

Bald Head Association

Bald Head Island, North Carolina

FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANT

For the Year Ended December 31, 2012

Bald Head Association
CONTENTS
For the Year Ended December 31, 2012

	Page
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT	3
FINANCIAL STATEMENTS	
BALANCE SHEET	4
REVENUES, EXPENSES AND CHANGES IN FUND BALANCE	5
STATEMENT OF CASH FLOWS	6
NOTES TO FINANCIAL STATEMENTS	7 - 11



REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT

Board of Directors, Bald Head Association
Bald Head Island, NC

We have audited the accompanying financial statements of Bald Head Association which comprise the balance sheet as of December 31, 2012, and the related statements of revenues, expenses and changes in fund balance and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement..

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bald Head Island Association as of December 31, 2012, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 14, Bald Head Association has not estimated the remaining lives and replacement costs of the common property and therefore has not presented information on future major repairs and replacements that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

Report on Summarized Comparative Information

We have previously audited the Bald Head Association's 2011 financial statements, and our report dated July 6, 2012, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Jason C Keller CPA PLLC

Wilmington, NC
December 27, 2013

Bald Head Association
Balance Sheet
December 31, 2012

	2012	2011
		(for comparative purposes only)
Assets:		
Current assets:		
Cash and cash equivalents	\$ 62,454	\$ 38,591
Assessments receivable net of \$4,500 allowance in 2012 and \$3,500 in 2011	9,975	8,575
Accounts receivable net of \$29,800 allowance in 2012 and \$29,350 in 2011	1,084	1,629
Tax refunds receivable	-	323
Prepaid taxes	50	150
Total current assets	73,563	49,268
Fixed assets, net of accumulated depreciation of \$371,245 in 2012 and \$340,184 in 2011	659,823	689,269
Loan fees, net of accumulated amortization of \$1,379 in 2012 and \$766 in 2011	1,686	2,299
TOTAL ASSETS	\$ 735,072	\$ 740,836
Liabilities and Fund Balance:		
Current liabilities:		
Accounts payable	\$ 19,386	\$ 18,501
Line of credit	-	19,341
Payroll liabilities	304	3,813
Deferred revenue	3,914	8,046
Security bonds and deposits	9,602	10,362
Installment agreement - lagoon aeration - current	5,000	10,000
Mortgage payable - current	15,156	14,406
Total current liabilities	53,362	84,469
Mortgage payable (less current portion)	124,475	139,634
TOTAL LIABILITIES	177,837	224,103
Fund Balance - Operating		
Undesignated	12,043	(8,496)
Investment in fixed assets net of related debt	515,192	525,229
Designated for reserves	30,000	-
TOTAL OPERATING FUND BALANCE	557,235	516,733
TOTAL LIABILITIES AND FUND BALANCE	\$ 735,072	\$ 740,836

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

Bald Head Association
Statements of Revenues and Expenses and Changes in Fund Balance
for the Year Ended December 31, 2012

	2012	2011 (for comparative purposes only)
Revenues:		
Member assessments	\$ 304,472	\$ 272,295
Association center fees	9,115	4,500
Architectural review committee	10,750	10,550
Penalties and interest	4,468	928
Interest income	238	323
Island report advertising	16,361	16,365
Boat park annual leases	11,000	9,660
Garden plot annual leases	1,000	1,000
Other income	1,112	721
TOTAL REVENUES	358,516	316,342
Expenses:		
Operating and administrative expenses:		
Wages	91,166	88,305
Payroll taxes	7,002	7,657
Employee benefits	8,887	6,560
Transportation	8,159	5,296
Payroll processing fee	1,166	-
Other administrative	7,048	5,667
Bank charges	1,690	53
Bad debt	4,176	4,360
Copier lease	2,103	2,011
Assessment expense	875	116
Office supplies	2,998	2,272
Office postage	581	968
Communications media expense	4,929	3,138
Amortization	613	613
Total operating and administrative expenses	141,393	127,016
Depreciation	34,142	33,485
Association Center		
Repairs and maintenance	27,935	32,360
Utilities	12,001	13,700
Interest	8,158	8,084
Taxes - property	16,981	16,981
Association Center building insurance	11,878	13,688
Miscellaneous association center expenses	447	-
Total association center	77,400	84,813
Committees:		
Architectural review	343	344
Finance & administration	10	20
Communication, education, recreation	394	652
Natural resources and beautification	743	117
Total committees	1,490	1,133
Other services		
Island report	28,549	17,704
Boat park	6,297	2,104
Insurance	9,387	8,687
Audit and accounting	7,932	9,233
Legal	12,924	27,409
	65,089	65,137
TOTAL EXPENSES	319,514	311,584
Revenues over expenses	39,002	4,758
Fund Balances:		
Beginning Fund Balance	516,733	511,975
Prior period adjustment	1,500	-
Ending Fund Balance	557,235	516,733

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

Bald Head Association
Statement of Cash Flows
for the Year Ended December 31, 2012

	2012	2011
		(for comparative purposes only)
Cash flows from Operating Activities:		
Revenues over(under) expenses	\$ 39,002	\$ 4,758
Adjustments to reconcile revenues over(under) expenses to net cash provided (used) by operating activities		
Depreciation and amortization	34,755	34,098
Bad debt expense	4,176	4,360
Prior period adjustment	1,500	-
(Increase) decrease in:		
Assessments receivable	(4,861)	(7,571)
Accounts receivable	(170)	5,296
Tax refunds receivable	323	836
Prepaid taxes	100	110
Increase (decrease) in:		
Accounts payable	885	8,823
Payroll liabilities	(3,509)	285
Deferred revenue	(4,132)	3,281
Security bonds and deposits	(760)	2,201
Net Cash provided (used) by Operating Activities	67,309	56,477
Cash flows from Investing Activities:		
Purchase of fixed assets	(4,696)	(23,218)
Net Cash provided (used) by Investing Activities	(4,696)	(23,218)
Cash flows from Financing Activities		
Installment agreement - lagoon aeration	(5,000)	(5,000)
New borrowings - Line of Credit	-	19,591
Payments - Line of Credit	(19,341)	(2,274)
Mortgage principal payments	(14,409)	(13,736)
Net Cash provided (used) by Financing Activities	(38,750)	(1,419)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	23,863	31,840
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	38,591	6,751
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 62,454	\$ 38,591

Supplemental information:

2012 Interest expense: \$8,158

2012 Income tax expense: \$0

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

Bald Head Association
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2012

NOTE 1: NATURE OF THE ORGANIZATION

Bald Head Association, Bald Head Island, North Carolina is a homeowners association incorporated as a non-profit corporation in the State of North Carolina in April 1982. The primary purpose of the Association is to provide for beautification, maintenance, preservation, and architectural control of the exterior of the single family homes, multi-family units and non-residential areas, the residence lots, assessable properties and the common areas within certain tracts subject to the Amended and Restated Declaration of Covenants, Conditions and Restrictions for Bald Head Island, Stage I and amendments thereto applicable to the Property and recorded in the Office of the Register of Deeds of Brunswick County, North Carolina.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting

The Association's governing documents provide certain guidelines for governing its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts using fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

Operating Fund - This fund is used to account for financial resources available for the general operations of the Association.

Member Assessments and Receivables

Property owners are subject to annual assessments to provide funds for the Association's operating expenses and special assessments for capital improvements. Assessment receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. The Association's by-laws provide for its board of directors to enforce liens on the property whose assessments are thirty days or more delinquent or to bring an action of law against the owner. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. The Association has recorded an allowance for uncollectible assessment receivables of \$4,500 at December 31, 2012.

Voluntary Memberships

Bald Head Island property owners who have not had their homes annexed into the Association's domain can still become "voluntary" members of the Association. The "voluntary" membership allows the members to receive the monthly newsletter, attain member rates on the Association's building rental, and have access to common areas. The "voluntary" members are not subject to the Association's building guidelines, and can revoke their membership at any time.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, the Association considers all highly liquid investments with original maturities of six months or less to be cash equivalents.

Bald Head Association
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2012

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, Equipment and Depreciation

Real property and common areas acquired from the developer and related improvements to such property are not recorded in the Association's financial statement because those properties are not likely to be disposed of by the Association and the cost of obtaining the fair market value is not justified. The real property and common areas that are not recorded in the Association's financial statements include certain right-of-ways, buffer zones, and green belts.

Common property reported within the Association's financial statement such as the Association Center building and personal property acquired by the Association are capitalized at cost. All capitalized property and equipment is depreciated using the straight line method over the estimated useful life of the asset. Depreciation expense totaled \$34,142 for the year ended December 31, 2012

Loan Fees

Loan fees are recorded at cost and are amortized on a straight-line basis over the life of the loan.

Fund Balance

Reserves or restrictions of fund balance represent amounts that are restricted by legal requirements or by outside sources for specific purposes. Designations of fund balance represent tentative management plans that are subject to change. The Association has no legal or outside restrictions on fund balance. The Association management has made the following designations of fund balance.

Undesignated - portion of total fund balance available for future budgetary appropriations.

Investments in Fixed Assets, net of Related Debt – portion of fund balance not considered available for future budgetary appropriations as it is generated by the undepreciated value of fixed assets previously purchased, net of related debt.

Designated for Reserves - portion of the total operating fund balance that has been designated for reserves for specific future expenditures.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 3: UNINSURED CASH BALANCES

The Association maintains its cash balances at BB&T located in Southport, North Carolina. Accounts are secured by the Federal Deposit Insurance Corporation up to \$250,000. Uninsured balances are \$0 at December 31, 2012.

Bald Head Association
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2012

NOTE 4: ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at December 31, 2012.

Covenant Violation Fines	\$ 29,267
Late Assessment Finance Charges	1,617
Less: Allowance for doubtful accounts	<u>(29,800)</u>
	<u>\$ 1,084</u>

While the Association intends to aggressively pursue all amounts owed an allowance for doubtful accounts of \$29,800 has been recorded for the possibility of uncollectible accounts receivable.

NOTE 5: PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost and consist of the following at December 31, 2012:

Buildings	\$ 861,883
Improvements	81,724
Furniture and fixtures	25,982
Equipment	53,792
Software and website	<u>7,687</u>
	1,031,068
Less accumulated depreciation	<u>(371,245)</u>
	<u>\$ 659,823</u>

NOTE 6: DESIGNATED FOR RESERVES

The Association's board of directors has designated a portion of fund balance for future expenses. Transactions in the designated funds are as follows for 2012:

	<u>Reserve for Major Repairs & Replacements</u>
Balance 1/1/2012	\$ 0
Additions to reserves	30,000
Release for current year expenses	<u>0</u>
Balance 12/31/12	<u>\$ 30,000</u>

Bald Head Association
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2012

NOTE 7: INCOME TAXES

The Association qualifies as a tax-exempt homeowners' association under Internal Revenue Code Section 528 for the year ended December 31, 2012. Under that Section, the Association is not taxed on income and expenses related to its exempt purpose, which is the beautification, preservation, management, maintenance, and architectural control of Association property. Net nonexempt function income, which includes earned interest less direct expenses directly related to the production of interest, is taxed at 30% by the federal government and at the regular corporate rate by the State of North Carolina. 2012 income tax expense related to continuing operations totaled \$0. Tax returns remain subject to examination by taxing authorities for a period of 3 years. At December 31, 2012 tax returns for calendar years 2009, 2010 and 2011 remain "open" to possible examination.

NOTE 8: CLAIMS AND JUDGEMENTS

At December 31, 2012, there is an open judgment entered by the Superior Court against an owner of property within Bald Head Island Stage I for refusal to pay assessment fees and architectural review committee fines. The Association is pursuing collection vigorously but no amounts have been received as of the audit report date.

NOTE 9: MORTGAGE PAYABLE

Mortgage payable consists of a 4.875% fixed rate note payable to BB&T in monthly installments of \$1,810 including interest with a final payment of \$97,404 due on September 17, 2015. The note is collateralized by the Association's Association Center building and land.

Principal maturities of the mortgage note are as follows:

	<u>Year Ending December 31st</u>	
	2013	\$ 15,156
	2014	15,922
	2015	<u>108,553</u>
		<u>\$ 139,631</u>

Interest expense related to the mortgage totaled \$7,312 for the year ended December 31, 2012.

NOTE 10: INSTALLMENT AGREEMENT

On May 28, 2008 the Association entered into an agreement with the Bald Head Island Club to pay 38% of the cost of the aeration system for lagoons partially located on Association common property. The total obligation is \$25,000 payable in five annual installments of \$5,000. There is no interest included on the installment agreement. Total outstanding balance is \$5,000 at December 31, 2012.

NOTE 11: DEFERRED REVENUE

Deferred revenue consists of advanced payments of assessments and fees for future periods and totaled \$3,914 on December 31, 2012.

Bald Head Association
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2012

NOTE 12: LINE OF CREDIT

The Association has an existing line-of-credit with a local financial institution in the amount of \$100,000. As of December 31, 2012, \$0 was outstanding on the line. Interest accrues on the line at the banks prime rate and is due monthly. The line of credit expires January 23, 2015

NOTE 13: DEPOSITS

The Association requires a \$500 repair and cleaning deposit to be made in order for the rental use of its Association Center building. Inspection of the building after use is made, and the deposit is returned if the building is in satisfactory condition. As of December 31, 2012, \$1,575 in deposits are being held by the Association.

The Association also requires construction deposits to ensure construction is completed within the two year mandated time frame. The deposit is returned at the completion of construction if there are no violations. As of December 31, 2012, \$6,000 in construction deposits are being held by the Association.

There is also \$2,027 on hand at December 31, 2012 for Association Center Programs to take place in 2013.

NOTE 14: FUTURE MAJOR REPAIRS AND REPLACEMENTS

The common areas of the Association largely consist of land and buffer zones which are not subject to major repairs or replacement. However, the common areas also consist of the Association Center where major repairs and replacements are likely. An informal study by a licensed contractor was conducted in 2001 and has been used as a guide to accumulate replacement funds. However, as of December 31, 2012 the Association had not conducted an official study to determine the remaining useful lives of the components of common property and current estimates of costs of major repairs and replacements that may be required in the future. The board has developed an informal plan to fund those major repairs and replacements based upon the informal estimates. The board has designated a portion of fund balance within the operating fund to be used for future major repairs and replacements, however, a distinct fund to be maintained separately from the operating fund has not been established.

An official study of remaining useful lives and current estimates of costs of major repairs and replacements was conducted subsequent to year end on March 28, 2013 and will be utilized in future periods.

Actual expenditures may vary from the estimated future expenditures, and the variations may be material. Therefore, amounts accumulated in the fund balance designated for future major repairs and replacements may not be adequate to meet all future needs. If additional funds are needed, the association has the right, subject to membership approval, to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available. The effect on future assessments has not been determined at this time.

NOTE 15: PRIOR PERIOD ADJUSTMENT

A prior period adjustment in the amount of \$1,500 was made in order to correct misclassifications made to the construction deposit account in a prior year.

NOTE 16: SUBSEQUENT EVENTS

The Association did not have any subsequent events through December 27, 2013 requiring recording or disclosure in the financial statements for the year ended December 31, 2012 except as disclosed in Note 14. January 6, 2014 is the approximate date the financial statements were available to be issued.