

Bald Head Association

Bald Head Island, North Carolina

FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANT

For the Year Ended December 31, 2019

Bald Head Association
CONTENTS
For the Year Ended December 31, 2019

	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, 2019, 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, 2019, 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.

Report on Summarized Comparative Information

We have previously audited the Bald Head Association's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 22, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Jason C. Keller, CPA, PLLC
Wilmington, NC
November 6, 2020

Bald Head Association
Balance Sheet
December 31, 2019 (with comparative totals for 2018)

	2019			2018
	Operating Fund	Repairs & Replacement Fund	Total	Total (for comparative purposes only)
Assets:				
Current assets:				
Cash and cash equivalents	\$ 327,807	\$ 949,631	\$ 1,277,438	\$ 1,084,467
Membership assessments & interest/penalties receivable net of \$28,558 allowance	9,502	-	9,502	27,972
Accounts receivable net of \$7,025 allowance	9,535	-	9,535	7,039
Prepaid expenses	-	-	-	2,074
Total current assets	<u>346,844</u>	<u>949,631</u>	<u>1,296,475</u>	<u>1,121,552</u>
Land - Battery 4 creek lot	651,801	-	651,801	651,801
Property & equip., net of \$580,344 accumulated depreciation	<u>650,761</u>	<u>-</u>	<u>650,761</u>	<u>659,619</u>
Total property & equipment	<u>1,302,562</u>	<u>-</u>	<u>1,302,562</u>	<u>1,311,420</u>
TOTAL ASSETS	<u><u>\$ 1,649,406</u></u>	<u><u>\$ 949,631</u></u>	<u><u>\$ 2,599,037</u></u>	<u><u>\$ 2,432,972</u></u>
Liabilities and Fund Balance:				
Current liabilities:				
Accounts payable	\$ 40,903	\$ -	\$ 40,903	\$ 15,247
Accrued interest payable	-	-	-	6,373
Deferred revenue	17,593	-	17,593	23,246
Security bonds and deposits	<u>215,200</u>	<u>-</u>	<u>215,200</u>	<u>202,500</u>
Total current liabilities	<u>273,696</u>	<u>-</u>	<u>273,696</u>	<u>247,366</u>
Mortgage payable - Battery 4	-	-	-	200,000
TOTAL LIABILITIES	<u>273,696</u>	<u>-</u>	<u>273,696</u>	<u>447,366</u>
Fund Balance				
Undesignated	73,148	-	73,148	89,350
Investment in property & equip. net of related debt	1,302,562	-	1,302,562	1,111,420
Repairs & replacement fund balance	<u>-</u>	<u>949,631</u>	<u>949,631</u>	<u>784,836</u>
TOTAL FUND BALANCE	<u>1,375,710</u>	<u>949,631</u>	<u>2,325,341</u>	<u>1,985,606</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 1,649,406</u></u>	<u><u>\$ 949,631</u></u>	<u><u>\$ 2,599,037</u></u>	<u><u>\$ 2,432,972</u></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, 2019 (with comparative totals for 2018)

	2019			2018
	Operating Fund	Repairs & Replacement Fund	Total	Total (for comparative purposes only)
Revenues:				
Member assessments and fees - ordinary	\$ 524,621	\$ 293,804	\$ 818,425	\$ 768,805
Special assessment	224,049	-	224,049	-
Association center fees	7,450	-	7,450	5,350
Architectural review committee	80,280	-	80,280	87,400
Penalties and interest	10,578	-	10,578	15,148
Interest income	150	1,425	1,575	5,028
Gain (loss) on disposal of assets	-	-	-	(2,422)
Island report advertising	50,515	-	50,515	32,695
Boat park annual leases	32,621	-	32,621	16,727
Garden plot annual leases	1,617	-	1,617	2,462
Other income	844	-	844	1,454
TOTAL REVENUES	932,725	295,229	1,227,954	932,647
Expenses:				
Operating and administrative expenses:				
Wages	274,930	-	274,930	234,207
Health insurance expense	51,240	-	51,240	50,021
Payroll taxes	21,071	-	21,071	17,689
Pension plan	5,658	-	5,658	3,490
Other employee benefits	5,167	-	5,167	4,282
Transportation	28,570	-	28,570	19,182
Payroll processing fee	2,870	-	2,870	3,057
Computer & software expense	19,556	-	19,556	16,197
Other administrative	7,959	-	7,959	7,502
Management fees	1,380	-	1,380	8,280
Bank charges	968	-	968	493
Bad debt	10,751	-	10,751	30,878
Equipment lease & repairs	2,623	-	2,623	4,527
Assessment expense	1,497	-	1,497	897
Office supplies	2,705	-	2,705	3,515
Office postage	1,461	-	1,461	2,271
Communications media expense	5,657	-	5,657	3,992
Consulting	2,105	-	2,105	2,663
Miscellaneous	210	-	210	20
Total operating and admin. exp.	446,378	-	446,378	413,163
Depreciation	42,764	-	42,764	43,426
Association Center				
Repairs and maintenance	38,913	-	38,913	42,840
Utilities	12,699	-	12,699	13,655
Interest expense	2,755	-	2,755	8,595
Taxes - property	16,686	-	16,686	15,758
Association Center building insurance	14,331	-	14,331	9,399
Member services	812	-	812	-
Total association center	86,196	-	86,196	90,247
Other service areas				
Common area & reserve expense	135,479	103,137	238,616	141,185
Committees	7,976	-	7,976	2,095
Island report	25,562	-	25,562	39,492
Boat park	6,029	-	6,029	4,037
Battery Park - maintenance	2,589	-	2,589	2,911
Insurance	8,556	-	8,556	13,057
Audit and accounting	4,000	-	4,000	6,000
Legal	19,553	-	19,553	20,080
	209,744	103,137	312,881	228,857
TOTAL EXPENSES	785,082	103,137	888,219	775,693
Revenues over expenses	147,643	192,092	339,735	156,954
Excess assets over liabilities in acquisition of BHI stage II	-	-	-	669,989
Fund Balances:				
Beginning Fund Balance	1,200,770	784,836	1,985,606	1,158,663
Transfer to/from Operating Fund	27,297	(27,297)	-	-
Ending Fund Balance	<u>\$ 1,375,710</u>	<u>\$ 949,631</u>	<u>\$ 2,325,341</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, 2019 (with comparative totals for 2018)

	2019			2018
	Operating Fund	Repairs & Replacement Fund	Total	Total (for comparative purposes only)
Cash flows from Operating Activities:				
Revenues over (under) expenses	\$ 147,643	\$ 192,092	\$ 339,735	\$ 156,954
Adjustments to reconcile revenues over(under) expenses to net cash provided (used) by operating activities				
Depreciation and amortization	42,764	-	42,764	43,426
Loss on disposal of recorded assets	-	-	-	2,423
(Increase) decrease in:				
Assessments receivable	18,470	-	18,470	(18,794)
Accounts receivable	(2,496)	-	(2,496)	(9,236)
Prepays	2,074	-	2,074	2,646
Increase (decrease) in:				
Accounts payable	25,656	-	25,656	(17,908)
Accrued interest payable	(6,373)	-	(6,373)	(6,610)
Deferred revenue	(5,653)	-	(5,653)	19,306
Security bonds and deposits	12,700	-	12,700	147,500
Income taxes payable	-	-	-	(300)
Net Cash provided (used) by Operating Activities	234,785	192,092	426,877	319,407
Cash flows from Investing Activities:				
Purchase of fixed assets	(6,609)	(27,297)	(33,906)	(77,232)
Excess assets over liabilities in acquisition of BHI stage II	-	-	-	669,989
Net Cash provided (used) by Investing Activities	(6,609)	(27,297)	(33,906)	592,757
Cash flows from Financing Activities				
Mortgage principal payments - Battery 4	(200,000)	-	(200,000)	(2,731)
Net Cash provided (used) by Financing Activities	(200,000)	-	(200,000)	(2,731)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	28,176	164,795	192,971	909,433
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	299,631	784,836	1,084,467	175,034
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 327,807</u>	<u>\$ 949,631</u>	<u>\$ 1,277,438</u>	<u>\$ 1,084,467</u>

Supplemental information:

Interest paid in 2019: \$9,129
Income taxes paid in 2019: \$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, 2019

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. Merger of operations with Bald Head Island Stage II Association on January 2, 2018 greatly expanded the properties under the jurisdiction of Bald Head Association. 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 for membership receivables was \$8,898 for the year ended December 31, 2019. The valuation allowance for uncollectible membership receivables is \$28,558 at December 31, 2019.

Special Assessment

Property owners were subject to a special assessment for the year ended December 31, 2019. The special assessment was made in order to accumulate funds to be utilized for the final loan payment owed on the purchase of 1.3 acres of land referred to as Battery 4 Creek Lot.

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 \$42,764 for the year ended December 31, 2019.

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.

Bald Head Association
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2019

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, Equipment and Depreciation (continued)

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.

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.

Subsequent Events

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through November 6, 2020, the approximate date the financial statements were available to be issued.

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, 2019 the Association had accumulated major repairs and replacements funds of \$949,631.

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.

Bald Head Association
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2019

NOTE 3: FUTURE MAJOR REPAIRS AND REPLACEMENTS (continued)

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

Balance 1/1/2019	\$ 784,836
Current year additions from assessments	293,804
Current year interest	1,425
Release of assets for current year upgrades & purchases or Board of Directors authorizations	(130,434)
Balance 12/31/19	<u>\$ 949,631</u>

NOTE 4: ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at December 31, 2019.

Fines, Penalties & Interest	\$ 800
Island Report Advertising	15,735
Miscellaneous Fees	25
Less: Allowance for doubtful accounts	(7,025)
	<u>\$ 9,535</u>

While the Association intends to aggressively pursue all amounts owed an allowance for doubtful accounts of \$7,025 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, 2019:

Land – Battery 4 creek lot	\$ 651,801
Buildings	889,180
Improvements	173,335
Furniture and fixtures	32,306
Equipment	136,284
	<u>1,882,906</u>
Less accumulated depreciation	(580,344)
	<u>\$ 1,302,562</u>

NOTE 6: OPERATING LEASE COMMITMENTS

The Association leases a 2016 Club Car under what is considered an operating lease. Rental expense related to the lease is \$2,880 for the year ended December 31, 2019 Future minimum lease payments are as follows:

<u>Year Ending December 31,</u>	
2020	\$ 2,880
2021	2,880
	<u>\$ 5,760</u>

Bald Head Association
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2019

NOTE 7: DEFERRED REVENUE

Deferred revenue consists of advanced payments of assessments and fees for future periods and totaled \$17,593 on December 31, 2019.

NOTE 8: 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, 2019, \$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, 2019, \$212,700 in construction deposits are being held by the Association.

NOTE 9: 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, 2019, \$0 was outstanding on the line. Interest accrues at 4.75% and is due monthly. The line of credit expires December 15, 2021.

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 \$1,044,570 at December 31, 2019.

NOTE 11: INCOME TAXES

The Association may be taxed either as a homeowners association or as a regular corporation. For 2019 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. 2019 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, 2019 and the tax owed was \$0.

Tax returns remain subject to examination by taxing authorities for a period of 3 years. At December 31, 2019 tax returns for calendar years 2016, 2017 and 2018 remain "open" to possible examination.

Bald Head Association
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2019

NOTE 12: COMPARATIVE INFORMATION

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended December 31, 2018, from which the summarized information was derived. Certain prior year revenue and/or expense accounts may have been consolidated or expanded in order to better conform with current year presentation.

NOTE 13: IMPACT OF COVID-19 PANDEMIC and SUBSEQUENT EVENTS

On January 30, 2020, the World Health Organization declared the coronavirus outbreak (COVID-19) a "Public Health Emergency of International Concern" and on March 11, 2020, declared it to be a pandemic. On March 17, 2020, in response to the COVID-19 pandemic, the Association began operating with limited office hours and greatly reduced public access. Since March the Association has increased public access when possible and in compliance with recommended safety measures.

Management continues to monitor the impact of COVID-19 and believes the Association is taking appropriate actions to mitigate the negative impact but it is unknown how long the adverse conditions associated with the coronavirus will last and what the complete financial effect will be to the Association. The extent of the revenue impact of COVID-19 on the Association's operations mostly appear limited to the cancellation of various events affecting association center rental fees. The pandemic has also created unforeseen expenses related to adjusting working environments and implementing safety measures. As of the date the financial statements were available to be issued, it is not practicable to estimate the potential effects of these conditions on the Association's financial statements.