

# Bald Head Association

Bald Head Island, North Carolina

FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT  
CERTIFIED PUBLIC ACCOUNTANT

**For the Year Ended December 31, 2015**

Bald Head Association  
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For the Year Ended December 31, 2015

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# JASON C. KELLER, CPA, PLLC

## 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, 2015, 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, 2015, 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.

### Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the information on future major repairs and replacements on page 12 be presented to supplement the basic financial statements. Such 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. 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

### Report on Summarized Comparative Information

We have previously audited the Bald Head Association's 2014 financial statements, and our report dated August 17, 2015, 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, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derive

*Jason C Keller* CPA PLLC

Wilmington, NC  
October 13, 2016

Bald Head Association  
**Balance Sheet**  
December 31, 2015

	2015			2014
	Operating Fund	Repairs & Replacement Fund	Total	Total (for comparative purposes only)
<b>Assets:</b>				
<b>Current assets:</b>				
Cash and cash equivalents	\$ 90,783	\$ 98,235	\$ 189,018	\$ 142,811
Assessments receivable net of \$8,535 allowance in 2015 and \$6,000 in 2014	18,490	-	18,490	32,120
Accounts receivable net of \$29,100 allowance in 2015 and 2014	14,715	-	14,715	8,159
Prepaid expenses	266	-	266	905
<b>Total current assets</b>	<b>124,254</b>	<b>98,235</b>	<b>222,489</b>	<b>183,995</b>
Fixed assets, net of accumulated depreciation of \$447,774 in 2015 and \$410,335 in 2014	674,011	-	674,011	645,378
Loan fees, net of accumulated amortization of \$3,211 in 2015 and \$2,701 in 2014	354	-	354	864
<b>TOTAL ASSETS</b>	<b>\$ 798,619</b>	<b>\$ 98,235</b>	<b>\$ 896,854</b>	<b>\$ 830,237</b>
<b>Liabilities and Fund Balance:</b>				
<b>Current liabilities:</b>				
Accounts payable	\$ 29,128	\$ -	\$ 29,128	\$ 24,262
Payroll liabilities	-	-	-	365
Deferred revenue	7,920	-	7,920	8,337
Security bonds and deposits	35,500	-	35,500	18,906
Mortgage payable - current	13,500	-	13,500	12,667
<b>Total current liabilities</b>	<b>86,048</b>	<b>-</b>	<b>86,048</b>	<b>64,537</b>
Mortgage payable (less current portion)	76,459	-	76,459	94,797
<b>TOTAL LIABILITIES</b>	<b>162,507</b>	<b>-</b>	<b>162,507</b>	<b>159,334</b>
<b>Fund Balance</b>				
Undesignated	52,060	-	52,060	38,657
Investment in fixed assets net of related debt	584,052	-	584,052	537,914
Repairs & replacement fund balance	-	98,235	98,235	94,332
<b>TOTAL FUND BALANCE</b>	<b>636,112</b>	<b>98,235</b>	<b>734,347</b>	<b>670,903</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 798,619</b>	<b>\$ 98,235</b>	<b>\$ 896,854</b>	<b>\$ 830,237</b>

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 31,2015

	2015			2014
	Operating Fund	Repairs & Replacement Fund	Total	Total (for comparative purposes only)
<b>Revenues:</b>				
Member assessments	\$ 347,193	\$ 19,182	\$ 366,375	\$ 334,975
Association center fees	7,800	-	7,800	10,965
Architectural review committee	43,400	-	43,400	28,750
ARC contracting revenue	45,996	-	45,996	36,804
Penalties and interest	3,013	-	3,013	9,023
Interest income	38	27	65	49
Island report advertising	31,365	-	31,365	21,020
Boat park annual leases	15,500	-	15,500	12,400
Garden plot annual leases	2,696	-	2,696	650
Other income	2,004	-	2,004	649
<b>TOTAL REVENUES</b>	<b>499,005</b>	<b>19,209</b>	<b>518,214</b>	<b>455,285</b>
<b>Expenses:</b>				
Operating and administrative expenses:				
Wages	159,862	-	159,862	169,449
Health insurance expense	42,652	-	42,652	-
Payroll taxes	12,722	-	12,722	14,079
Pension plan	3,815	-	3,815	3,371
Other employee benefits	4,034	-	4,034	-
Transportation	13,596	-	13,596	11,249
Payroll processing fee	2,205	-	2,205	1,740
Computer expense	7,038	-	7,038	5,534
Other administrative	7,336	-	7,336	5,892
Bank charges	1,155	-	1,155	1,567
Bad debt	5,039	-	5,039	4,805
Equipment lease	2,458	-	2,458	1,976
Assessment expense	804	-	804	403
Office supplies	2,679	-	2,679	2,675
Office postage	1,196	-	1,196	937
Communications media expense	3,360	-	3,360	2,417
Consulting	1,927	-	1,927	1,708
Miscellaneous	40	-	40	457
Amortization	510	-	510	663
Total operating and admin. exp.	272,428	-	272,428	228,922
Depreciation	37,439	-	37,439	33,000
Association Center				
Repairs and maintenance	26,816	-	26,816	25,623
Utilities	15,886	-	15,886	15,619
Mortgage interest	4,636	-	4,636	5,410
Taxes - property	15,418	-	15,418	15,728
Association Center building insurance	12,950	-	12,950	12,269
Miscellaneous association center expenses	775	-	775	563
Total association center	76,481	-	76,481	75,212
Other service areas				
Committees	2,423	-	2,423	2,070
Island report	33,482	-	33,482	31,838
Boat park	1,529	-	1,529	1,608
Insurance	12,278	-	12,278	10,978
Audit and accounting	12,024	-	12,024	12,059
Legal	6,686	-	6,686	7,041
	68,422	-	68,422	65,594
<b>TOTAL EXPENSES</b>	<b>454,770</b>	<b>-</b>	<b>454,770</b>	<b>402,728</b>
<b>Revenues over expenses</b>	<b>44,235</b>	<b>19,209</b>	<b>63,444</b>	<b>52,557</b>
Fund Balances:				
Beginning Fund Balance	576,571	94,332	670,903	618,346
Transfers from Replacement Fund for the purchase of fixed assets	15,306	(15,306)	-	-
Ending Fund Balance	<u>\$ 636,112</u>	<u>\$ 98,235</u>	<u>\$ 734,347</u>	<u>\$ 670,903</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, 2015

	2015			2014
	Operating Fund	Repairs & Replacement Fund	Total	Total (for comparative purposes only)
<b>Cash flows from Operating Activities:</b>				
Revenues over(under) expenses	\$ 44,235	\$ 19,209	\$ 63,444	\$ 52,557
Adjustments to reconcile revenues over(under) expenses to net cash provided (used) by operating activities				
Depreciation and amortization	37,949	-	37,949	33,663
Bad debt expense	5,039	-	5,039	4,805
(Increase) decrease in:				
Assessments receivable	8,591	-	8,591	(11,289)
Accounts receivable	(6,556)	-	(6,556)	(2,738)
Prepays	639	-	639	(855)
Increase (decrease) in:				
Accounts payable	4,866	-	4,866	(1,154)
Payroll liabilities	(365)	-	(365)	(1,035)
Deferred revenue	(417)	-	(417)	6,226
Security bonds and deposits	16,594	-	16,594	3,430
Net Cash provided (used) by Operating Activities	<u>110,575</u>	<u>19,209</u>	<u>129,784</u>	<u>83,610</u>
<b>Cash flows from Investing Activities:</b>				
Purchase of fixed assets	<u>(50,766)</u>	<u>(15,306)</u>	<u>(66,072)</u>	<u>(26,448)</u>
Net Cash provided (used) by Investing Activities	<u>(50,766)</u>	<u>(15,306)</u>	<u>(66,072)</u>	<u>(26,448)</u>
<b>Cash flows from Financing Activities</b>				
Mortgage principal payments	<u>(17,505)</u>	<u>-</u>	<u>(17,505)</u>	<u>(16,329)</u>
Net Cash provided (used) by Financing Activities	<u>(17,505)</u>	<u>-</u>	<u>(17,505)</u>	<u>(16,329)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	42,304	3,903	46,207	40,833
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<u>48,479</u>	<u>94,332</u>	<u>142,811</u>	<u>101,978</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u><u>\$ 90,783</u></u>	<u><u>\$ 98,235</u></u>	<u><u>\$ 189,018</u></u>	<u><u>\$ 142,811</u></u>

Supplemental information:

2015 Interest expense: \$4,636

2015 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, 2015

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**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**

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 \$410 for the year ended December 31, 2015. The valuation allowance for uncollectible assessment receivables is \$8,535 at December 31, 2015.

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.

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.

Loan Fees

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

Bald Head Association  
**NOTES TO FINANCIAL STATEMENTS**  
For the Year Ended December 31, 2015

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**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 \$37,439 for the year ended December 31, 2015.

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 held in a separate savings account and generally are not available for expenditures for normal operations.

The Board of Directors conducted a study in March 2013 in order to estimate the remaining useful lives and the replacement costs of the components of common property. The table included in the unaudited supplementary information on Future Major Repairs and Replacements is based on the study.

The board is funding for major repairs and replacements over the remaining useful lives of the components based on the study's estimates of current replacement costs and considering amounts previously accumulated in the replacement fund. Accordingly, the funding requirement of \$39,178, based on full funding plan, has been included in the 2016 budget.



Bald Head Association  
**NOTES TO FINANCIAL STATEMENTS**  
For the Year Ended December 31, 2015

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**NOTE 3: FUTURE MAJOR REPAIRS AND REPLACEMENTS (continued)**

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, 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.

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

Balance 1/1/2015	\$ 94,332
Current year additions from assessments (based on budget)	19,182
Current year interest	27
Release for current year expenses and purchases	<u>(15,306 )</u>
Balance 12/31/15	<u>\$ 98,235</u>

**NOTE 4: ACCOUNTS RECEIVABLE**

Accounts receivable consisted of the following at December 31, 2015.

Covenant Violation Fines	\$ 29,100
Stage II ARC November & December 2015 fees	7,666
Island Report Advertising	3,180
Association Center Fees	1,555
Late Assessment Penalties & Finance Charges	2,314
Less: Allowance for doubtful accounts	<u>(29,100)</u>
	<u>\$ 14,715</u>

While the Association intends to aggressively pursue all amounts owed an allowance for doubtful accounts of \$29,100 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, 2015:

Buildings	\$ 861,883
Improvements	115,783
Furniture and fixtures	27,421
Equipment	108,125
Software and website	<u>8,573</u>
	1,121,785
Less accumulated depreciation	<u>( 447,774)</u>
	<u>\$ 674,011</u>

Bald Head Association  
**NOTES TO FINANCIAL STATEMENTS**  
For the Year Ended December 31, 2015

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**NOTE 6: DEFERRED REVENUE**

Deferred revenue consists of advanced payments of assessments and fees for future periods and totaled \$7,920 on December 31, 2015.

**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, 2015, \$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, 2015, \$33,000 in construction deposits are being held by the Association.

**NOTE 8: LINE OF CREDIT**

The Association has an existing line-of-credit with a local financial institution in the amount of \$100,000. As of December 31, 2015, \$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 September 24, 2017.

**NOTE 9: MORTGAGE PAYABLE**

Mortgage payable consists of a 4.595% fixed rate note payable to BB&T in monthly installments of \$1,445 with one final payment of all unpaid principal and interest due on January 20, 2023. 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 31<sup>st</sup></u>	
2016	\$ 13,500
2017	14,119
2018	14,782
2019	15,476
2020	16,202
2021	15,880
	<u>\$ 89,959</u>

Interest expense related to the mortgage totaled \$4,636 for the year ended December 31, 2015.

**NOTE 10: 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, 2015.

Bald Head Association  
**NOTES TO FINANCIAL STATEMENTS**  
For the Year Ended December 31, 2015

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**NOTE 11: INCOME TAXES**

The Association qualifies as a tax-exempt homeowners' association under Internal Revenue Code Section 528 for the year ended December 31, 2015. 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. 2015 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, 2015 tax returns for calendar years 2012, 2013 and 2014 remain "open" to possible examination.

**NOTE 12: CLAIMS AND JUDGEMENTS**

At December 31, 2015, 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 13: 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 Organization's financial statements for the year ended December 31, 2014, 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 14: SUBSEQUENT EVENTS**

The Association did not have any subsequent events through October 13, 2016 requiring recording or disclosure in the financial statements for the year ended December 31, 2015. October 13, 2016 is the approximate date the financial statements were available to be issued.

Bald Head Association  
**Supplementary Information on Future Major Repairs and Replacements**  
December 31, 2015  
(UNAUDITED)

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In March, 2013 the board of directors conducted a study to estimate the remaining useful lives and the replacement cost of the components of the building and equipment. The estimates were obtained from a licensed contractor who inspected the property.

The balance of the Future Major Repairs and Replacements Fund at December 31, 2015 has not been designated by the Board of Directors for specific components of common property.

The following table is based on that study and presents significant information about the components of the building and equipment.

Components	Estimated Remaining Useful Lives (Years)	Estimated Current Replacement Costs	Ending Fund Balance
Shingle roof	10-13	\$ 25,000	
Exterior painting	3-5	22,000	
Exterior trim/siding	15-18	125,000	
Wood walkways	15-18	45,000	
Hardwood/VCT floor	10-16	27,000	
Carpet	1-3	5,000	
Appliances	0 -10	8,000	
Plumbing fixtures (16)	15-23	8,000	
HVAC (6)	1-15	54,000	
Light fixtures	4-14	5,000	
<b>Total</b>		<b>\$ 324,000</b>	<b>\$ 98,235</b>