

Bald Head Association

Bald Head Island, North Carolina

FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANT

For the Year Ended December 31, 2014

Bald Head Association
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For the Year Ended December 31, 2014

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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, 2014, 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

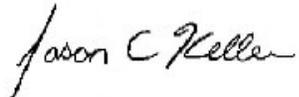
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bald Head Island Association as of December 31, 2014, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally 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 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 2013 financial statements, and our report dated August 15, 2014, 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, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

 CPA PLLC

Wilmington, NC
August 17, 2015

Bald Head Association
Balance Sheet
December 31, 2014

	2014			2013
	Operating Fund	Repairs & Replacement Fund	Total	Total (for comparative purposes only)
Assets:				
Current assets:				
Cash and cash equivalents	\$ 48,479	\$ 94,332	\$ 142,811	\$ 101,978
Assessments receivable net of \$6,000 allowance in 2014 and \$5,000 in 2013	32,120	-	32,120	24,376
Accounts receivable net of \$29,100 allowance in 2014 and \$30,500 in 2013	8,159	-	8,159	6,681
Prepaid expenses	905	-	905	-
Taxes receivable or prepaid	-	-	-	50
Total current assets	<u>89,663</u>	<u>94,332</u>	<u>183,995</u>	<u>133,085</u>
Fixed assets, net of accumulated depreciation of \$410,335 in 2014 and \$403,756 in 2013	645,378	-	645,378	651,930
Loan fees, net of accumulated amortization of \$2,701 in 2014 and \$2,038 in 2013	864	-	864	1,527
TOTAL ASSETS	<u><u>\$ 735,905</u></u>	<u><u>\$ 94,332</u></u>	<u><u>\$ 830,237</u></u>	<u><u>\$ 786,542</u></u>
Liabilities and Fund Balance:				
Current liabilities:				
Accounts payable	\$ 24,262	\$ -	\$ 24,262	\$ 25,416
Payroll liabilities	365	-	365	1,400
Deferred revenue	8,337	-	8,337	2,111
Security bonds and deposits	18,906	-	18,906	15,476
Mortgage payable - current	12,667	-	12,667	11,900
Total current liabilities	<u>64,537</u>	<u>-</u>	<u>64,537</u>	<u>56,303</u>
Mortgage payable (less current portion)	<u>94,797</u>	<u>-</u>	<u>94,797</u>	<u>111,893</u>
TOTAL LIABILITIES	159,334	-	159,334	168,196
Fund Balance				
Undesignated	38,657	-	38,657	39,744
Investment in fixed assets net of related debt	537,914	-	537,914	528,137
Repairs & replacement fund balance	<u>-</u>	<u>94,332</u>	<u>94,332</u>	<u>50,465</u>
TOTAL FUND BALANCE	<u>576,571</u>	<u>94,332</u>	<u>670,903</u>	<u>618,346</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 735,905</u></u>	<u><u>\$ 94,332</u></u>	<u><u>\$ 830,237</u></u>	<u><u>\$ 786,542</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, 2014

	2014			2013
	Operating Fund	Repairs & Replacement Fund	Total	Total (for comparative purposes only)
Revenues:				
Member assessments	\$ 286,124	\$ 48,851	\$ 334,975	\$ 335,665
Association center fees	10,965	-	10,965	13,215
Architectural review committee	28,750	-	28,750	18,000
ARC contracting revenue	36,804	-	36,804	25,900
Penalties and interest	9,023	-	9,023	198
Interest income	36	13	49	60
Island report advertising	21,020	-	21,020	14,600
Boat park annual leases	12,400	-	12,400	11,030
Garden plot annual leases	650	-	650	1,000
Other income	649	-	649	486
TOTAL REVENUES	406,421	48,864	455,285	420,154
Expenses:				
Operating and administrative expenses:				
Wages				
Regular wages	141,188	-	141,188	112,402
Health Insurance reimbursements	20,323	-	20,323	-
Transit costs considered wages	7,938	-	7,938	-
Total Wages	169,449	-	169,449	112,402
Payroll taxes	14,079	-	14,079	9,522
Health insurance	-	-	-	5,454
Pension plan	3,371	-	3,371	200
Transportation	11,249	-	11,249	9,206
Payroll processing fee	1,740	-	1,740	1,583
Computer expense	5,534	-	5,534	3,922
Other administrative	5,892	-	5,892	6,176
Bank charges	1,567	-	1,567	966
Bad debt	4,805	-	4,805	6,931
Equipment lease	1,976	-	1,976	3,278
Assessment expense	403	-	403	692
Office supplies	2,675	-	2,675	2,411
Office postage	937	-	937	815
Communications media expense	2,417	-	2,417	1,336
Consulting	1,708	-	1,708	3,404
Miscellaneous	457	-	457	971
Amortization	663	-	663	659
Total operating and admin. exp.	228,922	-	228,922	169,928
Depreciation	33,000	-	33,000	32,511
Association Center				
Repairs and maintenance	20,626	4,997	25,623	52,049
Utilities	15,619	-	15,619	12,307
Mortgage interest	5,410	-	5,410	6,267
Taxes - property	15,728	-	15,728	15,728
Association Center building insurance	12,269	-	12,269	14,879
Miscellaneous association center expenses	563	-	563	294
Total association center	70,215	4,997	75,212	101,524
Committees	2,070	-	2,070	1,069
Other services				
Island report	31,838	-	31,838	31,626
Boat park	1,608	-	1,608	972
Insurance	10,978	-	10,978	7,343
Audit and accounting	12,059	-	12,059	11,386
Legal	7,041	-	7,041	4,259
Total other services	63,524	-	63,524	55,586
TOTAL EXPENSES	397,731	4,997	402,728	360,618
Revenues over expenses	8,690	43,867	52,557	59,536
Fund Balances:				
Beginning Fund Balance	567,881	50,465	618,346	557,235
Prior period adjustment	-	-	-	1,575
Ending Fund Balance	<u>\$ 576,571</u>	<u>\$ 94,332</u>	<u>\$ 670,903</u>	<u>\$ 618,346</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, 2014

	2014			2013
	Operating Fund	Repairs & Replacement Fund	Total	Total (for comparative purposes only)
Cash flows from Operating Activities:				
Revenues over(under) expenses	\$ 8,690	\$ 43,867	\$ 52,557	\$ 59,536
Adjustments to reconcile revenues over(under) expenses to net cash provided (used) by operating activities				
Depreciation and amortization	33,663	-	33,663	33,170
Bad debt expense	4,805	-	4,805	6,931
Prior period adjustment	-	-	-	1,575
(Increase) decrease in:				
Assessments receivable	(11,289)	-	(11,289)	(20,435)
Accounts receivable	(2,738)	-	(2,738)	(6,494)
Prepays and taxes receivable	(855)	-	(855)	-
Increase (decrease) in:				
Accounts payable	(1,154)	-	(1,154)	6,030
Payroll liabilities	(1,035)	-	(1,035)	1,096
Deferred revenue	6,226	-	6,226	(1,803)
Security bonds and deposits	3,430	-	3,430	5,874
Net Cash provided (used) by Operating Activities	39,743	43,867	83,610	85,480
Cash flows from Investing Activities:				
Capitalized loan fees	-	-	-	(500)
Purchase of fixed assets	(26,448)	-	(26,448)	(24,618)
Net Cash provided (used) by Investing Activities	(26,448)	-	(26,448)	(25,118)
Cash flows from Financing Activities				
Installment agreement - lagoon aeration	-	-	-	(5,000)
Mortgage principal payments	(16,329)	-	(16,329)	(15,838)
Net Cash provided (used) by Financing Activities	(16,329)	-	(16,329)	(20,838)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(3,034)	43,867	40,833	39,524
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	51,513	50,465	101,978	62,454
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 48,479	\$ 94,332	\$ 142,811	\$ 101,978

Supplemental information:

2014 Interest expense: \$5,410

2014 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, 2014

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 \$1,125 for the year ended December 31, 2014. The valuation allowance for uncollectible assessment receivables is \$6,000 at December 31, 2014.

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, 2014

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 \$33,000 for the year ended December 31, 2014.

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 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 \$19,182, based on full funding plan, has been included in the 2015 budget.

Bald Head Association
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2014

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 1/1/2014	\$ 50,465
Current year additions from assessments (based on budget)	48,851
Current year interest	13
Release for current year expenses and purchases	<u>(4,997)</u>
Balance 12/31/14	<u>\$ 94,332</u>

NOTE 4: ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at December 31, 2014.

Covenant Violation Fines	\$ 29,100
Stage II ARC December 2014 fees	2,917
Island Report Advertising	480
Late Assessment Penalties & Finance Charges	4,762
Less: Allowance for doubtful accounts	<u>(29,100)</u>
	<u>\$ 8,159</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, 2014:

Buildings	\$ 861,883
Improvements	72,522
Furniture and fixtures	27,421
Equipment	85,314
Software and website	<u>8,573</u>
	1,055,713
Less accumulated depreciation	<u>(410,335)</u>
	<u>\$ 645,378</u>

Bald Head Association
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2014

NOTE 6: DEFERRED REVENUE

Deferred revenue consists of advanced payments of assessments and fees for future periods and totaled \$8,337 on December 31, 2014.

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, 2014, \$1,500 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, 2014, \$14,000 in construction deposits are being held by the Association.

There is also \$3,406 on hand at December 31, 2014 for Association Center Programs to take place in 2015.

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, 2014, \$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, 2015.

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 31st</u>		
2015	\$	12,667
2016		13,261
2017		13,883
2018		14,535
2019		15,217
2020 - 2023		37,901
	\$	<u>107,464</u>

Interest expense related to the mortgage totaled \$5,410 for the year ended December 31, 2014.

Bald Head Association
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2014

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, 2014.

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, 2014. 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. 2014 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, 2014 tax returns for calendar years 2011, 2012 and 2013 remain "open" to possible examination.

NOTE 12: CLAIMS AND JUDGEMENTS

At December 31, 2014, 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, 2013, 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 August 17, 2015 requiring recording or disclosure in the financial statements for the year ended December 31, 2014. August 17, 2015 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, 2014
(UNAUDITED)

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, 2014 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	11-14	\$ 25,000	
Exterior painting	4-6	22,000	
Exterior trim/siding	16-19	125,000	
Wood walkways	16-19	45,000	
Hardwood/VCT floor	11-17	27,000	
Carpet	2-4	5,000	
Appliances	1-11	8,000	
Plumbing fixtures (16)	16-24	8,000	
HVAC (6)	2-15	54,000	
Light fixtures	4-14	5,000	
Total		\$ <u>324,000</u>	\$ <u>94,332</u>