>	<u>23,048,932</u>
Long-term liabilities outstanding	11,303,706	13,574,634	4,839,973	5,256,593	16,143,679	18,831,227
Other liabilities	285,629	523,154	56,622	60,345	342,251	583,499
Total liabilities	<u>11,589,335</u>	<u>14,097,788</u>	<u>4,896,595</u>	<u>5,316,938</u>	<u>16,485,930</u>	<u>19,414,726</u>
Net assets:						
Invested in capital assets, net of related debt	4,706,823	4,913,396	5,843,387	5,448,979	10,550,210	10,362,375
Restricted	489,695	-	-	-	489,695	-
Unrestricted	(6,302,427)	(7,874,987)	1,028,573	1,146,818	(5,273,854)	(6,728,169)
Total net assets	<u>\$ (1,105,909)</u>	<u>\$ (2,961,591)</u>	<u>\$ 6,871,960</u>	<u>\$ 6,595,797</u>	<u>\$ 5,766,051</u>	<u>\$ 3,634,206</u>

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of the Village of Bald Head Island exceeded liabilities by \$5,766,051 as of June 30, 2011. The Village's net assets increased by \$2,131,845 for the fiscal year ended June 30, 2011. However, the largest portion \$10,550,210 reflects the Village's investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt still outstanding that was issued to acquire those items. 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 investment in its 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 assets \$489,695 represents resources that are subject to external restrictions on how they may be used. The remaining balance of (\$5,273,854) is unrestricted.

The unrestricted fund balance shows a negative number which is not normal. In September 2009 the Village undertook a project to stabilize and renourish the fragile shoreline of Bald Head Island by issuing \$15,000,000 in general obligation bonds. Normally when a capital project is performed it results in a "capital asset", which is defined as an asset that is used in operations and that has an initial useful life extending beyond a single reporting period. The beach stabilization and renourishment project was unusual because no capital asset was created. The project involved sand placement on the Village beaches, which has no calculable life. Due to the uncontrollable forces of nature (i.e. erosion), the sand could remain for 20 years or 20 days. The Village decided to take the most conservative approach and expense the entire cost in the first year, which has resulted in the negative fund balance in the General Fund. The Village planned for this expense by creating special tax districts that will pay off the debt in 6 years and return the net asset balances to normal. Even with the stabilization and renourishment project,

there were several aspects of the Village's financial operations, which positively influenced the total unrestricted governmental net assets:

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 98.21%, which is comparable to the statewide average of 97.42%.
- A 23.26% increase in property tax revenues and a 17.2% increase in accommodation taxes.

**Village of Bald Head Island's Changes in Net Assets**  
**Figure 3**

	Governmental Activities		Business Type Activities		Total	
	2011	2010	2011	2010	2011	2010
<b>Revenues:</b>						
<b>Program revenues:</b>						
Charges for services	\$ 225,873	\$ 313,475	\$ 1,690,713	\$ 1,821,323	\$ 1,916,586	\$ 2,134,798
Operating grants and contributions	151,798	158,563	-	-	151,798	158,563
Capital grants and contributions	210,901	182,893	88,231	111,671	299,132	294,564
<b>General revenues:</b>						
Property taxes	6,992,351	5,672,622	-	-	6,992,351	5,672,622
Other taxes	1,008,983	831,664	-	-	1,008,983	831,664
Unrestricted investment earnings	19,032	22,779	2,053	3,469	21,085	26,248
Other	44,268	58,202	741	1,008	45,009	59,210
<b>Total revenues</b>	<b>8,653,206</b>	<b>7,240,198</b>	<b>1,781,738</b>	<b>1,937,471</b>	<b>10,434,944</b>	<b>9,177,669</b>
<b>Expenses:</b>						
General government	1,374,374	1,261,509	-	-	1,374,374	1,261,509
Public safety	2,010,094	2,151,525	-	-	2,010,094	2,151,525
Transportation	10,559	91,129	-	-	10,559	91,129
Environmental protection	906,982	853,337	-	-	906,982	853,337
Economic and physical development	1,890,320	17,721,186	-	-	1,890,320	17,721,186
Interest on long-term debt	605,195	544,328	-	-	605,195	544,328
Water and sewer	-	-	1,505,575	1,494,804	1,505,575	1,494,804
<b>Total expenses</b>	<b>6,797,524</b>	<b>22,623,014</b>	<b>1,505,575</b>	<b>1,494,804</b>	<b>8,303,099</b>	<b>24,117,816</b>
Increase in net assets before transfers	1,855,682	(15,382,816)	276,163	442,667	2,131,845	(14,940,149)
Transfers	-	(6,000)	-	6,000	-	-
Increase in net assets	1,855,682	(15,388,816)	276,163	448,667	2,131,845	(14,940,149)
Net assets, July 1 (consolidated)	(2,961,591)	12,427,225	6,595,797	6,147,130	3,634,206	18,574,355
Net assets, June 30	\$ (1,105,909)	\$ (2,961,591)	\$ 6,871,960	\$ 6,595,797	\$ 5,766,051	\$ 3,634,206

**Governmental activities.** Governmental activities increased the Village's net assets by \$1,855,682, primarily due to the increase in total revenues and the decrease in operating expenditures (as a result of recording the entire cost of the sand placement in fiscal year ending June 30, 2010).

**Business-type activities.** Business-type activities increased the Village of Bald Head Island's net assets by \$276,163. Key elements of this increase are: revenues and capital contributions were used for operations, debt service and plant modification.

## **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 usable 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 Island's fund balance available in the General Funds was \$5,027,224, while total fund balance reached \$5,294,212. As a measure of the General Funds liquidity, it may be useful to compare both available fund balance and total fund balance to total General Fund expenditures. The Village currently has an available fund balance of 56.73% of general fund expenditures, while total fund balance represents 59.74% of the same amount.

At June 30, 2011, the governmental funds of Village of Bald Head Island reported a combined fund balance of \$5,294,212, a 4 percent decrease over last year.

**General Fund Budgetary Highlights.** During the fiscal year, the Village revised the budget on several occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as 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 and accommodation tax receipts. Additionally, unanticipated expenditures were greater than budgeted for legal costs related to the transportation rate case and shoreline protection as well as professional services related to the 2011 property revaluation. These expenditures were covered by appropriated fund balance.

**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 assets of the Water and Sewer Fund at the end of the fiscal year amounted to \$1,028,573. The total change in net assets for the fund was \$276,163. The change in net assets in the Water and Sewer Fund is a result of keeping expenditures in check to comply with budgetary requirements.

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

**Capital assets.** The Village of Bald Head Island's investment in capital assets for its governmental and business-type activities as of June 30, 2011, totals \$15,362,147 (net of accumulated depreciation). These assets include buildings, roads, utility systems, land, machinery and equipment, construction in progress, and vehicles. No major capital assets were added during the year.

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

**Figure 4**

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	\$ 1,271,759	\$ 1,271,759	\$ 35,000	\$ 35,000	\$ 1,306,759	\$ 1,306,759
Buildings	1,637,310	1,677,540	644,952	658,705	2,282,262	2,336,245
Other improvements	418,559	440,087	-	-	418,559	440,087
Utility systems	-	-	8,058,402	8,212,551	8,058,402	8,212,551
Furniture and equipment	80,762	124,587	111,237	122,015	191,999	246,602
Infrastructure	358,123	372,481	-	-	358,123	372,481
Vehicles and motorized equipment	480,509	577,041	22,130	35,061	502,639	612,102
Construction in progress	459,801	449,901	1,783,603	1,615,459	2,243,404	2,065,360
<b>Total</b>	<b>\$ 4,706,823</b>	<b>\$ 4,913,396</b>	<b>\$ 10,655,324</b>	<b>\$ 10,678,791</b>	<b>\$ 15,362,147</b>	<b>\$ 15,592,187</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, 2011, the Village of Bald Head Island had total long term debt of \$16,143,679. Of this, \$4,811,937 is an installment note with Branch Banking and Trust Company secured by a deed of trust on the water and sewer system. Proceeds from this financing were used to refund the 2001 Cape Fear waterline note and to acquire the water and sewer system in December 2005. This note was refinanced in March 2009 at 3.59%. \$11,059,691 is the debt service for the general obligation bond privately placed with RBC Bank in September 2009 with an effective rate of 3.133% for six years. Total debt decreased \$2,687,548 during the current year.

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 \$159,927,008.

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**

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

Budgeted expenditures in the General Fund are expected to increase approximately 8.6% to \$9,194,920. The largest increments are in road construction/maintenance, Bald Head Island creek access expansion, employee benefit costs and an increase to build fund balance for future appropriations.

**Business-type Activities:** The water and sewer base rates and there is no change in the residential water and sewer usage rates anticipated. The debt service surcharge will change to a flat \$9.33 per month – based on estimated REUs (residential equivalent units). The irrigation usage rate was unchanged at the tier (2) rate of \$7.82 per 1,000 gallons. The rates are expected to generate revenues and contributions of \$1,810,773. Expenditures in the utility fund are operating expenses, debt service, capital outlay and reserves.

### **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 directed to the Village of Bald Head Island, Office of the Finance Director, P.O. Box 3009, Bald Head Island, NC 28461.

**Basic Financial Statements**

**VILLAGE OF BALD HEAD ISLAND**  
**STATEMENT OF NET ASSETS**  
**June 30, 2011**

Exhibit 1

	<u>Primary Government</u>		<u>Total</u>
	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and equivalents	5,319,181	526,342	5,845,523
Investments	4,604	643	5,247
Taxes receivable (net)	178,588	-	178,588
Accrued interest receivable on taxes	18,174	-	18,174
Accounts receivable	18,273	183,951	202,224
Due from other governmental agencies	230,283	20,838	251,121
Inventories	-	162,837	162,837
Prepaid expenses	7,500	2,500	10,000
<b>Total current assets</b>	<u>5,776,603</u>	<u>897,111</u>	<u>6,673,714</u>
<b>Restricted assets</b>			
Restricted Cash and Cash Equivalents	-	216,120	216,120
<b>Capital assets</b>			
Land and improvements not being depreciated	1,731,560	1,818,603	3,550,163
Other capital assets, net of depreciation	2,975,263	8,836,721	11,811,984
<b>Total capital assets</b>	<u>4,706,823</u>	<u>10,655,324</u>	<u>15,362,147</u>
<b>Total assets</b>	<u>10,483,426</u>	<u>11,768,555</u>	<u>22,251,981</u>
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	277,129	41,622	318,751
Unearned income	-	15,000	15,000
Customer deposits	8,500	-	8,500
<b>Long-term liabilities</b>			
Due within one year			
Installment notes		433,080	433,080
General obligation bonds	2,403,705		2,403,705
Accrued interest	25,632	-	25,632
Compensated absences	90,000	24,000	114,000
Unfunded pension benefit obligation	17,000		17,000
Due in more than one year			
Installment notes		4,378,857	4,378,857
General obligation bonds	8,655,986		8,655,986
Compensated absences	55,832	4,036	59,868
Unfunded pension benefit obligation	55,551	-	55,551
<b>Total liabilities</b>	<u>11,589,335</u>	<u>4,896,595</u>	<u>16,485,930</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	4,706,823	5,843,387	10,550,210
Restricted for:			
Stabilization by State Statute	259,488	-	259,488
Tourism	230,207		230,207
Unrestricted	(6,302,427)	1,028,573	(5,273,854)
<b>Total net assets</b>	<u>(1,105,909)</u>	<u>6,871,960</u>	<u>5,766,051</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, 2011

Functions/Programs	Program Revenue			Net (Expense) Revenue and Changes in Net Assets		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government						
Governmental activities						
General Government	1,374,374	-	210,901	(1,161,573)		(1,161,573)
Public Safety	2,010,094	113,523	-	(1,676,798)		(1,676,798)
Transportation	10,559	38,275	-	31,916		31,916
Environmental protection	906,982	-	-	(906,982)		(906,982)
Economic and Physical Development	1,890,320	-	-	(1,890,320)		(1,890,320)
Interest on Long-term deb	605,195	-	-	(605,195)		(605,195)
Total governmental activities	6,797,524	151,798	210,901	(6,208,952)		(6,208,952)
Business-type activities						
Water and Sewer Operations	1,505,575	-	88,231		273,369	273,369
Total business-type activities	1,505,575	-	88,231		273,369	273,369
Total primary government	8,303,099	151,798	299,132	(6,208,952)	273,369	(5,935,583)
General revenues:						
Taxes:						
Property taxes, levied for general purpose				6,992,351	-	6,992,351
Other taxes				1,008,983	-	1,008,983
Unrestricted investment earnings:				19,032	2,053	21,085
Miscellaneous				44,268	741	45,009
Total general revenues, special items, and transfer				8,064,634	2,794	8,067,428
Change in net assets				1,855,682	276,163	2,131,845
Net assets - beginning as previously reported				(2,961,591)	6,595,797	3,634,206
Net assets - ending				(1,105,909)	6,871,960	5,766,051

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

**VILLAGE OF BALD HEAD ISLAND**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**June 30, 2011**

Exhibit 3  
 Page 1 of 2

	<u>Major Funds</u>	<u>Total</u>
	<u>General Fund</u>	<u>Governmental</u>
		<u>Funds</u>
<b>ASSETS</b>		
Cash and cash equivalents	5,319,181	5,319,181
Restricted cash		
Investments	4,604	4,604
Taxes receivable, net	178,588	178,588
Receivable from other governments	230,283	230,283
Other receivables	18,273	18,273
Prepaid expenses	7,500	7,500
Total assets	5,758,429	5,758,429
 <b>LIABILITIES AND FUND BALANCES</b>		
Liabilities:		
Accounts payable and accrued liabilities	277,129	277,129
Deposits	8,500	8,500
Deferred revenue	178,588	178,588
Total liabilities	464,217	464,217
 Fund balances:		
Non Spendable		
Prepaid expenses	7,500	7,500
Restricted		
Stabilization by State Statute	259,488	259,488
Tourism	230,207	230,207
Assigned		
Economic Development	791,104	791,104
Unassigned	4,005,913	4,005,913
Total fund balances	5,294,212	5,294,212
Total liabilities and fund balances	5,758,429	5,758,429

**VILLAGE OF BALD HEAD ISLAND**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET ASSETS**  
**June 30, 2011**

Exhibit 3  
Page 2 of 2

Total fund balance, governmental funds	5,294,212
Amounts reported for governmental activities in the statement of net assets 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 assets.	4,706,823
Other long-term assets (accrued interest receivable from taxes) are not available to pay current period expenditures and therefore are deferred in the funds.	18,174
Liabilities for earned but deferred revenues in the fund statements.	178,588
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 assets.	<u>(11,303,706)</u>
Net assets of governmental activities in the statement of net assets	<u><u>(1,105,909)</u></u>

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

**VILLAGE OF BALD HEAD ISLAND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**For the Year Ended June 30, 2011**

Exhibit 4  
Page 1 of 2

	<b>Major Funds</b>	
	<b>General Fund</b>	<b>Total Governmental Funds</b>
<b>REVENUES</b>		
Property taxes	6,980,632	6,980,632
Other taxes	812,546	812,546
Unrestricted intergovernmental revenues	231,849	231,849
Restricted intergovernmental revenues	366,899	366,899
Licenses and permits	219,773	219,773
Sales and services	2,775	2,775
Investment earnings	19,032	19,032
Miscellaneous	7,981	7,981
<b>Total revenues</b>	<b>8,641,487</b>	<b>8,641,487</b>
<b>EXPENDITURES</b>		
Current:		
General government	1,343,935	1,343,935
Public safety	1,883,939	1,883,939
Transportation	10,559	10,559
Environmental protection	845,664	845,664
Economic and physical development	1,488,236	1,488,236
Debt Service:		
Principal	2,292,490	2,292,490
Interest and other charges	601,339	601,339
Capital outlay- nondepreciable	395,717	395,717
<b>Total expenditures</b>	<b>8,861,879</b>	<b>8,861,879</b>
Excess (deficiency) of revenues over expenditures	<b>(220,392)</b>	<b>(220,392)</b>
Net change in fund balances	(220,392)	(220,392)
Fund balances - beginning	5,514,604	5,514,604
Fund balances - ending	5,294,212	5,294,212

**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, 2011**

Exhibit 4  
 Page 2 of 2

Net change in fund balances - total governmental funds: (220,392)

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	16,100
Depreciation	(222,673)

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 deferred revenue for tax purposes	7,821
Increase in interest receivable on property taxes	3,898

Governmental funds report repayment of bond principal as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. This the amount of current principal paid on long term debt.

2,292,490

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	(3,856)
Compensated absences	(11,435)
Net pension obligation	(6,271)

Change in net assets of governmental activities	1,855,682
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**VILLAGE OF BALD HEAD ISLAND**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
**GENERAL FUND**  
**For the Year Ended June 30, 2011**

	<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	6,933,318	6,933,318	6,980,632	47,314
Other taxes	697,000	697,000	812,546	115,546
Unrestricted intergovernmental revenues	156,603	156,603	231,849	75,246
Restricted intergovernmental revenues	148,390	359,291	366,899	7,608
Licenses and permits	282,649	282,649	219,773	(62,876)
Sales and services	1,900	1,900	2,775	875
Investment earnings	18,000	18,000	15,707	(2,293)
Miscellaneous	8,300	8,300	7,981	(319)
Total revenues	<u>8,246,160</u>	<u>8,457,061</u>	<u>8,638,162</u>	<u>181,101</u>
<b>EXPENDITURES</b>				
Current:				
General government	1,343,609	1,524,609	1,343,935	180,674
Public safety	2,036,160	2,021,160	1,883,939	137,221
Transportation	130,000	130,000	10,559	119,441
Environmental protection	862,405	862,405	845,664	16,741
Economic and physical development	1,191,058	1,635,058	1,488,236	146,822
Debt Service:				
Principal	2,291,254	2,291,254	2,292,490	(1,236)
Interest and other charges	391,674	602,575	601,339	1,236
Total expenditures	<u>8,246,160</u>	<u>9,067,061</u>	<u>8,466,162</u>	<u>600,899</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>(610,000)</u>	<u>172,000</u>	<u>782,000</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	-	-	(534,748)	534,748
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>(534,748)</u>	<u>534,748</u>
<b>SPECIAL ITEM</b>				
Fund balance appropriated	-	610,000	-	610,000
Net change in fund balance:	<u>-</u>	<u>-</u>	<u>(362,748)</u>	<u>362,748</u>
Fund balances - beginning			<u>4,635,649</u>	
Fund balances - ending			4,272,901	
Legally budgeted Beach Stabilization Fund, Stormwater Management Fund and Village Facilities Improvement Fund are consolidated into the General Fund for reporting purposes:				
Interest Income			3,325	
Transfer from the General Fund			534,748	
Capital outlay-nondepreciable			(395,717)	
Fund balances - beginning			<u>878,955</u>	
Fund balances - ending (Exhibit 4)			<u>5,294,212</u>	

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

**VILLAGE OF BALD HEAD ISLAND**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
June 30, 2011

Exhibit 6

	<b>Enterprise Funds</b>	
	<b><u>Water and Sewer Fund</u></b>	<b><u>Total</u></b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	526,342	526,342
Investments	643	643
Accounts receivable, net	183,951	183,951
Receivables from other governments	20,838	20,838
Inventories	162,837	162,837
Prepaid expenses	2,500	2,500
Total current assets	897,111	897,111
Non-current assets:		
Restricted assets		
Cash and cash equivalents	216,120	216,120
Investments	-	-
Capital assets:		
Land and improvements	35,000	35,000
Construction in progress	1,783,603	1,783,603
Utility system	9,187,541	9,187,541
Buildings	687,648	687,648
Equipment and furniture	209,733	209,733
Vehicles	69,079	69,079
Less accumulated depreciation	(1,317,280)	(1,317,280)
Total non-current assets	10,871,444	10,871,444
Total assets	11,768,555	11,768,555
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	38,839	38,839
Salaries payable	2,783	2,783
Unearned income	15,000	15,000
Compensated absences - current	24,000	24,000
Bonds, notes and loans payable - current	433,080	433,080
Total current liabilities	513,702	513,702
Non-current liabilities:		
Compensated absences	4,036	4,036
Bonds, notes and loans payable	4,378,857	4,378,857
Total non-current liabilities	4,382,893	4,382,893
Total liabilities	4,896,595	4,896,595
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	5,843,387	5,843,387
Unrestricted	1,028,573	1,028,573
Total net assets	6,871,960	6,871,960

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 ASSETS**  
**PROPRIETARY FUNDS**  
**For the Year Ended June 30, 2011**

Exhibit 7

	<u>Enterprise Funds</u>	
	<u>Water and Sewer</u>	
	<u>Fund</u>	<u>Total</u>
<b>REVENUES</b>		
Charges for services	1,690,713	1,690,713
Total operating revenues	<u>1,690,713</u>	<u>1,690,713</u>
<b>OPERATING EXPENSES</b>		
Water and sewer operations	1,099,224	1,099,224
Depreciation	224,185	224,185
Total operating expenses	<u>1,323,409</u>	<u>1,323,409</u>
Operating income (loss)	<u>367,304</u>	<u>367,304</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Interest and investment revenue	2,053	2,053
Miscellaneous revenue	2,849	2,849
Interest expense	(182,166)	(182,166)
Miscellaneous expenses	(2,108)	(2,108)
Total non-operating revenue (expenses)	<u>(179,372)</u>	<u>(179,372)</u>
Income (loss) before contributions and transfers	187,932	187,932
Capital contributions	88,231	88,231
Change in net assets	276,163	276,163
Total net assets - beginning	<u>6,595,797</u>	<u>6,595,797</u>
Total net assets - ending	<u>6,871,960</u>	<u>6,871,960</u>

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

VILLAGE OF BALD HEAD ISLAND  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
June 30, 2011

EXHIBIT 8  
Page 1 of 2

	<u>Enterprise Funds</u>	
	<u>Water &amp; Sewer Fund</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from customers	1,690,793	1,690,793
Cash paid for goods and services	(717,491)	(717,491)
Cash paid to employees	(401,039)	(401,039)
Net cash provided (used) by operating activities	<u>572,263</u>	<u>572,263</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Acquisition of capital assets	(208,914)	(208,914)
Principal paid on long-term debt	(417,875)	(417,875)
Interest paid on long-term debt	(182,166)	(182,166)
Contributions from customers	88,231	88,231
Proceeds from sale of assets	325	325
Net cash provided (used) for capital and related financing activities	<u>(720,399)</u>	<u>(720,399)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Interest on investments	2,053	2,053
Investments sold	52	52
Net cash provided (used) for investing activities	<u>2,105</u>	<u>2,105</u>
Net increase (decrease) in cash and cash equivalents	(146,031)	(146,031)
Cash and cash equivalents at beginning of year	<u>888,493</u>	<u>888,493</u>
Cash and cash equivalents at end of year	<u>742,462</u>	<u>742,462</u>

VILLAGE OF BALD HEAD ISLAND  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
June 30, 2011

EXHIBIT 8  
Page 2 of 2

	<u>Enterprise Funds</u>	
	<u>Water &amp; Sewer Fund</u>	<u>Total</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	<u>367,304</u>	<u>367,304</u>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	224,185	224,185
Changes in assets and liabilities		
(Increase) decrease in accounts receivable	(2,432)	(2,432)
(Increase) decrease in inventory	(22,600)	(22,600)
(Increase) decrease in prepaid expenses	(338)	(338)
Increase (decrease) in accounts payable	1,362	1,362
Increase (decrease) in accrued wages	1,227	1,227
Increase (decrease) in accrued vacation	1,255	1,255
Increase (decrease) in unearned income	<u>2,300</u>	<u>2,300</u>
Total adjustments	<u>204,959</u>	<u>204,959</u>
Net cash provided (used) by operating activities	<u>572,263</u>	<u>572,263</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, 2011

EXHIBIT 9  
Page 1 of 17

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

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

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

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

The Village reports the following major governmental funds:

**General Fund.** The General Fund is the general operating fund of the Village. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund. The primary revenue sources are ad valorem taxes, State grants, and various other taxes and licenses. The primary expenditures are for administration, public safety, street maintenance and construction, and sanitation services. Additionally, the Village has legally adopted a Beach Stabilization Fund, Stormwater Management Fund and Village Facilities Improvement Fund. Under GASB 54 guidance these funds are consolidated in the General Fund. The budgetary comparisons for these funds have been included in the supplemental information.

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.

The Village reports the following non-major enterprise fund:

**Infiltration Pond Improvement Fund.** This fund is used to account for the improvement of the current village water and sewer system.

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

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Village enterprise funds are charges to customers for sales and services. The Village also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the water and sewer system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

The Village considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of January 1, 1993, 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, Brunswick County is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts in the County, including the Village of Bald Head Island. For motor vehicles registered under the staggered system, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, the Village's vehicle taxes for vehicles registered in Brunswick County from March 2010 through February 2011 apply to the fiscal year ended June 30, 2011. Uncollected taxes, which were billed during this period, are shown as a receivable in these financial statements and are offset by deferred revenues.

Sales taxes and certain intergovernmental revenues, such as the utilities franchise tax, collected and held by the State at year end on behalf of the Village are recognized as revenue. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Grant revenues, which are unearned at year-end, are recorded as unearned 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 are both restricted and unrestricted net assets 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.

As permitted by generally accepted accounting principles, the Village has elected to apply only applicable FASB Statements and Interpretations issued on or before November 30, 1989 that do not contradict GASB pronouncements in its accounting and reporting practices for its proprietary operations.

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 object level for multi-year funds. The budget officer shall have the power and authority to make departmental and interdepartmental amendments. All such amendments will be reported to the Village Council at the regular monthly meeting following the month in which such amendments are made. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

E. Assets, Liabilities, and Fund Equity

1. Deposits and Investments

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

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

The Village's investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT Cash Portfolio, a SEC-registered (2a-7) money market mutual fund, are valued at fair value which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued at fair value.

2. Cash and Cash Equivalents

The Village pools money from several funds to facilitate disbursement and investment and to maximize investment income. Therefore all cash and investments are essentially demand deposits and are considered cash and cash equivalents.

3. Restricted Assets

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

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, 2007.

5. Allowances for Doubtful Accounts

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

6. Inventory and Prepaid Items

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

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

7. Capital Assets

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

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

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

8. 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 assets. Bond premiums and discounts, as well as issuance costs, 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 are reported as deferred charges and amortized over the term of the related 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.

9. Compensated Absences

The vacation policy of the Village provides for the accumulation of up to 240 hours (258 hours for public safety) earned vacation leave with such leave being fully vested when earned. At the beginning of each calendar year, leave balances in excess of 240 hours may be converted to the employee's sick leave benefit account for retirement purposes only. For the Village 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.

10. Net Assets/Fund Balances

Net Assets

Net assets in government-wide financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net assets represent 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 Balance

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

The governmental fund types classify fund balances as follows:

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

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

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

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

**Restricted for Tourism-** portion of fund balance that is restricted by revenue source for tourism-related expenditures. This amount represents the balance of the total unexpended Accommodation Tax funds.

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). Any changes or removal of specific purpose requires majority action by the governing body.

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

Assigned for Economic Development - portion of fund balance that has been budgeted by the Village Council for Beach Stabilization, Stormwater Management and Village Facilities Improvement.

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.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

There were no noted violations of State statutes or contractual obligations during the year ended June 30, 2011.

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, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The 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, 2011, the Village's deposits had a carrying amount of \$6,061,443 and a bank balance of \$6,242,395. Of the bank balance, \$3,948,601 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, 2011, the Village's petty cash fund totaled \$200.

2. Investments

At June 30, 2011, the Village of Bald Head Island had \$5,247 invested with the North Carolina Capital Management Trust's Cash Portfolio which carried a credit rating of AAAM by Standard and Poor's.

*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's investment policy regarding credit risk requires diversification in securities empowered by North Carolina G.S. 158-38(C). All investment in the Village's portfolio are rated AAA by Moody's Rating and/or S&P Rating.

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

3. Receivables - Allowances for Doubtful Accounts

The amounts presented in the Balance Sheet and the Statement of Net Assets for the year ended June 30, 2011 is net of the following allowance for doubtful accounts:

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

4. Capital Assets

Primary Government

Capital asset activity for the Primary Government for the year ended June 30, 2011, was as follows:

	<u>Beginning Balances</u>	<u>Reclassi- fications</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental activities:					
Capital assets not being depreciated:					
Land	1,271,759				1,271,759
Construction in progress	<u>449,901</u>		<u>9,900</u>		<u>459,801</u>
Total capital assets not being depreciated	<u>1,721,660</u>		<u>9,900</u>		<u>1,731,560</u>
Capital assets being depreciated					
Buildings	2,011,425				2,011,425
Other improvements	821,015				821,015
Vehicles and motorized equipment	1,558,908			81,092	1,477,816
Furniture and equipment	518,145		6,200		524,345
Infrastructure	<u>430,750</u>				<u>430,750</u>
Total capital assets being depreciated	<u>5,340,243</u>		<u>6,200</u>	<u>81,092</u>	<u>5,265,351</u>
Less accumulated depreciation for:					
Buildings	333,885		40,230		374,115
Other improvements	380,928		21,528		402,456
Vehicles and motorized equipment	981,867		96,532	81,092	997,307
Furniture and equipment	393,558		50,025		443,583
Infrastructure	<u>58,269</u>		<u>14,358</u>		<u>72,627</u>
Total accumulated depreciation	<u>2,148,507</u>		<u>222,673</u>	<u>81,092</u>	<u>2,290,088</u>
Total capital assets being depreciated, net	<u>3,191,736</u>				<u>2,975,263</u>
Governmental activity capital assets, net	<u>4,913,396</u>				<u>4,706,823</u>

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

General government	31,268
Public safety	134,983
Public works	<u>56,422</u>
Total depreciation expense	<u>222,673</u>

	Beginning <u>Balances</u>	Reclassi- <u>fications</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balances</u>
<b>Business-type activities:</b>					
Utilities Fund					
Capital assets not being depreciated:					
Land	35,000				35,000
Construction in progress	1,615,459		168,144		1,783,603
Other nondepreciable					
Total capital assets not being depreciated	<u>1,650,459</u>		<u>168,144</u>		<u>1,818,603</u>
Capital assets being depreciated					
Buildings	687,648				687,648
Utility systems	9,158,232		29,309		9,187,541
Vehicles and motorized equipment	79,079			10,000	69,079
Furniture and equipment	<u>204,035</u>		<u>5,698</u>		<u>209,733</u>
Total capital assets being depreciated	<u>10,128,994</u>		<u>35,007</u>	<u>10,000</u>	<u>10,154,001</u>
Less accumulated depreciation for:					
Buildings	28,943		13,753		42,696
Utility systems	945,681		183,458		1,129,139
Vehicles and motorized equipment	44,018		10,498	7,567	46,949
Furniture and equipment	<u>82,020</u>		<u>16,476</u>		<u>98,496</u>
Total accumulated depreciation	1,100,662		<u>224,185</u>	<u>7,567</u>	1,317,280
Total capital assets being depreciated, net	<u>9,028,332</u>				<u>8,836,721</u>
Business-type activities capital assets, net	<u>10,678,791</u>				<u>10,655,324</u>

**B. Liabilities**

**1. Pension Plan Obligation**

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

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

*Funding Policy.* Plan members are required to contribute six percent of their annual covered salary. The Village of Bald Head Island is required to contribute at an actuarially determined rate. For the Village, the current rate for employees not engaged in law enforcement and for law enforcement officers is 6.54% and 6.53%, respectively, of annual covered payroll. The contribution requirements of members and of the Village of Bald Head Island are established and may be amended by the North Carolina General Assembly. The Village's contributions to LGERs for the years ended June 30, 2011, 2010 and 2009 were \$158,773, \$123,965 and \$118,948 respectively. The contributions made by the Village equaled the required contributions for each year.

b. Law Enforcement Officers Special Separation Allowance

(1) Plan Description

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

All full-time law enforcement officers of the Village are covered by the Separation Allowance. At December 31, 2010, 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>15</u>
Total	<u>16</u>

A separate report was not issued for the plan.

(2) Summary of Significant Accounting Policies

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

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

(3) Contributions

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

The annual required contribution for the current year was determined as part of the December 31, 2010 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 5.00% investment rate of return (net of administrative expenses) and (b) projected salary increases of 4.25 – 7.85% per year. Both (a) and (b) included an inflation component of 3.00%. The assumptions did not include postretirement benefit increases.

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

Annual required contribution	23,164
Interest on net pension obligation	3,314
Adjustment to annual required contribution	( 3,548)
Annual pension cost	22,930
Contributions made	( 16,659)
Increase (decrease) in net pension obligation	6,271
Net pension obligation beginning of year	66,280
Net pension obligation end of year	<u>72,551</u>

Three Year Trend Information

For Year Ended <u>June 30</u>	Annual Pension <u>Cost (APC)</u>	Percentage of <u>APC Contributed</u>	Net Pension <u>Obligation</u>
2009	11,796	00.00%	66,032
2010	16,907	98.53%	66,280
2011	22,930	72.65%	72,551

(4) Funded Status and Funding Progress

As of December 31, 2010 the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and the unfunded actuarial accrued liability (UAAL) was \$181,996. The covered payroll (annual payroll of active employees covered by the plan) was \$768,951 and the ratio of the UAAL to the covered payroll was 23.67 percent.

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

c. Supplemental Retirement Income Plan

*Plan Description* – The Village contributes to the Supplemental Retirement Income Plan (Plan), a defined-contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The plan provides retirement benefits to law enforcement officers employed by the Village. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Supplemental Retirement Income Plan for Law Enforcement Officers is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes the pension trust fund financial statements for the Internal Revenue Code Section 401(k) plan that includes the Supplemental Retirement Income Plan for Law Enforcement Officers. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

*Funding Policy* – Article 12E of G.S. Chapter 143 requires the Village to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. The Village has elected to allow employees not engaged in law enforcement to participate in the Supplemental Retirement Income Plan. Total contributions for the year ended June 30, 2011 were \$211,455, which consisted of \$119,099 from the Village and \$92,356 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. All death benefit payments are made from the Death Benefit Plan. 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. The Village considers these contributions to be immaterial.

2. Deferred/Unearned Revenues

The balance in deferred/unearned revenues at year-end is composed of the following elements:

	<u>Deferred Revenue</u>	<u>Unearned Revenue</u>
Uninstalled taps (Water and Sewer Fund)	-	15,000
Taxes receivable (General Fund)	<u>178,588</u>	<u>-</u>
Total	<u>178,588</u>	<u>15,000</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 \$1 million per occurrence, police professional and public officers liability coverage of \$1 million per occurrence with a \$3 million aggregate, property coverage up to the total insurance values of the property policy, and workers' compensation coverage up to statutory limits. The pools are reinsured through commercial companies for single occurrence claims against general liability, auto liability and property liability in excess of \$500,000 and \$300,000 statutory limits for workers' compensation. The property liability pool has an aggregate limit for the total property losses in a single year, with the reinsurance limit based upon a percentage of the total insurance values.

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

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

4. Claims, Judgments and Contingent Liabilities

According to the Village attorney and Village management at June 30, 2011, 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

On March 30, 2009, the Village refinanced an installment financing agreement in the amount of \$5,731,013 with Branch Banking and Trust Company that originally financed the acquisition of the water and sewer systems and related assets from Bald Head Island Utilities, Inc. in the amount of \$4,725,000 and refund of the 2001 waterline debt to Bank of America of \$2,175,000. The financing agreement is secured by a Deed of Trust on the utility site and all the buildings, improvements and fixtures to be located thereon. The financing agreement requires quarterly payments in the amount of \$150,010 beginning June 30, 2009, and each quarter thereafter through December 31, 2020, with interest at an annual rate of 3.59%.

Annual debt service payments of the installment financing agreement as of June 30, 2011 are as follows:

Year Ending June 30	Utilities Fund	
	Principal	Interest
2012	433,080	166,962
2013	448,838	151,203
2014	465,170	134,872
2015	482,096	117,946
2016	499,637	100,404
2017-2021	<u>2,483,116</u>	<u>217,074</u>
Total	<u>4,811,937</u>	<u>888,461</u>

b. General Obligation Indebtedness

The Village's general obligation bonds were issued on September 11, 2009 to finance the beach stabilization and renourishment project. The general obligation bonds are being retired by ad valorem tax revenues generated from special tax districts 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. Principle and interest requirements are appropriated when due.

The bonds are "Build America Bonds" which provides a federal subsidy of 35% of the interest paid on the bonds to the issuer. The amounts of the subsidy received in the year ending June 30, 2011 was \$210,901.

Bonds payable at June 30, 2011 are comprised of the following individual issues:

General Obligation Bonds

2009 Beach Renourishment Bonds in the amount of \$15,000,000 due in quarterly installments of \$723,457, including principal and interest at 4.82% thru September 2015. The balance at June 30, 2011 is \$11,059,691.

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

Year Ending June 30	Governmental Activities	
	Principal	Interest
2012	2,403,705	490,123
2013	2,521,675	372,154
2014	2,645,434	248,394
2015	2,775,268	118,561
2016	713,609	9,849
Total	<u>11,059,691</u>	<u>1,239,081</u>

At June 30, 2010, the Village of Bald Head Island had a legal debt margin of \$159,927,008.

c. Changes in Long-Term Liabilities

	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011	Current Portion of Balance
Governmental activities:					
General obligation bond	13,352,181		2,292,490	11,059,691	2,403,705
Accrued interest	21,776	3,856		25,632	25,632
Compensated absences	134,397	96,854	85,419	145,832	90,000
Net pension obligation	<u>66,280</u>	<u>22,930</u>	<u>16,659</u>	<u>72,551</u>	<u>17,000</u>
Governmental activity long-term liabilities	<u>13,574,634</u>	<u>123,640</u>	<u>2,394,568</u>	<u>11,303,706</u>	<u>2,536,337</u>
Business type activities:					
Installment note	5,229,812		417,875	4,811,937	433,080
Compensated absences	<u>26,781</u>	<u>25,108</u>	<u>23,853</u>	<u>28,036</u>	<u>24,000</u>
Business-type activity long-term liabilities	<u>5,256,593</u>	<u>25,108</u>	<u>441,728</u>	<u>4,839,973</u>	<u>457,080</u>

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

C. Interfund Balances and Activity

Transfers to/from other funds at June 30, 2011, consist of the following:

From the General Fund to the Beach Stabilization Fund	<u>534,748</u>
Total	<u>534,748</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 2011 fiscal year, the Village made one transfer from the General Fund to various funds. The transfer to the Beach Stabilization Capital Project Fund totaling \$534,748 was the annual transfer of Accommodation Tax revenue less the amount needed to service the G.O. bond debt.

D. On-Behalf Payments for Fringe Benefits and Salaries

For the fiscal year ended June 30, 2011, the Village of Bald Head Island has recognized as a revenue and an expenditure, on-behalf payments for fringe benefits and salaries of \$4,200 for the salary supplement and stipend benefits paid to eligible firemen by the local board of trustees of the Firemen's Relief Fund during the fiscal year ended June 30, 2011. Under State law the local board of trustees for the Fund receives an amount each year, which the board may use at its own discretion for eligible firemen or their departments.

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	\$5,294,212
Less:	
Prepaid expenses	7,500
Stabilization by State Statute	259,488
Tourism	230,207
Economic Development	791,104
Remaining Fund Balance	4,005,913

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>Non-major Funds</u>
	\$10,932	\$0

IV. JOINTLY GOVERNED ORGANIZATIONS

Cape Fear Council of Governments

The Village, in conjunction with four counties and thirty two other municipalities established the Cape Fear Council of Governments (Council). The participating governments established the Council to coordinate various funding received from Federal and State agencies. Each participating government appoints one member to the Council's governing board. The Village paid membership fees of \$343 to the Council during the fiscal year ended June 30, 2011.

V. JOINT VENTURES

Firemen's Relief Fund

The Village and the members of the Village's fire department each appoint two members to the five-member local board of trustees for the Firemen's Relief Fund. The State Insurance Commissioner appoints one additional member to the local board of trustees. The Firemen's Relief Fund is funded by a portion of the fire and lightning insurance premiums that insurers remit to the State. The State passes these moneys to the local board of the Firemen's Relief Fund. The funds are used to assist fire fighters in various ways. The Village obtains an ongoing financial benefit from the Fund for the on-behalf of payments for salaries and fringe benefits made to members of the Village's fire department by the board of trustees. During the fiscal year ended June 30, 2011, the Village reported revenues and expenditures for the payments of \$4,200 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, 2011. 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 SIGNIFIGANT 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.

Required  
Supplemental Financial Data

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

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

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (a)	UAAL as a % of Covered Payroll [(b-a)/c]
12/31/2004	0	49,886	49,886	0.00%	369,004	13.52%
12/31/2005	0	54,469	54,469	0.00%	441,501	12.34%
12/31/2006	0	74,907	74,907	0.00%	519,888	14.41%
12/31/2007	0	72,093	72,093	0.00%	523,577	13.77%
12/31/2008	0	109,589	109,589	0.00%	647,206	16.93%
12/31/2009	0	189,636	189,636	0.00%	561,776	33.76%
12/31/2010	0	181,996	181,996	0.00%	768,951	23.67%

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

EXHIBIT A-2

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2004	6,681	37.44%
2005	7,478	38.23%
2006	8,858	0.00%
2007	9,482	0.00%
2008	11,839	0.00%
2009	11,796	0.00%
2010	16,907	98.53%
2011	22,930	72.65%

Notes to the Required Schedules:

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

Valuation date	12/31/10
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	20 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return*	5.00%
Projected salary increases*	4.25-7.85%
*Includes inflation at	3.00%
Cost-of-living adjustments	N/A

\* Information not available

**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, 2011 and 2010**

EXHIBIT B-1  
Page 1 of 5

	2011		Variance Favorable (Unfavorable)	2010
	Budget	Actual		Actual
<b>Revenues</b>				
Ad valorem taxes				
Current year	6,816,818	6,836,253	19,435	5,512,354
Prior year	109,000	117,118	8,118	88,046
Penalties and interest	7,500	27,261	19,761	22,135
Total	<u>6,933,318</u>	<u>6,980,632</u>	<u>47,314</u>	<u>5,622,535</u>
Other taxes				
Accommodations tax	697,000	812,546	115,546	693,165
Total	<u>697,000</u>	<u>812,546</u>	<u>115,546</u>	<u>693,165</u>
Unrestricted intergovernmental				
Local option sales tax	50,600	50,381	(219)	50,413
Utility franchise tax	72,700	144,892	72,192	87,718
Beer and wine	1,138	1,164	26	368
CAMA - State portion	2,165	1,700	(465)	2,540
Intergovernmental revenue	30,000	33,712	3,712	33,276
Total	<u>156,603</u>	<u>231,849</u>	<u>75,246</u>	<u>174,315</u>
Restricted intergovernmental				
Powell Bill allocation	33,390	38,275	4,885	37,794
Federal interest subsidy	210,901	210,901	-	182,893
On behalf payments	-	4,200	4,200	3,000
Mosquito control	1,500	-	(1,500)	1,153
Brunswick County - fire and rescue	113,500	113,523	23	113,536
Total	<u>359,291</u>	<u>366,899</u>	<u>7,608</u>	<u>338,376</u>
Permits and fees				
Building permits	88,690	30,399	(58,291)	81,289
Daily vehicle permits	44,325	62,380	18,055	168,875
Annual vehicle permits	92,344	68,275	(24,069)	-
Golf cart registration	32,790	32,520	(270)	33,555
EMS fees	14,000	15,549	1,549	14,104
Creek access permits	10,500	10,650	150	10,725
Total	<u>282,649</u>	<u>219,773</u>	<u>(62,876)</u>	<u>308,548</u>
Sales and services				
Sale of assets	-	875	875	1,000
Post office operations	1,900	1,900	-	1,927
Total	<u>1,900</u>	<u>2,775</u>	<u>875</u>	<u>2,927</u>

**VILLAGE OF BALD HEAD ISLAND  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
For the Years Ended June 30, 2011 and 2010**

EXHIBIT B-1  
Page 2 of 5

	2011		Variance Favorable (Unfavorable)	2010
	Budget	Actual		Actual
<b>Revenues</b>				
Investment earnings				
Interest earned	18,000	15,707	(2,293)	18,403
Unrealized appreciation	-	-	-	-
Total	18,000	15,707	(2,293)	18,403
Miscellaneous				
Fines	6,300	5,800	(500)	12,400
Insurance reimbursements	-	-	-	7,947
Tax refund	-	-	-	(1,001)
Miscellaneous	2,000	2,181	181	2,040
Total	8,300	7,981	(319)	21,386
Total revenues	8,457,061	8,638,162	181,101	7,179,655
<b>Expenditures</b>				
<b>General government</b>				
Governing body				
Codification	6,800	5,932	868	1,943
Travel	25,000	18,895	6,105	20,954
Manager's supplemental funds	40,000	12,939	27,061	7,457
Total	71,800	37,766	34,034	30,354
<b>Administration</b>				
Salaries and wages	408,157	411,512	(3,355)	457,597
Employee benefits	131,170	122,811	8,359	110,421
Utilities	5,600	5,498	102	3,400
Telephone	18,000	19,285	(1,285)	13,778
Travel	11,000	15,160	(4,160)	8,701
Ferry costs	49,435	27,594	21,841	29,821
Parking	-	6,400	(6,400)	-
Equipment maintenance	15,000	9,647	5,353	17,869
Non-depreciable equipment	1,000	893	107	894
Building maintenance	5,500	5,268	232	4,032
Office supplies	9,300	6,507	2,793	8,491
Copies and printing	3,000	1,960	1,040	2,245
Postage	4,300	2,282	2,018	4,725
Advertising	6,500	5,660	840	9,227
Dues and subscriptions	4,800	3,658	1,142	4,387
Training and certification	8,500	4,864	3,636	5,175
Bank charges	9,000	8,269	731	10,476
Miscellaneous	10,000	8,310	1,690	13,273
Professional services	550,100	450,202	99,898	313,374
Medical services	5,000	389	4,611	2,837

**VILLAGE OF BALD HEAD ISLAND  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
For the Year Ended June 30, 2011 and 2010**

EXHIBIT B-1  
Page 3 of 5

	2011		Variance Favorable (Unfavorable)	2010
	Budget	Actual		Actual
<b>Expenditures</b>				
General government (Continued)				
Administration (Continued)				
County collection fee	51,117	52,330	(1,213)	42,069
Insurance	126,000	117,899	8,101	114,483
Capital outlay	-	6,200	(6,200)	20,595
Capital outlay - nondepreciable	6,000	8,837	(2,837)	10,556
Post office operation	4,000	3,234	766	3,933
Education assistance	10,330	1,500	8,830	3,367
<b>Total</b>	<b>1,452,809</b>	<b>1,306,169</b>	<b>146,640</b>	<b>1,215,726</b>
<b>Total general government</b>	<b>1,524,609</b>	<b>1,343,935</b>	<b>180,674</b>	<b>1,246,080</b>
Public safety				
Police, fire and EMS				
Salaries	1,174,030	1,159,546	14,484	1,129,642
LEO Separation allowance	16,700	16,659	41	16,659
Employee benefits	318,169	305,009	13,160	284,056
Utilities	14,000	14,864	(864)	15,689
Telephone	26,000	14,697	11,303	20,005
Communications	1,595	2,395	(800)	3,935
Gas and oil	24,958	19,240	5,718	19,584
LP gas	3,500	1,156	2,344	4,134
Travel	9,000	1,599	7,401	3,379
Ferry costs	132,080	30,147	101,933	77,699
Parking	-	39,600	(39,600)	-
Barge expenses	3,500	3,330	170	4,684
Repairs - equipment	7,000	11,289	(4,289)	9,094
Repairs - vehicles	19,000	15,549	3,451	10,278
Vehicle permits	9,915	6,790	3,125	6,800
Repairs - building & grounds	4,800	8,662	(3,862)	6,290
Maintenance contracts	18,000	17,196	804	17,896
Supplies	27,313	17,465	9,848	36,824
EMS billing expense	1,260	1,297	(37)	1,016
Safety equipment and programs	-	-	-	167
EMS supplies	8,000	7,544	456	6,919
ALS medication	7,000	4,402	2,598	2,390
Water rescue supplies	3,000	1,863	1,137	2,349
Fire supplies	7,500	7,572	(72)	6,130
Building supplies	3,500	265	3,235	2,280
Volunteer incentive	4,000	4,025	(25)	2,468
Copies and printing	9,650	3,622	6,028	3,574
Munitions	4,500	4,233	267	4,686
Dues and subscriptions	4,000	4,782	(782)	1,493
Uniforms	12,225	12,878	(653)	20,399
Training and certification	12,000	7,312	4,688	10,932
Public education	2,500	2,051	449	-
Miscellaneous	1,500	4,843	(3,343)	3,446
Animal control	7,200	12,127	(4,927)	7,143
Medical services	22,715	17,566	5,149	17,767
Golf cart lease	1,384	1,390	(6)	1,401
Capital outlay	-	9,900	(9,900)	-
<b>Total</b>	<b>1,921,494</b>	<b>1,792,865</b>	<b>128,629</b>	<b>1,761,208</b>

**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, 2011 and 2010**

EXHIBIT B-1  
Page 4 of 5

	2011		Variance Favorable (Unfavorable)	2010
	Budget	Actual		Actual
<u>Expenditures</u>				
<u>Public Safety (Continued)</u>				
Development services				
Salaries	60,578	61,081	(503)	148,851
Employee benefits	16,951	17,140	(189)	48,685
Utilities	-	-	-	1,800
Telephone	-	-	-	4,404
Travel	2,200	1,316	884	1,671
Ferry	6,117	2,283	3,834	8,403
Parking	-	800	(800)	-
Repair and maintenance - equipment	4,200	4,069	131	3,646
Repair and maintenance - building	-	-	-	1,558
Advertising	-	87	(87)	1,404
Supplies	1,020	244	776	786
Dues	780	303	477	506
Training	2,500	832	1,668	2,466
Miscellaneous	500	-	500	3,322
Professional services	4,820	2,919	1,901	2,919
Total	<u>99,666</u>	<u>91,074</u>	<u>8,592</u>	<u>230,421</u>
Total public safety	<u>2,021,160</u>	<u>1,883,939</u>	<u>137,221</u>	<u>1,991,629</u>
Transportation				
Road maintenance	130,000	10,559	119,441	91,129
Total	<u>130,000</u>	<u>10,559</u>	<u>119,441</u>	<u>91,129</u>
Environmental protection				
Public works				
Salaries and wages	326,376	328,086	(1,710)	326,479
Employee benefits	105,920	108,546	(2,626)	90,728
Utilities	10,000	10,795	(795)	10,683
Telephone	2,700	2,683	17	2,938
Gas and oil	8,000	8,467	(467)	7,977
LP gas	3,500	3,114	386	2,586
Travel	600	439	161	867
Ferry expense	47,615	31,200	16,415	24,259
Parking	-	6,400	(6,400)	-
Barge expense	17,300	16,580	720	14,240
Repairs - equipment	14,000	12,811	1,189	13,660
Vehicle permits	3,900	4,015	(115)	4,000
Maintenance - building & grounds	5,800	7,731	(1,931)	7,033
Right-of-way maintenance	14,000	6,382	7,618	1,657
Contract services	284,091	283,492	599	268,727
Office supplies	1,500	1,143	357	1,565
Safety equipment supplies	5,000	3,743	1,257	7,401
Building supplies	1,500	906	594	776
Signs	1,500	887	613	474
Uniforms	2,500	1,709	791	2,360
Training and certification	250	288	(38)	250
Miscellaneous	250	603	(353)	294
Mosquito control	4,000	3,534	466	3,846
Golf cart lease	2,103	2,110	(7)	1,401
Capital outlay	-	-	-	11,995
Total environmental protection	<u>862,405</u>	<u>845,664</u>	<u>16,741</u>	<u>806,196</u>

**VILLAGE OF BALD HEAD ISLAND  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
For the Year Ended June 30, 2011 and 2010**

EXHIBIT B-1  
Page 5 of 5

	2011		Variance Favorable (Unfavorable)	2010
	Budget	Actual		Actual
<b>Expenditures</b>				
Economic and physical development				
Shoreline preservation				
Salaries	74,756	76,910	(2,154)	-
Employee benefits	21,813	22,254	(441)	-
Travel	24,500	4,878	19,622	-
Ferry	6,337	1,235	5,102	-
Parking	-	800	(800)	-
Office supplies	570	25	545	-
Dues and subscriptions	2,830	11,840	(9,010)	-
Training and certification	400	105	295	-
Engineering	127,500	57,799	69,701	-
Monitoring	185,301	275,798	(90,497)	-
Legal	942,206	888,637	53,569	-
Dune restoration/vegetation	88,845	-	88,845	-
Lobbying	160,000	147,852	12,148	-
Stormwater management	-	103	(103)	-
Total	<u>1,635,058</u>	<u>1,488,236</u>	<u>146,822</u>	<u>-</u>
Debt service				
Principal	2,291,254	2,292,490	(1,236)	1,647,819
Interest and fees	602,575	601,339	1,236	522,552
Total	<u>2,893,829</u>	<u>2,893,829</u>	<u>-</u>	<u>2,170,371</u>
Total expenditures	<u>9,067,061</u>	<u>8,466,162</u>	<u>600,899</u>	<u>6,305,405</u>
Revenues over (under) expenditures	<u>(610,000)</u>	<u>172,000</u>	<u>782,000</u>	<u>874,250</u>
Other financing sources (uses)				
Fund balance appropriated	1,144,748	-	(1,144,748)	-
Operating transfers in				
Capital Projects Funds	-	-	-	4,626
Operating transfers out				
Beach Fund	(534,748)	(534,748)	-	(524,770)
Shoreline preservation fund	-	-	-	(200,032)
Water and sewer fund	-	-	-	(6,000)
Total	<u>610,000</u>	<u>(534,748)</u>	<u>(1,144,748)</u>	<u>(726,176)</u>
Revenues and other financing sources over (under) expenditures	<u>-</u>	<u>(362,748)</u>	<u>(362,748)</u>	<u>148,074</u>
Fund balance				
Beginning of year - July 1		<u>4,635,649</u>		<u>4,487,575</u>
End of year - June 30		<u>4,272,901</u>		<u>4,635,649</u>

**VILLAGE OF BALD HEAD ISLAND**  
**COMBINING BALANCE SHEET**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**June 30, 2011**

Exhibit C-1

	<u>Stormwater Management Fund</u>	<u>Village Facilities Improvement Fund</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash and cash equivalents	66,152	530	66,682
Investments	57	-	57
Total assets	66,209	530	66,739
 <b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable	399	-	399
Total liabilities	399	-	399
 <b>Fund balances:</b>			
Reserved for:			
Economic Development	65,810	530	66,340
Total fund balances	65,810	530	66,340
Total liabilities and fund balances	66,209	530	66,739

**VILLAGE OF BALD HEAD ISLAND**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**For the Year Ended June 30, 2011**

Exhibit C-2

	<u>Stormwater Management Fund</u>	<u>Village Facilities Improvement Fund</u>	<u>Total-Other Governmental Funds</u>
<b>REVENUES</b>			
Investment earnings	236	2	238
Total revenues	<u>236</u>	<u>2</u>	<u>238</u>
<b>EXPENDITURES</b>			
Current:			
Capital outlay - nondepreciable	91,176	-	91,176
Total expenditures	<u>91,176</u>	<u>-</u>	<u>91,176</u>
Excess (deficiency) of revenues over expenditures	<u>(90,940)</u>	<u>2</u>	<u>(90,938)</u>
Net change in fund balances	(90,940)	2	(90,938)
Fund balances - beginning	<u>156,750</u>	<u>528</u>	<u>157,278</u>
Fund balances - ending	<u><u>65,810</u></u>	<u><u>530</u></u>	<u><u>66,340</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, 2011**

EXHIBIT C-3  
Page 1 of 2

	Project Author- ization	Actual		Total To Date	Variance Positive (Negative)
		Prior Year(s)	Current Year		
<b>Revenues</b>					
Investment earnings					
Interest earned	150,737	150,737	3,087	153,824	3,087
Interest on bond proceeds	6,080	6,080	-	6,080	-
Miscellaneous					
Refund State of NC	421,626	421,626	-	421,626	-
Total revenues	578,443	578,443	3,087	581,530	3,087
<b>Expenditures</b>					
Capital outlay:					
Beach Renourishment					
Administration/Engineering	1,359,205	1,148,762	97,936	1,246,698	112,507
Monitoring	723,146	687,960	9,036	696,996	26,150
Legal	696,314	655,878	-	655,878	40,436
Construction	574,394	264,923	2,437	267,360	307,034
Dune restoration	586,087	465,536	100,615	566,151	21,936
Vitex restoration	35,000	22,277	6,560	28,837	6,163
Lobbying	34,448	34,448	-	34,448	-
Subtotal	4,010,594	3,279,784	216,584	3,496,368	514,226
Engineered Beach					
Administration/Engineering	340,063	340,062	-	340,062	1
Legal	212,868	212,867	-	212,867	1
Subtotal	552,931	552,929	-	552,929	2
Marine Groins - Harbor Groin System					
Administration/Engineering	99,451	45,354	38,591	83,945	15,506
Legal	35,000	15,853	1,607	17,460	17,540
Construction	267,557	-	44,180	44,180	223,377
Subtotal	402,008	61,207	84,378	145,585	256,423
BHI Creek Dredging					
Administration/Engineering	426,876	390,539	3,579	394,118	32,758
Legal	20,000	-	-	-	20,000
Subtotal	446,876	390,539	3,579	394,118	52,758
Sand Replacement Project					
Administration/Engineering	406,115	406,115	-	406,115	-
Monitoring	56,854	56,854	-	56,854	-
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	16,691,738	16,691,738	-	16,691,738	-
Total expenditures	22,104,147	20,976,197	304,541	21,280,738	823,409

**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, 2011**

EXHIBIT C-3  
 Page 2 of 2

	Project Author- ization	Actual		Total To Date	Variance Positive (Negative)
		Prior Year(s)	Current Year		
Revenues over (under) expenditures	<u>(21,525,704)</u>	<u>(20,397,754)</u>	<u>(301,454)</u>	<u>(20,699,208)</u>	<u>826,496</u>
Other financing sources (uses)					
Operating transfer from General Fund	4,862,234	4,455,961	534,748	4,990,709	128,475
Village Facilities Fund	1,663,470	1,663,470	-	1,663,470	-
Bonds Issued	<u>15,000,000</u>	<u>15,000,000</u>	<u>-</u>	<u>15,000,000</u>	<u>-</u>
Total other financing sources (uses)	<u>21,525,704</u>	<u>21,119,431</u>	<u>534,748</u>	<u>21,654,179</u>	<u>128,475</u>
Revenues and other financing sources over (under) expenditures	<u>-</u>	<u>721,677</u>	<u>233,294</u>	<u>954,971</u>	<u>954,971</u>
Fund balance, beginning			<u>721,677</u>		
Fund balance, ending			<u>954,971</u>		

**VILLAGE OF BALD HEAD ISLAND  
STORMWATER MANAGEMENT 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, 2011**

EXHIBIT C-4

	Project Author- ization	Actual		Total To Date	Variance Positive (Negative)
		Prior Year(s)	Current Year		
<b>Revenues</b>					
Investment earnings					
Interest earned	-	42,553	236	42,789	42,789
Total revenues	-	42,553	236	42,789	42,789
<b>Expenditures</b>					
Capital outlay:					
Administration	9,000	3,295	4,140	7,435	1,565
Construction	951,000	874,876	65,985	940,861	10,139
Engineering	184,500	161,827	19,715	181,542	2,958
Legal	24,000	14,305	1,336	15,641	8,359
Total expenditures	1,168,500	1,054,303	91,176	1,145,479	23,021
Revenues over (under) expenditures	(1,168,500)	(1,011,750)	(90,940)	(1,102,690)	65,810
Other financing sources (uses)					
Operating transfer from General Fund	1,168,500	1,168,500	-	1,168,500	-
Revenues and other financing sources over (under) expenditures	-	156,750	(90,940)	65,810	65,810
Fund balance, beginning			156,750		
Fund balance, ending			65,810		

VILLAGE OF BALD HEAD ISLAND  
VILLAGE FACILITIES 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, 2011

EXHIBIT C-5

	Project Author- ization	Actual			Variance Favorable (Unfavorable)
		Prior Year	Current Year	Total To Date	
<b>Revenues</b>					
Investment earnings					
Interest earned	5,151	105,156	2	105,158	100,007
Total revenues	5,151	105,156	2	105,158	100,007
<b>Expenditures</b>					
Capital outlay:					
Administration - village hall	198,686	198,685	-	198,685	1
Construction - village hall	26,316	26,316	-	26,316	-
Furnishings/Equipment - village hall	46,426	41,276	-	41,276	5,150
Administration and engineering	164,803	164,802	-	164,802	1
Legal and professional services	5,130	5,131	-	5,131	(1)
Total expenditures	441,361	436,210	-	436,210	5,151
Revenues over (under) expenditures	(436,210)	(331,054)	2	(331,052)	(105,158)
Other financing sources (uses)					
Fund balance appropriated	1,663,470	-	-	-	(1,663,470)
Operating transfer from General Fund	436,210	1,999,678	-	1,999,678	1,563,468
Operating transfers to General Fund	-	(4,626)	-	(4,626)	(4,626)
Beach Stabilization Fund	(1,663,470)	(1,663,470)	-	(1,663,470)	-
Net other financing sources (uses)	436,210	331,582	-	331,582	(104,628)
Revenues and other financing sources over (under) expenditures	-	528	2	530	530
Fund balance, beginning			528		
Fund balance, ending			530		

**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, 2011**

EXHIBIT D-1  
Page 1 of 3

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>Revenues:</b>			
<b>Water charges</b>			
Water service	732,870	703,325	(29,545)
Water tap fees	113,000	59,600	(53,400)
Pipeline surcharge	<u>150,000</u>	<u>149,804</u>	<u>(196)</u>
<b>Total</b>	<u>995,870</u>	<u>912,729</u>	<u>(83,141)</u>
<b>Sewer charges</b>			
Sewer service	713,267	712,730	(537)
Sewer tap fees	134,000	22,000	(112,000)
Septic maintenance	27,127	27,785	658
Port-O-John rentals	<u>17,600</u>	<u>15,469</u>	<u>(2,131)</u>
<b>Total</b>	<u>891,994</u>	<u>777,984</u>	<u>(114,010)</u>
<b>Total operating revenues</b>	<u>1,887,864</u>	<u>1,690,713</u>	<u>(197,151)</u>
<b>Nonoperating revenues</b>			
Interest income	-	1,378	1,378
Miscellaneous revenue	2,000	2,849	849
Sale of assets	-	325	325
Contributions from customers	<u>54,579</u>	<u>88,231</u>	<u>33,652</u>
<b>Total nonoperating revenues</b>	<u>56,579</u>	<u>92,783</u>	<u>36,204</u>
<b>Total revenues</b>	<u>1,944,443</u>	<u>1,783,496</u>	<u>(160,947)</u>
<b>Expenditures</b>			
<b>Operating expenditures</b>			
Salaries and wages	481,721	470,258	11,463
Employee benefits	122,877	103,927	18,950
Utilities	90,000	89,569	431
Telephone	24,000	27,892	(3,892)
Communications	-	29	(29)
Gas and oil	7,500	7,975	(475)
Travel	3,500	3,299	201
Ferry expense	53,512	32,430	21,082
Parking	-	7,200	(7,200)
Barges and shipping	19,000	14,196	4,804
Equipment maintenance	7,000	8,708	(1,708)
Non-expendable supplies	2,000	-	2,000
Cart maintenance	1,350	1,041	309
Vehicle maintenance	8,600	4,123	4,477
Building and grounds maintenance	10,000	5,486	4,514
System repairs and maintenance	170,000	134,556	35,444
Office supplies	1,200	1,351	(151)
Water supplies	18,000	14,633	3,367
Sewer supplies	1,000	919	81
Safety equipment	2,800	2,440	360
Tools	3,500	2,038	1,462
Building supplies	1,000	86	914
Copies and printing	11,500	8,874	2,626
Postage	1,000	303	697

**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, 2011**

EXHIBIT D-1  
Page 2 of 3

	Budget	Actual	Variance Positive (Negative)
Operating expenditures (continued)			
Dues and subscriptions	1,000	1,126	(126)
Uniforms	4,500	4,405	95
Training and certification	2,000	1,769	231
Permits	3,000	3,540	(540)
Miscellaneous	2,000	2,110	(110)
Bill adjustments	3,000	-	3,000
Professional services	30,000	49,737	(19,737)
Lab fees	11,500	12,860	(1,360)
Purchase of water	32,000	25,964	6,036
Insurance	47,300	46,343	957
Equipment rental	3,200	-	3,200
Manager's contingency	10,000	8,782	1,218
Total	<u>1,190,560</u>	<u>1,097,969</u>	<u>92,591</u>
Debt service			
Principal payments	417,876	417,875	1
Interest and other costs	182,167	182,166	1
Total	<u>600,043</u>	<u>600,041</u>	<u>2</u>
Capital outlay			
Capital asset additions	53,100	35,007	18,093
Total expenditures	<u>1,843,703</u>	<u>1,733,017</u>	<u>110,686</u>
Revenues over (under) expenditures	<u>100,740</u>	<u>50,479</u>	<u>(50,261)</u>
Other financing sources (uses)			
Transfer to capital reserve	(100,740)	-	100,740
Total other financing sources (uses)	<u>(100,740)</u>	<u>-</u>	<u>100,740</u>
Revenues and other sources over expenditures and other uses	<u>-</u>	<u>50,479</u>	<u>50,479</u>
Fund Balance			
Beginning of year		820,354	
End of year		<u>870,833</u>	

**VILLAGE OF BALD HEAD ISLAND**  
**WATER AND SEWER FUND**  
**SCHEDULE OF REVENUES AND EXPENDITURES**  
**BUDGET AND ACTUAL (NON-GAAP)**  
**For the year ended June 30, 2011**

EXHIBIT D-1  
 Page 3 of 3

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Reconciliation from budgetary basis (modified accrual) to full accrual			
Revenues and other sources over expenditures and other uses		50,479	
Reconciling items:			
Principal retirement		417,875	
Capital outlay		35,007	
Increase in accrued vacation pay		(1,255)	
Depreciation		(224,185)	
Interest income recorded in capital projects		675	
Loss on disposal of vehicle		<u>(2,433)</u>	
Change in net assets per exhibit 7		<u>276,163</u>	

VILLAGE OF BALD HEAD ISLAND  
 INFILTRATION POND IMPROVEMENT CAPITAL PROJECT FUND  
 SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
 From Inception and for the Fiscal Year Ended June 30, 2011

EXHIBIT D-2

	Project Author- ization	Actual		Total To Date	Variance Favorable (Unfavorable)
		Prior Year	Current Year		
<b>Revenues</b>					
Interest on investments	-	22,073	675	22,748	22,748
Total revenues	-	22,073	675	22,748	22,748
<b>Expenditures</b>					
Capital outlay:					
Infiltration pond					
Administration	45,000	23,658	55	23,713	21,287
Engineering	625,505	583,361	16,911	600,272	25,233
Legal	408,124	363,755	11,070	374,825	33,299
Construction	418,000	398,093	406	398,499	19,501
Total	1,496,629	1,368,867	28,442	1,397,309	99,320
Aquifer study					
Administration	16,000	7,696	-	7,696	8,304
Engineering/Legal	289,000	157,446	129,413	286,859	2,141
Construction	145,000	81,450	10,289	91,739	53,261
Total	450,000	246,592	139,702	386,294	63,706
Total expenditures	1,946,629	1,615,459	168,144	1,783,603	163,026
Revenues over (under) expenditures	(1,946,629)	(1,593,386)	(167,469)	(1,760,855)	185,774
Other financing sources (uses)					
Operating transfer from					
General Fund	1,588,505	1,588,507	-	1,588,507	2
Water and Sewer Fund	358,124	358,124	-	358,124	-
Net other financing sources (uses)	1,946,629	1,946,631	-	1,946,631	2
Revenues and other financing sources over (under) expenditures	-	353,245	(167,469)	185,776	185,776
Fund balance, beginning			353,245		
Fund balance, ending			185,776		

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, 2011**

EXHIBIT E-1

Fiscal Year	Uncollected Balance <u>June 30, 2010</u>	<u>Additions</u>	<u>Collections and Credits</u>	Uncollected Balance <u>June 30, 2011</u>
2010-2011	-	6,961,192	6,836,250	124,942
2009-2010	133,238	-	104,048	29,190
2008-2009	25,741	-	10,868	14,873
2007-2008	11,621	-	2,201	9,420
2006-2007	152	-	-	152
2005-2006	8	-	-	8
2004-2005	-	-	-	-
2003-2004	3	-	-	3
2002-2003	-	-	-	-
2001-2002	<u>4</u>	<u>-</u>	<u>4</u>	<u>-</u>
<b>Totals</b>	<u>170,767</u>	<u>6,961,192</u>	<u>6,953,371</u>	<u>178,588</u>

Reconciliation with revenues

Taxes - ad valorem - General Fund	6,980,632
Less interest and penalties	27,261
Other adjustments	<u>-</u>
<b>Total collections</b>	<u>6,953,371</u>

**VILLAGE OF BALD HEAD ISLAND, NORTH CAROLINA**  
**ANALYSIS OF CURRENT TAX LEVY**  
**VILLAGE-WIDE LEVY**  
**For the Year Ended June 30, 2011**

EXHIBIT E-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>
<b>Original Levy:</b>					
Property taxed at current year's rate	1,999,369,078	0.003275	6,547,934	6,547,934	
Special district taxes			414,355	414,355	
Registered motor vehicles taxed at current and prior year's rate	<u>258,321</u>	0.003275	<u>846</u>	-	<u>846</u>
<b>Total original levy</b>	<u>1,999,627,399</u>		<u>6,963,135</u>	<u>6,962,289</u>	<u>846</u>
<b>Abatements:</b>					
Property taxed at current year's rate	533,998	0.003275	1,749	1,749	
Special district taxes			175	175	
Registered motor vehicles taxed at current and prior year's rate	<u>5,801</u>	0.003275	<u>19</u>	-	<u>19</u>
<b>Total abatements</b>	<u>539,799</u>		<u>1,943</u>	<u>1,924</u>	<u>19</u>
<b>Net levy</b>	<u>1,999,087,600</u>		6,961,192	6,960,365	827
<b>Uncollected taxes at June 30, 2011</b>			<u>124,942</u>	<u>124,915</u>	<u>27</u>
<b>Current year's taxes collected</b>			<u>6,836,250</u>	<u>6,835,450</u>	<u>800</u>
<b>Current levy collection percentage</b>			<u>98.21%</u>	<u>98.21%</u>	<u>96.74%</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**

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

We have audited 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, 2011, which collectively comprises the Village of Bald Head Island's basic financial statements, and have issued our report thereon, dated October 24, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting. We consider deficiency 2011-1 to be a significant deficiency in internal control over financial reporting. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village of Bald Head Island's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Village of Bald Head Island, in a separate letter dated October 24, 2011.

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

This report is intended solely for the information and use of management, others within the entity, and members of Village Council and is not intended to be and should not be used by anyone other than these specified parties.

  
Certified Public Accountants

October 24, 2011

VILLAGE OF BALD HEAD ISLAND  
SCHEDULE OF FINDINGS AND RESPONSES  
For the Fiscal Year Ended June 30, 2011

EXHIBIT F-1  
Page 1 of 1

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness identified?  yes  no
- Significant Deficiency identified that are not considered to be Material weaknesses  yes  no

Noncompliance material to financial statements noted  yes  no

II. Financial Statement Findings

SIGNIFICANT DEFICIENCY

**2011-1 Inventory Count**

Criteria: In order to obtain an accurate inventory physical inventory count and thus, fairly stated inventory and cost of sales accounts, the inventory count must be timely and correct. Additionally, the cost of the items in inventory should be updated when any new items are purchased in order for the inventory value to precise.

Condition: During this year's inventory count and price testing considerable differences were found in both the number of items on the inventory count and the individual cost of each item.

Effect: The initial valuation of inventory on the financial statements was incorrect.

Cause: The employees' miscounted inventory and the valuation had not been updated in the current year.

Recommendation: An employee with the most knowledge of the components of inventory should do the count, and that count should be verified by a second employee. Furthermore, when any new item is added to the inventory the "cost" section of the inventory listing should be updated.

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