

# Bald Head Association

Bald Head Island, North Carolina

FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT  
CERTIFIED PUBLIC ACCOUNTANT

**For the Year Ended December 31, 2013**

Bald Head Association  
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For the Year Ended December 31, 2013

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**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, 2013, 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, 2013, 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 2012 financial statements, and our report dated December 27, 2013, 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, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Jason C Keller* CPA PLLC

Wilmington, NC  
August 15, 2014

Bald Head Association  
**Balance Sheet**  
December 31, 2013

	2013			2012
	Operating Fund	Repairs & Replacement Fund	Total	Total (for comparative purposes only)
<b>Assets:</b>				
Current assets:				
Cash and cash equivalents	\$ 51,513	\$ 50,465	\$ 101,978	\$ 62,454
Assessments receivable net of \$5,000 allowance in 2013 and \$4,500 in 2012	24,376	-	24,376	9,975
Accounts receivable net of \$30,500 allowance in 2013 and \$29,800 in 2012	6,681	-	6,681	1,084
Taxes receivable or prepaid	50	-	50	50
Total current assets	<u>82,620</u>	<u>50,465</u>	<u>133,085</u>	<u>73,563</u>
Fixed assets, net of accumulated depreciation of \$403,756 in 2013 and \$371,245 in 2012	651,930	-	651,930	659,823
Loan fees, net of accumulated amortization of \$2,038 in 2013 and \$1,379 in 2012	<u>1,527</u>	<u>-</u>	<u>1,527</u>	<u>1,686</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 736,077</u></b>	<b><u>\$ 50,465</u></b>	<b><u>\$ 786,542</u></b>	<b><u>\$ 735,072</u></b>
<b>Liabilities and Fund Balance:</b>				
Current liabilities:				
Accounts payable	\$ 25,416	\$ -	\$ 25,416	\$ 19,386
Payroll liabilities	1,400	-	1,400	304
Deferred revenue	2,111	-	2,111	3,914
Security bonds and deposits	15,476	-	15,476	9,602
Installment agreement - lagoon aeration	-	-	-	5,000
Mortgage payable - current	11,900	-	11,900	15,156
Total current liabilities	<u>56,303</u>	<u>-</u>	<u>56,303</u>	<u>53,362</u>
Mortgage payable (less current portion)	<u>111,893</u>	<u>-</u>	<u>111,893</u>	<u>124,475</u>
<b>TOTAL LIABILITIES</b>	<b>168,196</b>	<b>-</b>	<b>168,196</b>	<b>177,837</b>
Fund Balance				
Undesignated	39,744	-	39,744	12,043
Investment in fixed assets net of related debt	528,137	-	528,137	515,192
Repairs & replacement fund balance	<u>-</u>	<u>50,465</u>	<u>50,465</u>	<u>30,000</u>
<b>TOTAL FUND BALANCE</b>	<b><u>567,881</u></b>	<b><u>50,465</u></b>	<b><u>618,346</u></b>	<b><u>557,235</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b><u>\$ 736,077</u></b>	<b><u>\$ 50,465</u></b>	<b><u>\$ 786,542</u></b>	<b><u>\$ 735,072</u></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 31,2013

	2013			2012
	Operating Fund	Repairs & Replacement Fund	Total	Total (for comparative purposes only)
<b>Revenues:</b>				
Member assessments	\$ 283,665	\$ 52,000	\$ 335,665	\$ 304,472
Association center fees	13,215	-	13,215	9,115
Architectural review committee	43,900	-	43,900	10,750
Penalties and interest	198	-	198	4,468
Interest income	52	8	60	238
Island report advertising	14,600	-	14,600	16,361
Boat park annual leases	11,030	-	11,030	11,000
Garden plot annual leases	1,000	-	1,000	1,000
Other income	486	-	486	1,112
<b>TOTAL REVENUES</b>	<b>368,146</b>	<b>52,008</b>	<b>420,154</b>	<b>358,516</b>
<b>Expenses:</b>				
Operating and administrative expenses:				
Wages	112,402	-	112,402	91,166
Payroll taxes	9,522	-	9,522	7,002
Health insurance	5,454	-	5,454	8,887
Pension plan	200	-	200	-
Transportation	9,206	-	9,206	8,159
Payroll processing fee	1,583	-	1,583	1,166
Other administrative	10,098	-	10,098	7,048
Bank charges	966	-	966	1,690
Bad debt	6,931	-	6,931	4,176
Equipment lease	3,278	-	3,278	2,103
Assessment expense	692	-	692	875
Office supplies	2,411	-	2,411	2,998
Office postage	815	-	815	581
Communications media expense	1,336	-	1,336	4,929
Miscellaneous	971	-	971	-
Amortization	659	-	659	613
Total operating and admin. exp.	166,524	-	166,524	141,393
Depreciation	32,511	-	32,511	34,142
Association Center				
Repairs and maintenance	43,911	8,138	52,049	27,935
Utilities	12,307	-	12,307	12,001
Interest	6,267	-	6,267	8,158
Taxes - property	15,728	-	15,728	16,981
Association Center building insurance	14,879	-	14,879	11,878
Miscellaneous association center expenses	294	-	294	447
Total association center	93,386	8,138	101,524	77,400
Committees	1,069	-	1,069	1,490
Other services				
Island report	31,626	-	31,626	28,549
Boat park	972	-	972	6,297
Insurance	7,343	-	7,343	9,387
Audit and accounting	11,386	-	11,386	7,932
Consulting	3,404	-	3,404	-
Legal	4,259	-	4,259	12,924
	58,990	-	58,990	65,089
<b>TOTAL EXPENSES</b>	<b>352,480</b>	<b>8,138</b>	<b>360,618</b>	<b>319,514</b>
<b>Revenues over expenses</b>	<b>15,666</b>	<b>43,870</b>	<b>59,536</b>	<b>39,002</b>
<b>Fund Balances:</b>				
Beginning Fund Balance	557,235	-	557,235	516,733
Transfer to reserve fund	(30,002)	30,002	-	-
Transfer to operating fund	23,407	(23,407)	-	-
Prior period adjustment	1,575	-	1,575	1,500
Ending Fund Balance	<u>\$ 567,881</u>	<u>\$ 50,465</u>	<u>\$ 618,346</u>	<u>\$ 557,235</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, 2013

	2013			2012
	Operating Fund	Repairs & Replacement Fund	Total	Total (for comparative purposes only)
<b>Cash flows from Operating Activities:</b>				
Revenues over(under) expenses	\$ 15,666	\$ 43,870	\$ 59,536	\$ 39,002
Adjustments to reconcile revenues over(under) expenses to net cash provided (used) by operating activities				
Depreciation and amortization	33,170	-	33,170	34,755
Bad debt expense	6,931	-	6,931	4,176
Prior period adjustment	1,575	-	1,575	1,500
(Increase) decrease in:				
Assessments receivable	(20,435)	-	(20,435)	(4,861)
Accounts receivable	(6,494)	-	(6,494)	(170)
Tax refunds receivable	-	-	-	323
Prepaid taxes	-	-	-	100
Increase (decrease) in:				
Accounts payable	6,030	-	6,030	885
Payroll liabilities	1,096	-	1,096	(3,509)
Deferred revenue	(1,803)	-	(1,803)	(4,132)
Security bonds and deposits	5,874	-	5,874	(760)
Net Cash provided (used) by Operating Activities	41,610	43,870	85,480	67,309
<b>Cash flows from Investing Activities:</b>				
Capitalized loan fees	(500)	-	(500)	-
Purchase of fixed assets	(24,618)	-	(24,618)	(4,696)
Net Cash provided (used) by Investing Activities	(25,118)	-	(25,118)	(4,696)
<b>Cash flows from Financing Activities</b>				
Interfund transfers	(6,595)	6,595	-	-
Installment agreement - lagoon aeration	(5,000)	-	(5,000)	(5,000)
Payments - Line of Credit	-	-	-	(19,341)
Mortgage principal payments	(15,838)	-	(15,838)	(14,409)
Net Cash provided (used) by Financing Activities	(27,433)	6,595	(20,838)	(38,750)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(10,941)	50,465	39,524	23,863
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	62,454	-	62,454	38,591
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 51,513</u>	<u>\$ 50,465</u>	<u>\$ 101,978</u>	<u>\$ 62,454</u>

Supplemental information:

2013 Interest expense: \$6,627

2013 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, 2013

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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 \$3,665 for the year ended December 31, 2013. The valuation allowance for uncollectible assessment receivables is \$5,000 at December 31, 2013.

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, 2013

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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 \$32,511 for the year ended December 31, 2013.

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 \$48,451, based on full funding plan, has been included in the 2014 budget.



Bald Head Association  
**NOTES TO FINANCIAL STATEMENTS**  
For the Year Ended December 31, 2013

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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 1/1/2013	\$ 0
Transfer from Operating Fund	30,002
Current year additions from assessments (based on budget)	52,000
Current year interest	8
Release for current year expenses and purchases	<u>(31,545 )</u>
Balance 12/31/13	<u>\$ 50,465</u>

**NOTE 4: ACCOUNTS RECEIVABLE**

Accounts receivable consisted of the following at December 31, 2013.

Covenant Violation Fines	\$ 29,100
Stage II ARC December 2013 fees	1,333
Island Report Advertising	5,674
Late Assessment Finance Charges	1,074
Less: Allowance for doubtful accounts	<u>(30,500)</u>
	<u>\$ 6,681</u>

While the Association intends to aggressively pursue all amounts owed an allowance for doubtful accounts of \$30,500 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, 2013:

Buildings	\$ 861,883
Improvements	92,524
Furniture and fixtures	26,834
Equipment	66,399
Software and website	<u>8,046</u>
	1,055,686
Less accumulated depreciation	<u>( 403,756)</u>
	<u>\$ 651,930</u>

Bald Head Association  
**NOTES TO FINANCIAL STATEMENTS**  
For the Year Ended December 31, 2013

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**NOTE 6: DEFERRED REVENUE**

Deferred revenue consists of advanced payments of assessments and fees for future periods and totaled \$2,111 on December 31, 2013.

**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, 2013, \$1,000 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, 2013, \$10,000 in construction deposits are being held by the Association.

There is also \$4,476 on hand at December 31, 2013 for Association Center Programs to take place in 2013.

**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, 2013, \$0 was outstanding on the line. Interest accrues on the line at the bank's prime rate and is due monthly. The line of credit expires September 20, 2014.

**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>		
2014	\$	11,900
2015		12,459
2016		13,043
2017		13,656
2018		14,296
2019 - 2023		58,439
	\$	<u>123,793</u>

Interest expense related to the mortgage totaled \$6,267 for the year ended December 31, 2013.

Bald Head Association  
**NOTES TO FINANCIAL STATEMENTS**  
For the Year Ended December 31, 2013

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**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, 2012.

**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, 2013. 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. 2013 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, 2013 tax returns for calendar years 2010, 2011 and 2012 remain "open" to possible examination.

**NOTE 12: CLAIMS AND JUDGEMENTS**

At December 31, 2013, 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: PRIOR PERIOD ADJUSTMENT**

A prior period adjustment in the amount of \$1,575 was made in order to correct misclassifications made to the deposit account in a prior year.

**NOTE 14: SUBSEQUENT EVENTS**

The Association did not have any subsequent events through August 15, 2014 requiring recording or disclosure in the financial statements for the year ended December 31, 2013. August 15, 2014 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, 2013  
(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 following table is based on that study and presents significant information about the components of the building and equipment.

<u>Components</u>	<u>Estimated Remaining Useful Lives (Years)</u>	<u>Estimated Current Replacement Costs</u>	<u>Ending Fund Balance</u>
Shingle roof	12-15	\$ 25,000	
Exterior painting	5-7	22,000	
Exterior trim/siding	17-20	125,000	
Wood walkways	17-20	45,000	
Hardwood/VCT floor	12-18	27,000	
Carpet	3-5	5,000	
Appliances	2-12	8,000	
Plumbing fixtures (16)	17-25	8,000	
HVAC (6)	3-5	54,000	
Light fixtures	5-15	5,000	
<b>Total</b>		<b>\$ 324,000</b>	<b>\$ 50,465</b>