

Bald Head Association

Financial Statements

*For the Year Ended December 31, 2022
(with Comparative Totals for 2021)*



Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
of Bald Head Association

Opinion

We have audited the accompanying financial statements of Bald Head Association, which comprise the balance sheet as of December 31, 2022, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bald Head Association as of December 31, 2022, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Bald Head Association's 2021 financial statements, and our report dated May 13, 2022 expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Bald Head Association and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Bald Head Association's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Bald Head Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Bald Head Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that supplementary information on future major repairs and replacements on pages 14 through 15 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Disclaimer of Opinion on Supplementary Information

Management presented supplementary information on revenues, expenses, and changes in fund balance – by location on page 16 to supplement the basic financial statements. Such information is the responsibility of management and not a part of the basic financial statements. We have applied certain limited procedures to the supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Eany & Company, L.L.P.

Wilmington, North Carolina
January 26, 2024

Bald Head Association
Balance Sheet
As of December 31, 2022

	2022			2021 Comparative Total
	Operating Fund	Repair & Replacement Reserve Fund	Total	
ASSETS				
Current Assets				
Cash & cash equivalents	\$ 414,081	\$ 1,004,392	\$ 1,418,473	\$ 1,367,402
Membership assessments & interest/penalties/fines receivable, net of \$46,116 allowance	22,629	-	22,629	50,453
Accounts receivable, net of allowance	-	-	-	2,400
Prepaid expenses	<u>16,806</u>	-	<u>16,806</u>	<u>14,834</u>
Total Current Assets	<u>453,516</u>	<u>1,004,392</u>	<u>1,457,908</u>	<u>1,435,089</u>
Land - Battery 4 creek lot	651,801	-	651,801	651,801
Property & equipment, net of \$662,935 accumulated depreciation	<u>904,794</u>	-	<u>904,794</u>	<u>960,803</u>
Total Property & Equipment, Net (Note 2)	<u>1,556,595</u>	-	<u>1,556,595</u>	<u>1,612,604</u>
Total Assets	<u>\$ 2,010,111</u>	<u>\$ 1,004,392</u>	<u>\$ 3,014,503</u>	<u>\$ 3,047,693</u>
LIABILITIES & FUND BALANCE				
Current Liabilities				
Accounts payable	\$ 37,602	\$ -	\$ 37,602	\$ 12,212
Deferred revenue	36,266	-	36,266	48,334
Security bonds & deposits	<u>388,000</u>	-	<u>388,000</u>	<u>344,500</u>
Total Current Liabilities/Total Liabilities	<u>461,868</u>	-	<u>461,868</u>	<u>405,046</u>
Fund Balance				
Undesignated	353,350	-	353,350	353,350
Investment in property & equipment	1,194,893	-	1,194,893	1,612,604
Repair & replacement reserve fund balance (Note 6)	-	<u>1,004,392</u>	<u>1,004,392</u>	<u>676,693</u>
Total Fund Balance	<u>1,548,243</u>	<u>1,004,392</u>	<u>2,552,635</u>	<u>2,642,647</u>
Total Liabilities & Fund Balance	<u>\$ 2,010,111</u>	<u>\$ 1,004,392</u>	<u>\$ 3,014,503</u>	<u>\$ 3,047,693</u>

The Accompanying Notes are an Integral Part of these Financial Statements

Bald Head Association
Statement of Revenues, Expenses, and Changes in Fund Balance
For the Year Ended December 31, 2022

	2022			2021 Comparative Total
	Operating Fund	Repair & Replacement Reserve Fund	Total	
REVENUES				
Membership assessments & fees - ordinary	\$ 803,885	\$ 139,666	\$ 943,551	\$ 942,204
Special assessment	-	112,749	112,749	112,277
Association Center fees	5,500	-	5,500	7,300
Architectural review committee	171,300	-	171,300	180,500
Penalties & interest	22,517	-	22,517	60,417
Interest income	-	6,556	6,556	427
Unrealized gain (loss) on investments	1,429	-	1,429	-
Island Report advertising	70,875	-	70,875	72,225
Boat park annual leases	38,499	-	38,499	34,750
Garden plot annual leases	3,491	-	3,491	2,267
Other income	44,715	-	44,715	74,639
Total Revenues	<u>1,162,211</u>	<u>258,971</u>	<u>1,421,182</u>	<u>1,487,006</u>
EXPENSES				
Operating & Administrative Expenses				
Wages & benefits	628,698	-	628,698	495,375
Transportation	28,197	-	28,197	19,772
Computer & software expense	35,840	-	35,840	30,487
Other administrative	5,633	-	5,633	4,886
Bank charges	105	-	105	331
Bad debt	4,875	-	4,875	38,950
Equipment lease & repairs	3,941	-	3,941	3,204
Exterminator services	1,442	-	1,442	1,364
Assessment expense	1,468	-	1,468	1,467
Office supplies	6,272	-	6,272	4,542
Office postage	2,203	-	2,203	1,836
Communications media expense	17,973	-	17,973	7,980
Consulting	15,248	-	15,248	11,070
Miscellaneous	543	-	543	205
Total Operating & Administrative Expenses	<u>752,438</u>	<u>-</u>	<u>752,438</u>	<u>621,469</u>
Depreciation	<u>65,639</u>	<u>-</u>	<u>65,639</u>	<u>44,242</u>
Association Center				
Repairs & maintenance	35,696	-	35,696	60,093
Utilities	20,789	-	20,789	16,704
Taxes - property	18,376	-	18,376	17,860
Association Center building insurance	15,585	-	15,585	7,538
Member services	-	-	-	180
Total Association Center	<u>90,446</u>	<u>-</u>	<u>90,446</u>	<u>102,375</u>
Other Service Areas				
Common area & reserve expense	178,025	211,567	389,592	576,441
Committees	8,806	-	8,806	6,429
Island Report	35,555	-	35,555	26,272
Boat park	7,479	-	7,479	7,012
Battery Park - maintenance	600	-	600	1,750
Insurance	22,709	-	22,709	6,442
Audit & accounting	24,250	-	24,250	7,000
Legal	113,680	-	113,680	30,550
Total Other Service Areas	<u>391,104</u>	<u>211,567</u>	<u>602,671</u>	<u>661,896</u>
Total Expenses	<u>1,299,627</u>	<u>211,567</u>	<u>1,511,194</u>	<u>1,429,982</u>
Excess (Deficit) of Revenues Over (Under) Expenses				
	(137,416)	47,404	(90,012)	57,024
Fund Balance, Beginning				
	1,965,954	676,693	2,642,647	2,585,623
Transfer to/from operating fund	(280,295)	280,295	-	-
Fund Balance, Ending	<u>\$ 1,548,243</u>	<u>\$ 1,004,392</u>	<u>\$ 2,552,635</u>	<u>\$ 2,642,647</u>

The Accompanying Notes are an Integral Part of these Financial Statements

Bald Head Association
Statement of Cash Flows
For the Year Ended December 31, 2022

	2022			2021 Comparative Total
	Operating Fund	Repair & Replacement Reserve Fund	Total	
Cash Flows From Operating Activities				
Cash Collections for:				
Membership assessments & fees - ordinary	\$ 822,041	\$ 139,666	\$ 961,707	\$ 941,718
Special assessment	-	112,749	112,749	112,277
Association Center fees	5,500	-	5,500	7,300
Architectural review committee	171,300	-	171,300	180,500
Penalties & interest	22,517	-	22,517	60,417
Interest income	-	6,556	6,556	427
Unrealized gain (loss) on investments	1,429	-	1,429	-
Island Report advertising	70,875	-	70,875	72,225
Boat park annual leases	38,499	-	38,499	34,750
Garden plot annual leases	3,491	-	3,491	2,267
Other income	44,715	-	44,715	74,639
Less: Cash Payments for:				
Total expenses	<u>(1,167,070)</u>	<u>(211,567)</u>	<u>(1,378,637)</u>	<u>(1,303,164)</u>
Net Cash Provided (Used) By Operating Activities	<u>13,297</u>	<u>47,404</u>	<u>60,701</u>	<u>183,356</u>
Cash Flows From Investing Activities				
Purchase of fixed assets	<u>(9,630)</u>	<u>-</u>	<u>(9,630)</u>	<u>(292,694)</u>
Net Cash Provided (Used) By Investing Activities	<u>(9,630)</u>	<u>-</u>	<u>(9,630)</u>	<u>(292,694)</u>
Cash Flows From Financing Activities				
Interfund transfers	<u>(280,295)</u>	<u>280,295</u>	<u>-</u>	<u>-</u>
Net Cash Provided (Used) By Financing Activities	<u>(280,295)</u>	<u>280,295</u>	<u>-</u>	<u>-</u>
Net Increase (Decrease) in Cash	<u>(276,628)</u>	<u>327,699</u>	<u>51,071</u>	<u>(109,338)</u>
Cash & Cash Equivalents, Beginning	<u>690,709</u>	<u>676,693</u>	<u>1,367,402</u>	<u>1,476,740</u>
Cash & Cash Equivalents, Ending	<u>\$ 414,081</u>	<u>\$ 1,004,392</u>	<u>\$ 1,418,473</u>	<u>\$ 1,367,402</u>
Reconciliation of Cash Flows From Operating Activities:				
Excess (deficit) of revenues over (under) expenses	\$ (137,416)	\$ 47,404	\$ (90,012)	\$ 57,024
Adjustments to Reconcile Excess (Deficit) of Revenues to Net Cash Provided (Used) By Operating Activities:				
Depreciation	65,639	-	65,639	44,242
(Increase) Decrease in:				
Membership assessments & interest/penalties/fines receivable	27,824	-	27,824	(31,503)
Accounts receivable	2,400	-	2,400	(2,237)
Prepaid expenses	(1,972)	-	(1,972)	(11,234)
Increase (Decrease) in:				
Accounts payable	25,390	-	25,390	(11,690)
Deferred revenue	(12,068)	-	(12,068)	33,254
Security bonds & deposits	43,500	-	43,500	105,500
Net Cash Provided (Used) By Operating Activities	<u>\$ 13,297</u>	<u>\$ 47,404</u>	<u>\$ 60,701</u>	<u>\$ 183,356</u>
Supplemental Disclosure				
Interest paid			<u>\$ -</u>	<u>\$ -</u>
Income taxes paid			<u>\$ 205</u>	<u>\$ 250</u>

The Accompanying Notes are an Integral Part of these Financial Statements

Bald Head Association
Notes to Financial Statements
December 31, 2022

1. NATURE OF ORGANIZATION

Bald Head Association (the "Association") was incorporated as a non-profit corporation in the state of North Carolina on April 27, 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, and to promote the health, safety, and welfare of the residents.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Association prepares its financial statements in accordance with generally accepted accounting principles promulgated in the United States of America (U.S. GAAP) using the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses are recorded when incurred. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period and the reported amounts of assets and liabilities at the date of the financial statements. On an ongoing basis, the Association's management evaluates the estimates and assumptions based upon historical experience and various other factors and circumstances. The Association's management believes that the estimates and assumptions are reasonable in the circumstances; however, the actual results could differ from those estimates.

Accounting Standard for Recognition of Assessment Revenues

The Association's performance obligations related to operating fund assessments are satisfied within the year for which the assessments were made through the operation and maintenance of the Association's common elements.

The Association's performance obligations related to the assessments collected for the repair and replacement reserve fund are satisfied when these funds are expended for their purpose, which is to provide cash for major repairs and replacements to common elements over a 30-year time horizon, as provided in the reserve study currently adopted by the Association's Board.

Bald Head Association
Notes to Financial Statements
December 31, 2022

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:

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

The Repair and Replacement Reserve Fund is used to accumulate financial resources designated and solely approved by the Board of Directors for future replacement or addition of capital assets as defined by the Internal Revenue Code.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash held in checking, savings, and money market accounts and certificates of deposit with maturities of less than three months. The Association uses ICS sweep accounts to ensure balances fall within FDIC insurance limits.

Cash and cash equivalents are as follows as of December 31:

	<u>2022</u>	<u>2021</u>
Operating Fund		
BB&T Checking - BHA Master	\$ 87,472	\$ 144,988
North State Bank Checking - BHA Master	209,108	190,214
NSB - Construction Deposits	92,628	342,635
NSB - Keeper's Landing Operating #776	11,562	873
NSB - Surfman's Walk Operating #859	6,237	6,501
NSB - Sumner's Crescent Operating #974	<u>7,074</u>	<u>5,498</u>
Total Operating Fund	<u>414,081</u>	<u>690,709</u>
Repair & Replacement Reserve Fund		
Vanguard	351,124	407,510
NSB - Special Assessment	-	10,416
NSB - BHA Master Reserves #7304	37,514	2,612
NSB - Keeper's Landing Reserves #818	45,092	146,291
NSB - Surfman's Walk Reserves #891	18,256	74,917
NSB - Sumner's Crescent Reserves #014	15,637	34,947
NSB - Investment CDs	301,011	-
NSB - Investment CDs - Keeper's Landing	150,472	-
NSB - Investment CDs - Surfman's Walk	60,202	-
NSB - Investment CDs - Sumner's Crescent	<u>25,084</u>	<u>-</u>
Total Repair & Replacement Reserve Fund	<u>1,004,392</u>	<u>676,693</u>
Total Cash & Cash Equivalents	<u>\$ 1,418,473</u>	<u>\$ 1,367,402</u>

Bald Head Association
Notes to Financial Statements
December 31, 2022

Membership Assessments

Association members are subject to annual assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Any excess assessments at year end are retained by the Association for use in the succeeding year to fund operations or the repair and replacement reserve fund.

Accounts receivable at year end represent assessments due from homeowners and Island Report advertising revenue due from both homeowners and non-homeowners. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are 90 days or more delinquent. As of December 31, 2022, approximately \$41,767 in receivables were over 90 days past due and in the legal process. 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. Accounts receivable are as follows as of December 31:

	<u>2022</u>	<u>2021</u>
Membership assessments & interest/penalties/fines receivable	\$ 68,745	\$ 105,988
Less: Allowance for doubtful accounts	<u>(46,116)</u>	<u>(55,535)</u>
Membership Assessments & Interest/Penalties/Fines Receivable, Net	<u>\$ 22,629</u>	<u>\$ 50,453</u>
Island Report advertising	\$ -	\$ 10,150
Less: Allowance for doubtful accounts	<u>-</u>	<u>(7,750)</u>
Accounts Receivable, Net	<u>\$ -</u>	<u>\$ 2,400</u>

Prepaid assessments at year end represent fees paid in advance of due dates by homeowners.

Bald Head Association
Notes to Financial Statements
December 31, 2022

Property and Equipment

Real property and common areas acquired from the Developer and related improvements to such property are not recorded in the Association's financial statements because those properties were transferred to the Association at the final basis in the hands of the Developer, which was zero. Such 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.

Although not required by generally accepted accounting principles (GAAP), common property, such as the Association Center building, is reported on the balance sheet at cost. As required by GAAP, personal property, including equipment, is capitalized if it has a cost of \$1,000 or more and a useful life when acquired of more than one year. Repairs and maintenance that do not significantly increase the useful life of the asset are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Buildings & improvements	10-40 years
Furniture & equipment	5-10 years

Property is reviewed for impairment when a significant change in the asset's use or another indicator of possible impairment is present. No impairment losses were recognized in the financial statements in the current period.

The following is a summary of the Association's property as of December 31:

	<u>2022</u>	<u>2021</u>
Land - Battery 4 creek lot	\$ 651,801	\$ 651,801
Buildings	944,431	1,309,003
Improvements	447,117	103,209
Furniture & fixtures	35,878	36,896
Equipment	<u>140,303</u>	<u>155,182</u>
	2,219,530	2,256,091
Less: Accumulated depreciation	<u>(662,935)</u>	<u>(643,487)</u>
Total Property & Equipment, Net	<u>\$ 1,556,595</u>	<u>\$ 1,612,604</u>

Deposits

The Association 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, 2022, \$386,500 in construction deposits are being held by the Association.

The Association also requires a \$500 repair and cleaning deposit to be made in order for the rental use of its Association Center building. The building is inspected after use, and the deposit is returned if the building is in satisfactory condition. As of December 31, 2022, \$1,500 in deposits are being held by the Association.

Bald Head Association
Notes to Financial Statements
December 31, 2022

Comparative Financial Information

The accompanying financial statements include certain prior year summarized comparative information in total, but not by fund. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America (GAAP). Accordingly, such information should be read in conjunction with the Association's audited financial statements for the year ended December 31, 2021, from which the summarized information was derived.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported fund balances.

Subsequent Events

Subsequent events have been evaluated through January 26, 2024, which is the date the financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required.

3. INCOME TAXES

For the years ended December 31, 2022 and 2021, the Association elected to file its income tax returns as a homeowners' association in accordance with Internal Revenue Code Section 528. Under that Section, the Association is not taxed on uniform assessments to members and other income received from Association members solely as a function of their membership in the Association. The Association is required to file Form 1120-H and is taxed by the federal government at the rate of 30% and by North Carolina at the rate of 2.5% on its net investment income and other non-exempt function income. After allocation of related expenses and \$100 automatic deduction, the taxable income was \$1,562 for the year ended December 31, 2022, which resulted in tax due of \$469. The taxable income was \$682 for the year ended December 31, 2021, which resulted in tax due of \$205.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Association and recognize a tax liability if the Association has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. Management has analyzed the tax positions taken by the Association and has concluded that as of December 31, 2022, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The Association is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Association's management believes it is no longer subject to income tax examinations for years ending prior to 2019.

Bald Head Association
Notes to Financial Statements
December 31, 2022

4. RELATED PARTY DISCLOSURE

A board member of the Association owns a local business and purchases advertising in the Island Report. The advertising income from the related party totaled \$0 for the year ended December 31, 2022 and \$4,725 for the year ended December 31, 2021, and corresponds to the same fee schedule charged to unrelated customers.

5. CONTINGENCIES AND RISK MANAGEMENT

From time to time, the Association becomes aware of asserted and unasserted claims. In most cases, these claims can be successfully defended. All of these situations are carefully reviewed by management, and when necessary, management will consult with the Association's legal counsel. If it is determined to be appropriate, management will also consult with the insurance broker. When management is confident in the outcome and the financial risk to the Association is small, the Association will pursue any defense vigorously without involving insurance policies or attorneys employed by the insurance carrier. When management is uncertain of the outcome and/or the financial risk could be material to the financial position of the Association, management and the Association's legal counsel look to insurance carriers for defense.

The Association is exposed to various risks of loss in the ordinary course of business as a result of torts, theft, damage, or destruction of assets, business interruption, management errors and omissions, natural disasters, and other risks. The Association purchases commercial property and casualty insurance against risk of loss due to property damage to buildings, equipment, theft, public liability, fiduciary liability, pollution liability, management errors, and other risks.

The Association carries flood, wind and hail, and property insurance policies. The limits for flood insurance are \$500,000 for the building and \$107,800 for contents. The deductible for flood is \$1,250 for each. The property and wind and hail limits for the building and contents are \$1,352,300. The deductible for both the property and wind and hail coverage for the building and contents is \$5,000/1% named storm each.

The Association also carries additional insurance policies, which include "umbrella" insurance coverage, general liability insurance covering the common owned properties, and directors and officers liability coverage. The Association also purchases additional property and general liability coverage on properties located in several neighborhoods it is mandated to manage. No claim payment has exceeded insurance coverage in the past three fiscal years where insurance coverage applies, subject to the deductibles and retentions noted above.

Bald Head Association
Notes to Financial Statements
December 31, 2022

6. FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents generally provide for the levying of special assessments or the increasing of regular assessments when major repairs and replacements are needed. The Board of Directors, however, has chosen to establish a repair and replacement reserve fund and to accumulate funds for the estimated costs of future major repairs and replacements. Accumulated funds, which aggregate \$1,004,392 as of December 31, 2022, are held in separate accounts and are generally not available for operating purposes. It is the Association's policy to allocate interest earned by the repair and replacement reserve fund to the fund in which it is earned.

The Association conducted a study in 2020 to estimate the remaining useful lives and the replacement costs of the common property components. The study was based on estimated costs to repair or replace the common property components at the date of the study. The Association is funding for certain major repairs and replacements over the estimated useful lives of the components based on the study's estimate of future replacement costs, considering amounts previously accumulated in the repair and replacement reserve fund. Actual expenditures, however, may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the repair and replacement reserve fund may not be adequate to meet future needs.

Current year activity in the repair and replacement reserve fund is as follows:

	<u>2022</u>
Balance, Beginning	\$ 676,693
Current year additions from assessments	252,415
Current year interest	6,556
Release of assets for current year upgrades & purchases or Board of Directors authorizations	(211,567)
Interfund transfers	<u>280,295</u>
Balance, Ending	<u>\$ 1,004,392</u>

Bald Head Association
Supplementary Information on Future Major Repairs and Replacements
December 31, 2022 (Unaudited)

The Association’s Board of Directors authorized a reserve study, conducted in December 2020 by Global Solutions Partners, to estimate the remaining useful lives and the major repair and replacement costs of the common property within the community. This study has been performed as a Level 1 Full-Service Reserve Study as defined under the National Reserve Study Standards that have been adopted by the Community Association Institute. The replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study. This reserve study applies the cash flow method to compute the reserve funding plan. The reserve funding plan determines adequate, not excessive, reserve contributions through a 30-year cash flow analysis that incorporates the current reserve funds, future interest earned, and projected reserve expenditures.

The information below has been compiled from the reserve study and presents significant information about the components of common property; however, the estimated current replacement cost does not take into account the effects of future interest earned, projected reserve expenditures, or inflation between the date of the study and the date that the components will require repair or replacement. The reserve study did not break out the estimated useful lives of the respective elements.

Reserve Component Inventory	Estimated Remaining Useful Life (Years)	Estimated First Year of Replacement	Estimated Future Replacement Cost (30 Year)
Aluminum Ramp	22	2043	\$ 8,480
Dock Wood Pilings	29	2050	41,310
Dock & Pier	11-14	2032 to 2035	421,086
Fence - Chain Link	7	2028	44,477
Fence - Woven Wire	2	2023	5,295
Fences & Gates - Wood	2-11	2023 to 2032	90,352
Gazebos & Benches	12-32	2033 to 2053	71,704
Lighting - Walkway	1	2022	6,865
Mulch Path	9	2030	4,982
Pavers & Sidewalks	11-24	2032 to 2045	183,345
Retaining & Tabby Walls	18-24	2039 to 2045	172,146
Roads - Asphalt Mill & Overlay	0-24	2021 to 2045	625,578
Roads - Asphalt Seal & Repair	4	2025	15,843
Roads - Gravel	15	2036	20,190
Signage	9-14	2030 to 2035	28,337
Signage with Fencing	3-9	2024 to 2030	22,538
Walkway, Trellis & Bridges (Wood)	11-12	2032 to 2033	739,365
Wood Decking	13-14	2034 to 2035	224,650
Audio Visual Equipment	7	2028	10,095
Doors & Windows	9	2030	140,163
Exterior Siding	9	2030	142,394
Fire Alarm System	10	2031	11,735
Fire Sprinkler Repair & Upgrade	1	2022	11,217
Flooring - Carpet & Hardwood	2	2023	26,022
HVAC	5-13	2026 to 2034	60,577
Kitchen - Refurbish	12	2033	20,029
Paint - Interior	8	2029	54,792
Paint & Waterproofing - Exterior	2	2023	34,122
Rain Gutters	27	2049	5,539
Restroom - Refurbish	6	2027	62,590
Roof	14	2035	37,374
Total All			<u>\$ 3,343,192</u>
Actual Repair & Replacement Reserve Fund Cash as of December 31, 2022			<u>\$ 1,004,392</u>

Bald Head Association
Supplementary Information on Future Major Repairs and Replacements
December 31, 2022 (Unaudited)

The Board uses the reserve study to estimate annual repair and replacement budgets, establish insurance policy limits, and consider the need for annual capital additions to the reserve fund. It is not practical to fully reserve for all replacement costs when due. The Association incurred reserve expenditures of \$211,567 in 2022.

Bald Head Association
Supplementary Information on Future Major Repairs and Replacements
December 31, 2022 (Unaudited)

	Master	Palmetto Cove	The Grove	Cedar Court	Palm Court	Braemar Highlands	Loggerhead Trail	Cape Fear Station	Keeper's Landing	Surfman's Walk	Sumner's Crescent	Total
Operating Fund												
REVENUES												
Assessments	\$ 630,613	\$ 1,939	\$ 1,431	\$ -	\$ -	\$ -	\$ -	\$ 14,831	\$ 97,228	\$ 47,000	\$ 34,432	\$ 827,474
Fees & other	395,623	-	-	-	-	-	-	-	-	-	-	395,623
Interest income	712	-	-	-	-	-	-	-	-	-	-	712
Total Revenues	<u>1,026,948</u>	<u>1,939</u>	<u>1,431</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,831</u>	<u>97,228</u>	<u>47,000</u>	<u>34,432</u>	<u>1,223,809</u>
Management fees	35,977	(813)	(181)	-	-	-	-	(6,435)	(14,274)	(9,516)	(4,758)	-
Other expenditures	(1,181,038)	(620)	(1,250)	-	-	-	-	(6,616)	(80,083)	(38,749)	(27,249)	(1,335,604)
Net Operating Fund Surplus (Deficit)	<u>(118,113)</u>	<u>506</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,780</u>	<u>2,871</u>	<u>(1,265)</u>	<u>2,425</u>	<u>(111,795)</u>
Fund Balance, Beginning - Operating	1,904,968	1,288	3,893	209	1,384	-	4,021	24,822	13,335	6,306	5,498	1,965,722
Transfers from reserves	(4,158)	-	-	-	-	-	-	-	(19,789)	(1,200)	(1,600)	(26,747)
Fund Balance, Ending - Operating	<u>\$ 1,782,697</u>	<u>\$ 1,794</u>	<u>\$ 3,893</u>	<u>\$ 209</u>	<u>\$ 1,384</u>	<u>\$ -</u>	<u>\$ 4,021</u>	<u>\$ 26,602</u>	<u>\$ (3,583)</u>	<u>\$ 3,841</u>	<u>\$ 6,323</u>	<u>\$ 1,846,969</u>
Repair & Replacement Reserve Fund												
REVENUES												
Assessments	\$ 65,752	\$ 8,400	\$ 7,225	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 28,700	\$ 2,000	\$ 4,000	\$ 116,077
Special assessment	110,000	-	-	-	-	-	-	-	-	-	-	110,000
Interest income	2,726	479	1	11	27	19	44	462	784	342	174	5,069
Total Revenues	<u>178,478</u>	<u>8,879</u>	<u>7,226</u>	<u>11</u>	<u>27</u>	<u>19</u>	<u>44</u>	<u>462</u>	<u>29,484</u>	<u>2,342</u>	<u>4,174</u>	<u>231,146</u>
Expenditures	(9,475)	-	(52,000)	-	-	-	-	(156,935)	-	-	-	(218,410)
Net Repair & Replacement Reserve Fund Surplus (Deficit)	<u>169,003</u>	<u>8,879</u>	<u>(44,774)</u>	<u>11</u>	<u>27</u>	<u>19</u>	<u>44</u>	<u>(156,473)</u>	<u>29,484</u>	<u>2,342</u>	<u>4,174</u>	<u>12,736</u>
Fund Balance, Beginning - Repair & Replacement Reserve	87,586	55,665	44,855	1,517	3,600	2,514	5,862	218,748	146,290	74,917	34,947	676,503
Transfers to operating	4,158	-	-	-	-	-	-	-	19,789	1,200	1,600	26,747
Fund Balance, Ending - Repair & Replacement Reserve	<u>\$ 260,747</u>	<u>\$ 64,544</u>	<u>\$ 81</u>	<u>\$ 1,528</u>	<u>\$ 3,627</u>	<u>\$ 2,533</u>	<u>\$ 5,906</u>	<u>\$ 62,276</u>	<u>\$ 195,563</u>	<u>\$ 78,459</u>	<u>\$ 40,722</u>	<u>\$ 715,986</u>
Total Fund Balance	<u>\$ 2,043,444</u>	<u>\$ 66,339</u>	<u>\$ 3,974</u>	<u>\$ 1,737</u>	<u>\$ 5,011</u>	<u>\$ 2,533</u>	<u>\$ 9,927</u>	<u>\$ 88,878</u>	<u>\$ 191,980</u>	<u>\$ 82,300</u>	<u>\$ 47,044</u>	<u>\$ 2,543,167</u>