

Bald Head Association

Bald Head Island, North Carolina

FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANT

For the Year Ended December 31, 2018

Bald Head Association
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For the Year Ended December 31, 2018

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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, 2018, 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, 2018, 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.

Omission of Required Supplementary Information about Future Major Repairs and Replacements

Management has omitted supplementary 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, which 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 this missing information.

Jason C. Keller, CPA, PLLC
Wilmington, NC
May 22, 2020

Bald Head Association
Balance Sheet
December 31, 2018

	2018		
	Operating Fund	Repairs & Replacement Fund	Total
Assets:			
Current assets:			
Cash and cash equivalents	\$ 299,631	\$ 784,836	\$ 1,084,467
Assessments receivable net of \$28,753 allowance	20,777	-	20,777
Accounts receivable net of \$5,550 allowance	14,234	-	14,234
Prepaid expenses	2,074	-	2,074
Total current assets	<u>336,716</u>	<u>784,836</u>	<u>1,121,552</u>
Land - Battery 4 creek lot	651,801	-	651,801
Property & equip., net of \$537,580 accumulated depreciation	659,619	-	659,619
Total property & equipment	<u>1,311,420</u>	<u>-</u>	<u>1,311,420</u>
 TOTAL ASSETS	 <u>\$ 1,648,136</u>	 <u>\$ 784,836</u>	 <u>\$ 2,432,972</u>
Liabilities and Fund Balance:			
Current liabilities:			
Accounts payable	\$ 15,247	\$ -	\$ 15,247
Accrued interest payable	6,373	-	6,373
Deferred revenue	23,246	-	23,246
Security bonds and deposits	202,500	-	202,500
Total current liabilities	<u>247,366</u>	<u>-</u>	<u>247,366</u>
Mortgage payable - Battery 4	200,000	-	200,000
TOTAL LIABILITIES	<u>447,366</u>	<u>-</u>	<u>447,366</u>
Fund Balance			
Undesignated	89,350	-	89,350
Investment in property & equip. net of related debt	1,111,420	-	1,111,420
Repairs & replacement fund balance	-	784,836	784,836
TOTAL FUND BALANCE	<u>1,200,770</u>	<u>784,836</u>	<u>1,985,606</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u>\$ 1,648,136</u>	 <u>\$ 784,836</u>	 <u>\$ 2,432,972</u>

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 31,2018

	Operating Fund	Repairs & Replacement Fund	Total
Revenues:			
Basic member assessments	\$ 415,683	\$ 61,337	\$ 477,020
Supplemental assessments and fees	291,785		291,785
Association center fees	5,350	-	5,350
Architectural review committee	87,400	-	87,400
Penalties and interest	15,148	-	15,148
Interest income	1,411	3,617	5,028
Gain (loss) on disposal of assets	(2,422)	-	(2,422)
Island report advertising	32,695	-	32,695
Boat park annual leases	16,727	-	16,727
Garden plot annual leases	2,462	-	2,462
Other income	1,454	-	1,454
TOTAL REVENUES	867,693	64,954	932,647
Expenses:			
Operating and administrative expenses:			
Wages	234,207	-	234,207
Health insurance expense	50,021	-	50,021
Payroll taxes	17,689	-	17,689
Pension plan	3,490	-	3,490
Other employee benefits	4,282	-	4,282
Transportation	19,182	-	19,182
Payroll processing fee	3,057	-	3,057
Computer & software expense	16,197	-	16,197
Other administrative	7,502	-	7,502
Bank charges	493	-	493
Bad debt	30,878	-	30,878
Equipment lease & repairs	4,527	-	4,527
Assessment expense	897	-	897
Office supplies	3,515	-	3,515
Office postage	2,271	-	2,271
Communications media expense	3,992	-	3,992
Consulting	2,663	-	2,663
Miscellaneous	20	-	20
Total operating and admin. exp.	404,883	-	404,883
Depreciation	43,426	-	43,426
Association Center			
Repairs and maintenance	42,840	-	42,840
Utilities	13,655	-	13,655
Interest expense	8,595	-	8,595
Taxes - property	15,758	-	15,758
Association Center building insurance	9,399	-	9,399
Total association center	90,247	-	90,247
Other service areas			
Common area expense	131,535	9,650	141,185
Committees	2,095	-	2,095
Island report	39,492	-	39,492
Boat park	4,037	-	4,037
Battery Park - landscaping	2,911	-	2,911
Insurance	13,057	-	13,057
Audit and accounting	6,000	-	6,000
Legal	20,080	-	20,080
CAMS management expenses	8,280	-	8,280
	227,487	9,650	87,672
TOTAL EXPENSES	766,043	9,650	775,693
Revenues over expenses	101,650	55,304	156,954
Excess assets over liabilities in acquisition of BHI stage II	45,316	624,673	669,989
Fund Balances:			
Beginning Fund Balance	1,017,465	141,198	1,158,663
Transfer to/from Operating Fund	36,339	(36,339)	-
Ending Fund Balance	<u>\$ 1,200,770</u>	<u>\$ 784,836</u>	<u>\$ 1,985,606</u>

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

Bald Head Association
Statement of Cash Flows
for the Year Ended December 31, 2018

	Operating Fund	Repairs & Replacement Fund	Total
Cash flows from Operating Activities:			
Revenues over (under) expenses	\$ 101,650	\$ 55,304	\$ 156,954
Adjustments to reconcile revenues over(under) expenses to net cash provided (used) by operating activities			
Depreciation and amortization	43,426	-	43,426
Loss on disposal of recorded assets	2,423	-	2,423
(Increase) decrease in:			
Assessments receivable	(18,794)	-	(18,794)
Accounts receivable	(9,236)	-	(9,236)
Prepays	2,646	-	2,646
Increase (decrease) in:			
Accounts payable	(17,908)	-	(17,908)
Accrued interest payable	(6,610)	-	(6,610)
Deferred revenue	19,306	-	19,306
Security bonds and deposits	147,500	-	147,500
Income taxes payable	(300)	-	(300)
Net Cash provided (used) by Operating Activities	264,103	55,304	319,407
Cash flows from Investing Activities:			
Purchase of fixed assets	(61,386)	(15,846)	(77,232)
Excess assets over liabilities in acquisition of BHI stage II	45,316	624,673	669,989
Net Cash provided (used) by Investing Activities	(16,070)	608,827	592,757
Cash flows from Financing Activities			
Mortgage principal payments - Battery 4	(2,731)	-	(2,731)
Loans and transfers to Operating Fund	20,493	(20,493)	-
Net Cash provided (used) by Financing Activities	17,762	(20,493)	(2,731)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	265,795	643,638	909,433
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	33,836	141,198	175,034
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 299,631</u>	<u>\$ 784,836</u>	<u>\$ 1,084,467</u>

Supplemental information:

Interest paid in 2018: \$15,205

Income taxes paid in 2018: \$300

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

Bald Head Association
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2018

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 located on Bald Head Island, North Carolina.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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. Total write offs to the valuation allowance was \$3,675 for the year ended December 31, 2018. The valuation allowance for uncollectible assessment receivables is \$28,753 at December 31, 2018.

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.

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.

Property, Equipment and Depreciation

Common property reported within the Association's financial statement such as the Association Center building and personal property acquired by the Association is 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 \$43,426 for the year ended December 31, 2018.

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 were transferred to the Association at the final basis in the hands of the developer, which was zero. 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.

Real property obtained after December 31, 2015 has been capitalized at cost and includes 1.3 acres of land referred to as Battery 4 Creek Lot.

Bald Head Association
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2018

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Accounting

The Association uses fund accounting, which requires that funds, such as operating funds and funds designated for future major repairs and replacements, to be classified separately for accounting and reporting purposes. Disbursements from the operating fund are generally at the discretion of management or the board of directors. Disbursements from the repairs and replacement fund generally may be made only for designated purposes.

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.

Repairs and Replacement Fund Balance - portion of the total fund balance that has been designated in the budget to fund future major repairs and replacements.

NOTE 3: FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing body has determined that funds should be accumulated for future major repairs and replacements. Accumulated funds are to be placed in separate savings accounts and generally are not available for expenditures for normal operations.

As of December 31, 2018 the Association had accumulated major repairs and replacements funds of \$784,836.

Management of the Association evaluates replacement cost needs in the yearly budget to project the remaining useful lives and the replacement costs of common property components. Funds are being accumulated in the replacement fund based on estimates of future needs for repairs and replacements of common property components. 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 to increase regular assessments, levy special assessments (membership approval may be needed depending on the amount), or delay major repairs and replacements until funds are available. The effect on future assessments has not been determined at this time.

Current year activity in the Repairs and Replacements Fund is as follows:

Balance 1/1/2018	\$ 141,198
Addition of BHI Stage II Reserves (see note 12)	624,673
Current year additions from assessments	61,337
Current year interest	3,617
Release of assets for current year upgrades & purchases or Board of Directors authorizations	(45,989)
Balance 12/31/18	<u>\$ 784,836</u>

Bald Head Association
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2018

NOTE 4: ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at December 31, 2018.

Fines, Penalties & Interest	\$ 12,745
Island Report Advertising	3,755
Association Center Fees	1,400
Boat Park & Garden Plot Leases	850
Miscellaneous Fees	14
CAMS management fees	1,020
Less: Allowance for doubtful accounts	<u>(5,550)</u>
	<u>\$ 14,234</u>

While the Association intends to aggressively pursue all amounts owed an allowance for doubtful accounts of \$5,550 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, 2018:

Land – Battery 4 creek lot	\$ 651,801
Buildings	861,883
Improvements	168,960
Furniture and fixtures	32,306
Equipment	<u>134,050</u>
	1,849,000
Less accumulated depreciation	<u>(537,580)</u>
	<u>\$ 1,311,420</u>

NOTE 6: DEFERRED REVENUE

Deferred revenue consists of advanced payments of assessments and fees for future periods and totaled \$23,246 on December 31, 2018.

NOTE 7: 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, 2018, \$2,500 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, 2018, \$200,000 in construction deposits are being held by the Association.

NOTE 8: LINE OF CREDIT

The Association has an existing line-of-credit with a regional financial institution in the amount of \$100,000. As of December 31, 2018, \$0 was outstanding on the line. Interest accrues at 4.25% and is due monthly. The line of credit expires December 15, 2019.

Bald Head Association
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2018

NOTE 9: MORTGAGE PAYABLE – BATTERY 4

Mortgage payable consists of a 4.25% fixed rate note payable to Bald Head Island Limited, LLC. The note is collateralized by Association real property.

The note terms call for 3 annual payments of \$212,033 beginning in February 2017. However, as of December 31, 2018 the Association has made principal payments that satisfy all but the below.

Remaining principal maturities of the mortgage note are as follows:

<u>Year Ending December 31st</u>	
2019	\$ <u>200,000</u>

Interest expense related to the above mortgage totaled \$8,595 for the year ended December 31, 2018.

NOTE 10: UNINSURED CASH BALANCES

The Association maintains its cash balances with several regional financial institutions located in North Carolina. Accounts are secured by the Federal Deposit Insurance Corporation up to \$250,000. Uninsured balances are \$283,661 at December 31, 2018.

NOTE 11: INCOME TAXES

The Association may be taxed either as a homeowners association or as a regular corporation. For 2018 the Association elected to file as a homeowners association using Form 1120-H under Internal Revenue Code Section 528. 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 interest, and rents is taxed at 30% by the federal government and at the regular corporate rate by the State of North Carolina. Certain expenses were directly related to or allocated to offset taxable income. 2018 income tax expense related to continuing operations totaled \$0

For state tax purposes the association filed form CD-405 (Corporate Tax Return) for the year ended December 31, 2018 and the tax owed was \$0.

Tax returns remain subject to examination by taxing authorities for a period of 3 years. At December 31, 2018 tax returns for calendar years 2015, 2016 and 2017 remain “open” to possible examination.

NOTE 12: MERGER OF OPERATIONS WITH BHI STAGE II ASSOCIATION

As approved on March 29, 2017 by Bald Head Association membership, Bald Head Association merged operations with Bald Head Island Stage II Association on January 2, 2018. For accounting purposes the merger of operations is treated as an acquisition.

The merger of operations was accomplished in order to obtain certain economies of scale advantages through the consolidation of homeowner association activities on Bald Head Island. Articles of merger which list Bald Head Association as the surviving corporation have been filed with the NC Secretary of State. There was no consideration in exchange for the assets & liabilities of BHI Stage II Association.

Bald Head Association
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2018

NOTE 12: MERGER OF OPERATIONS WITH BHI STAGE II ASSOCIATION (continued)

Assets and Liabilities acquired by Bald Head Association measured at fair value include:

Assets:	
Cash & cash equivalents	\$ 806,533
Accounts receivable	21,782
Total Assets	<u>828,315</u>
Liabilities:	
Accounts payable	(654)
Construction deposits	(139,000)
Prepaid assessments	(18,672)
Total Liabilities	<u>(158,326)</u>
Total Fund Balance Acquired	<u>\$ 669,989</u>

Fund balance acquired consisted of the following designations:

Operating fund balance	\$ 45,316
Reserve fund balance	624,673
	<u>\$ 669,989</u>

NOTE 13: SUBSEQUENT EVENTS

The Association did not have any subsequent events through May 22, 2020 requiring recording or disclosure in the financial statements for the year ended December 31, 2018. May 22, 2020 is the approximate date the financial statements were available to be issued.