

# Bald Head Association

Bald Head Island, North Carolina

FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT  
CERTIFIED PUBLIC ACCOUNTANT

**For the Year Ended December 31, 2017**

Bald Head Association  
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For the Year Ended December 31, 2017

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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, 2017, 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, 2017, 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 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 15, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, 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 15, 2018

Bald Head Association  
**Balance Sheet**  
December 31, 2017

	2017			2016
	Operating Fund	Repairs & Replacement Fund	Total	Total (for comparative purposes only)
<b>Assets:</b>				
Current assets:				
Cash and cash equivalents	\$ 33,836	\$ 141,198	\$ 175,034	\$ 209,571
Assessments receivable net of \$9,503 allowance in 2017 and \$12,750 in 2016	1,983	-	1,983	19,709
Accounts receivable net of \$29,400 allowance in 2017 and \$29,100 in 2016	4,998	-	4,998	11,229
Prepaid expenses	3,720	-	3,720	1,119
Total current assets	<u>44,537</u>	<u>141,198</u>	<u>185,735</u>	<u>241,628</u>
Land - Battery 4 creek lot	651,801	-	651,801	651,801
Fixed assets, net of accumulated depreciation of \$512,779 in 2017 and \$486,279 in 2016	629,236	-	629,236	642,926
Total property & equipment	<u>1,281,037</u>	<u>-</u>	<u>1,281,037</u>	<u>1,294,727</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 1,325,574</u></u>	<u><u>\$ 141,198</u></u>	<u><u>\$ 1,466,772</u></u>	<u><u>\$ 1,536,355</u></u>
<b>Liabilities and Fund Balance:</b>				
Current liabilities:				
Accounts payable	\$ 33,155	\$ -	\$ 33,155	\$ 35,379
Accrued interest payable	12,983	-	12,983	4,343
Deferred revenue	3,940	-	3,940	5,500
Security bonds and deposits	55,000	-	55,000	36,500
Income taxes payable	300	-	300	97,143
Line of Credit	-	-	-	3,543
Total current liabilities	<u>105,378</u>	<u>-</u>	<u>105,378</u>	<u>182,408</u>
Mortgage payable - Battery 4	202,731	-	202,731	202,731
<b>TOTAL LIABILITIES</b>	<u>308,109</u>	<u>-</u>	<u>308,109</u>	<u>385,139</u>
Fund Balance				
Undesignated	(60,841)	-	(60,841)	(78,219)
Investment in property & equip. net of related debt	1,078,306	-	1,078,306	1,091,996
Repairs & replacement fund balance	-	141,198	141,198	137,439
<b>TOTAL FUND BALANCE</b>	<u>1,017,465</u>	<u>141,198</u>	<u>1,158,663</u>	<u>1,151,216</u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<u><u>\$ 1,325,574</u></u>	<u><u>\$ 141,198</u></u>	<u><u>\$ 1,466,772</u></u>	<u><u>\$ 1,536,355</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 31,2017

	2017			2016
	Operating Fund	Repairs & Replacement Fund	Total	Total (for comparative purposes only)
<b>Revenues:</b>				
Member assessments	\$ 355,533	\$ 19,658	\$ 375,191	\$ 369,640
Special assessments	-	-	-	240,450
Association center fees	15,575	-	15,575	7,795
Architectural review committee	49,500	-	49,500	38,400
ARC contracting revenue	46,003	-	46,003	45,998
Penalties and interest	4,652	-	4,652	1,285
Interest income	47	25	72	111
Gain on sale of assets	-	-	-	282,355
Island report advertising	29,435	-	29,435	31,933
Boat park annual leases	13,500	-	13,500	16,333
Garden plot annual leases	2,504	-	2,504	3,250
Other income	4,305	-	4,305	497
<b>TOTAL REVENUES</b>	<b>521,054</b>	<b>19,683</b>	<b>540,737</b>	<b>1,038,047</b>
<b>Expenses:</b>				
Operating and administrative expenses:				
Wages	179,596	-	179,596	170,765
Health insurance expense	40,280	-	40,280	37,119
Payroll taxes	13,795	-	13,795	13,682
Pension plan	3,077	-	3,077	3,412
Other employee benefits	3,386	-	3,386	3,475
Transportation	10,542	-	10,542	13,653
Payroll processing fee	2,462	-	2,462	2,952
Computer & software expense	17,081	-	17,081	4,543
Other administrative	16,381	-	16,381	15,384
Bank charges	1,217	-	1,217	1,265
Bad debt	-	-	-	5,595
Equipment lease	2,327	-	2,327	2,344
Assessment expense	196	-	196	1,911
Office supplies	3,599	-	3,599	3,121
Office postage	1,171	-	1,171	5,368
Communications media expense	6,968	-	6,968	5,973
Consulting	6,213	-	6,213	3,579
Miscellaneous	40	-	40	476
Amortization	-	-	-	354
Income Taxes	300	-	300	97,143
Total operating and admin. exp.	<u>308,631</u>	<u>-</u>	<u>308,631</u>	<u>392,114</u>
Depreciation	40,886	-	40,886	40,055
Association Center				
Repairs and maintenance	26,078	-	26,078	29,040
Utilities	17,291	-	17,291	16,131
Interest expense	8,664	-	8,664	17,072
Taxes - property	15,419	-	15,419	15,419
Association Center building insurance	15,232	-	15,232	14,459
Miscellaneous association center expenses	185	-	185	136
Total association center	<u>82,869</u>	<u>-</u>	<u>82,869</u>	<u>92,257</u>
Other service areas				
Committees	1,701	-	1,701	2,431
Island report	48,167	-	48,167	39,118
Boat park	5,734	-	5,734	3,336
Battery Park - landscaping	2,100	-	2,100	-
Insurance	15,221	-	15,221	13,294
Audit and accounting	5,900	-	5,900	5,700
Legal	22,081	-	22,081	31,873
	<u>100,904</u>	<u>-</u>	<u>100,904</u>	<u>95,752</u>
<b>TOTAL EXPENSES</b>	<b>533,290</b>	<b>-</b>	<b>533,290</b>	<b>620,178</b>
<b>Revenues over expenses</b>	<b>(12,236)</b>	<b>19,683</b>	<b>7,447</b>	<b>417,869</b>
Fund Balances:				
Beginning Fund Balance	1,013,777	137,439	1,151,216	734,347
Transfer to/from Operating Fund	15,924	(15,924)	-	-
Prior period adjustment	-	-	-	(1,000)
Ending Fund Balance	<u>\$ 1,017,465</u>	<u>\$ 141,198</u>	<u>\$ 1,158,663</u>	<u>\$ 1,152,216</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, 2017

	2017			2016
	Operating Fund	Repairs & Replacement Fund	Total	Total (for comparative purposes only)
<b>Cash flows from Operating Activities:</b>				
Revenues over(under) expenses	\$ (12,236)	\$ 19,683	\$ 7,447	\$ 417,869
Adjustments to reconcile revenues over(under) expenses to net cash provided (used) by operating activities				
Depreciation and amortization	40,886	-	40,886	40,409
Bad debt expense	-	-	-	5,595
Prior period adjustment	-	-	-	(1,000)
Loss on sale of recorded assets	-	-	-	53
(Increase) decrease in:				
Assessments receivable	17,726	-	17,726	(6,814)
Accounts receivable	6,231	-	6,231	3,486
Prepays	(2,601)	-	(2,601)	(853)
Increase (decrease) in:				
Accounts payable	(2,224)	-	(2,224)	6,251
Accrued interest payable	8,640	-	8,640	-
Deferred revenue	(1,560)	-	(1,560)	(2,420)
Security bonds and deposits	18,500	-	18,500	1,000
Income taxes payable	(96,843)	-	(96,843)	97,143
Net Cash provided (used) by Operating Activities	(23,481)	19,683	(3,798)	565,062
<b>Cash flows from Investing Activities:</b>				
Proceeds from the sale of recorded assets	-	-	-	1,000
Purchase of fixed assets	(11,272)	(15,924)	(27,196)	(661,824)
Net Cash provided (used) by Investing Activities	(11,272)	(15,924)	(27,196)	(660,824)
<b>Cash flows from Financing Activities</b>				
Borrowings on line of credit	-	-	-	53,402
Payments on line of credit	(3,543)	-	(3,543)	(49,859)
Borrowings secured by real estate - Battery 4	-	-	-	585,630
Mortgage principal payments - Battery 4	-	-	-	(382,899)
Mortgage principal payments - Assoc. Center	-	-	-	(89,959)
Net Cash provided (used) by Financing Activities	(3,543)	-	(3,543)	116,315
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(38,296)	3,759	(34,537)	20,553
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	72,132	137,439	209,571	189,018
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 33,836</u>	<u>\$ 141,198</u>	<u>\$ 175,034</u>	<u>\$ 209,571</u>

Supplemental information:

Interest paid in 2017: \$24

Income taxes paid in 2017: \$97,143

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

Bald Head Association  
**NOTES TO FINANCIAL STATEMENTS**  
For the Year Ended December 31, 2017

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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 \$3,247 for the year ended December 31, 2017. The valuation allowance for uncollectible assessment receivables is \$9,503 at December 31, 2017.

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.

Bald Head Association  
**NOTES TO FINANCIAL STATEMENTS**  
For the Year Ended December 31, 2017

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**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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 \$40,886 for the year ended December 31, 2017.

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.

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 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 \$20,758 based on full funding plan, has been included in the 2018 budget.



Bald Head Association  
**NOTES TO FINANCIAL STATEMENTS**  
For the Year Ended December 31, 2017

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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 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 1/1/2017	\$ 137,439
Current year additions from assessments	19,658
Current year interest	25
Release of assets for current year upgrades & purchases	( 15,924 )
Balance 12/31/17	<u>\$ 141,198</u>

**NOTE 4: ACCOUNTS RECEIVABLE**

Accounts receivable consisted of the following at December 31, 2017.

Covenant Violation Fines	\$ 29,100
Island Report Advertising	2,870
Association Center Fees	775
Miscellaneous Fees	743
Late Assessment Penalties & Finance Charges	910
Less: Allowance for doubtful accounts	( 29,400 )
	<u>\$ 4,998</u>

While the Association intends to aggressively pursue all amounts owed an allowance for doubtful accounts of \$29,400 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, 2017:

Land – Battery 4 creek lot	\$ 651,801
Buildings	861,883
Improvements	115,783
Furniture and fixtures	33,662
Equipment	127,896
Software and website	2,791
	<u>1,793,816</u>
Less accumulated depreciation	( 512,779 )
	<u>\$ 1,281,037</u>

Bald Head Association  
**NOTES TO FINANCIAL STATEMENTS**  
For the Year Ended December 31, 2017

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**NOTE 6: DEFERRED REVENUE**

Deferred revenue consists of advanced payments of assessments and fees for future periods and totaled \$3,940 on December 31, 2017.

**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, 2017, \$2,000 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, 2017, \$53,000 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, 2017, \$0 was outstanding on the line. Interest accrues at 4.25% and is due monthly. The line of credit expires December 15, 2019.

**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, 2017 the Association has made principal payments that satisfy the amounts due in 2018.

Remaining principal maturities of the mortgage note are as follows:

<u>Year Ending December 31<sup>st</sup></u>	
2019	\$ <u>202,731</u>

Interest expense related to the above mortgage totaled \$8,640 for the year ended December 31, 2017.

**NOTE 10: UNINSURED CASH BALANCES**

The Association maintains its cash balances with a regional financial institution located in North Carolina. Accounts are secured by the Federal Deposit Insurance Corporation up to \$250,000. Uninsured balances are \$0 at December 31, 2017.

Bald Head Association  
**NOTES TO FINANCIAL STATEMENTS**  
For the Year Ended December 31, 2017

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**NOTE 11: INCOME TAXES**

The Association may be taxed as either a homeowners association or a regular corporation. For 2017 the Association filed its federal income tax return, Form 1120, as a regular corporation. The association had an excess of expenses for the maintenance of the common property over membership source income of \$462. That excess may be carried over to future periods to offset future income from membership sources when the association files as a regular corporation.

For state tax purposes the association filed form CD-405 (Corporate Tax Return) for the year ended December 31, 2017 and the tax owed was \$300

Tax returns remain subject to examination by taxing authorities for a period of 3 years. At December 31, 2017 tax returns for calendar years 2014, 2015 and 2016 remain “open” to possible examination.

**NOTE 12: CLAIMS AND JUDGEMENTS**

At December 31, 2017, 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 Association’s financial statements for the year ended December 31, 2016, 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**

As approved on March 29, 2017 by Bald Head Association membership, Bald Head Association merged operations with Stage II Association on January 2, 2018.

Excluding the above mentioned merger of operations, the Association did not have any subsequent events through November 15, 2018 requiring recording or disclosure in the financial statements for the year ended December 31, 2017. November 15, 2018 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, 2017  
(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, 2017 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	8-11	\$ 25,000	
Exterior painting	1-3	22,000	
Exterior trim/siding	13-16	125,000	
Wood walkways	13-16	45,000	
Hardwood/VCT floor	8-14	27,000	
Carpet	0-1	5,000	
Appliances	0-8	8,000	
Plumbing fixtures (16)	13-21	8,000	
HVAC (6)	0-15	54,000	
Light fixtures	2-12	5,000	
<b>Total</b>		<b>\$ 324,000</b>	<b>\$ 141,198</b>