



Bald Head Island Transportation Authority

Financial Statements

Year Ended June 30, 2021



Table of Contents

Introductory Section

List of Principal Officials.....	i
----------------------------------	---

Financial Section

Independent Auditors' Report	1
---	---

Management's Discussion and Analysis.....	3
---	---

Basic Financial Statements

Exhibit

A Statement of Net Position	6
-----------------------------------	---

B Statement of Revenues, Expenses, and Changes in Fund Net Position.....	7
--	---

C Statement of Cash Flows.....	8
--------------------------------	---

Notes to the Financial Statements	9
---	---

Supplementary Information

Schedule

1 Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP).....	14
---	----



Introductory Section

Bald Head Island Transportation Authority

Southport, North Carolina

Board of Trustees

Jim Powell
Andy Sayre
Michael Brown
John (Jed) Dixon
Landon Zimmer
Rex Cowdry
Susan Rabon
Paul Cozza
David Jessen
Robert Howard
Claude Pope

Officers

Susan Rabon, Chairperson
Robert Howard, Vice Chairperson
David Jessen, Treasurer
Landon Zimmer, Secretary

Interim Finance Director.....Debra M. Straub



Financial Section



Independent Auditors' Report

Board of Trustees
Bald Head Island Transportation Authority
Southport, NC

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Bald Head Island Transportation Authority (the "Authority") as of June 30, 2021, and for the year then ended, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

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.

Auditors' 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 auditors' 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 the business-type activities of the Bald Head Island Transportation Authority as of June 30, 2021, and the respective changes in financial position and cash flows, thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economical, 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.

Supplementary and Other Information

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The budgetary schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The budgetary schedule is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements, or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary schedule is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Dixon Hughes Goodman LLP

High Point, NC
September 30, 2021

Management's Discussion and Analysis

As management of the Bald Head Island Transportation Authority (the "Authority"), we offer readers of the Bald Head Island Transportation Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the year ended June 30, 2021. We encourage readers to read the information presented here, in conjunction with additional information that we have furnished in the Authority's financial statements, which follow this narrative.

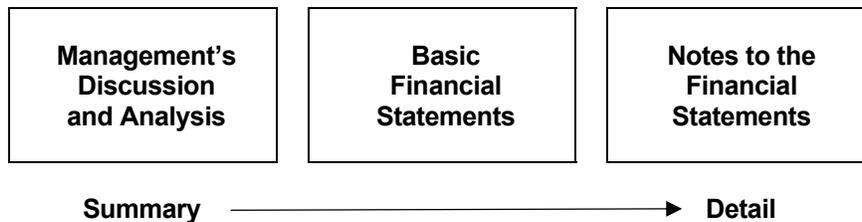
Financial Highlights

As of the close of the current fiscal year, the Bald Head Island Transportation Authority reported net position of \$43,422, all of which is classified as unrestricted.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Bald Head Island Transportation Authority's basic financial statements. The Authority's financial statements consist of two components: (1) basic financial statements and (2) notes to the financial statements (see Figure 1). In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the Bald Head Island Transportation Authority.

Required Components of Annual Financial Report
Figure 1



Basic financial statements

The Bald Head Island Transportation Authority's basic financial statements are comprised of Exhibits A through C. The Bald Head Island Transportation Authority operates as a singular Enterprise Fund. All activities of the Authority are considered business-type activities. Business-type activities are those that the Authority charges customers to provide ferry and on island transportation services.

The next section of the basic financial statements is the notes. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, Supplemental Information is provided. Budgetary information required by the General Statutes can be found in this part of the statements.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the financial statements start after Exhibit C of this report.

Financial Analysis

**Bald Head Island Transportation Authority's Net Position
Figure 2**

	<u>Business-Type Activities</u>	
	<u>2021</u>	<u>2020</u>
Assets:		
Current and other assets	\$ <u>50,972</u>	\$ 190,298
Total assets	50,972	190,298
Liabilities:		
Current liabilities	<u>7,550</u>	11,401
Net position:		
Unrestricted	<u>43,422</u>	178,897
Total net position	\$ <u>43,422</u>	\$ 178,897

Net position may serve, over time, as one useful indicator of the Authority's financial condition. The assets of the Bald Head Island Transportation Authority exceeded liabilities by \$43,422 (net position) as of June 30, 2021. The Authority's net position decreased by \$135,475 for the fiscal year ended June 30, 2021. The entire net position of the Authority is unrestricted as of June 30, 2021.

**Bald Head Island Transportation Authority's Changes in Net Position
Figure 3**

	<u>2021</u>	<u>2020</u>
Revenues:		
Grant income	\$ <u>25,000</u>	\$ 215,000
Total revenues	<u>25,000</u>	215,000
Expenses:		
Governing body	5,500	5,800
Administration	23,257	31,522
Management/consultants	131,718	-
Bond feasibility study	<u>-</u>	35,375
Total expenses	<u>160,475</u>	72,697
Increase (decrease) in net position	(135,475)	142,303
Net position:		
Beginning of year - July 1	<u>178,897</u>	36,594
End of year - June 30	\$ <u>43,422</u>	\$ 178,897

**Bald Head Island Transportation Authority
Management's Discussion and Analysis**

Business-type activities. Business-type activities decreased the Bald Head Island Transportation Authority's net position by \$135,475. Key elements of the decrease are as follows:

- Decrease in support by the Village of Bald Head Island
- Increased management/consulting fees related to bond rating agency payments

Budget Highlights for the Fiscal Year Ending June 30, 2022

The 2021-2022 budget reflects additional estimated start-up administrative expenditures and revenues for the fiscal year. It assumes the financing and purchase of the ferry transportation system will take place in the second quarter of the fiscal year at which time a budget amendment will be required.

Requests for Information

This report is designed to provide an overview of the Authority's finances for those with an interest in this area. Questions concerning any of the information found in this report, or requests for additional information, should be directed to Debra Straub at dmsnchome@hotmail.com.



Basic Financial Statements

Bald Head Island Transportation Authority
Statement of Net Position
June 30, 2021

Exhibit A

ASSETS

Current assets:

Cash \$ 50,972

Total current assets 50,972

Total assets 50,972

LIABILITIES AND NET POSITION

Current liabilities:

Accounts payable 7,550

Total current liabilities 7,550

NET POSITION

Unrestricted 43,422

Total net position \$ 43,422

Bald Head Island Transportation Authority
Statement of Revenues, Expenses and Changes in Fund Net Position
Year Ended June 30, 2021

Exhibit B

Operating expenses	
Governing body	\$ 5,500
Administration	23,257
Management/consultants	<u>131,718</u>
Total operating expenses	<u>160,475</u>
Operating loss	<u>(160,475)</u>
Non-operating revenues	
Grants from Bald Head Island Limited, LLC	<u>25,000</u>
Total non-operating revenues	<u>25,000</u>
Change in net position	(135,475)
Net position	
Beginning of year - July 1, 2020	<u>178,897</u>
End of year - June 30, 2021	<u><u>\$ 43,422</u></u>

Bald Head Island Transportation Authority
Statement of Cash Flows
Year Ended June 30, 2021

Exhibit C

Cash flows from operating activities:	
Cash paid for expenses	<u>\$ (164,326)</u>
Net cash used by operating activities	<u>(164,326)</u>
Cash flows from noncapital financing activities:	
Cash received from grants	<u>155,000</u>
Net cash provided by noncapital financing activities	<u>155,000</u>
Net decrease in cash and cash equivalents	(9,326)
Cash and cash equivalents:	
Beginning of year - June 30, 2020	<u>60,298</u>
End of year - June 30, 2021	<u><u>\$ 50,972</u></u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (160,475)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Decrease in accounts payable	<u>(3,851)</u>
Net cash used by operating activities	<u><u>\$ (164,326)</u></u>



Notes to Financial Statements

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The accounting policies of Bald Head Island Transportation Authority (the "Authority") conform to generally accepted accounting principles as they apply to governments. The following is a summary of the more significant accounting policies:

A. Reporting entity

The Authority is a public authority, having been created pursuant to the Ferry Transportation Authority Act, North Carolina General Statutes Chapter 160A, Article 29 (the "Act") by resolutions of the Village Council of the Village of Bald Head Island, North Carolina, the Board of Alderman of the City of Southport, North Carolina, and the Board of Commissioners of Brunswick County, North Carolina, and as chartered by the North Carolina Secretary of State on August 23, 2017. The Authority is governed by an eleven-member Board of Trustees, in which the Mayor and Mayor Pro Tempore of the Village of Bald Head Island are automatically appointed as ex officio voting members. The remaining nine members serve staggered three-year terms and are appointed as follows: one member by the Governor; two members by the General Assembly under G.S. 120-121; three members by the Secretary of the Department of Transportation, one of whom must be a resident in the service area of the Authority, and at least one of whom must be a member of the Board of Transportation; one member by the Board of Commissioners of Brunswick County; one member by the Board of Alderman of the City of Southport; and one member by the Village Council of the Village of Bald Head Island.

The Authority was created for the purposes of operating a reliable and safe ferry and barge transportation system to transport passengers and freight between the City of Southport and the Village of Bald Head Island, to provide parking facilities for those passengers on the mainland, and to provide tram service to the island, to enhance the quality of life, mobility, and circumstances of the residents of the Village of Bald Head Island, the City of Southport, and Brunswick County, and to promote economic development and tourism throughout the Cape Fear region. The Village of Bald Head Island is only accessible by watercraft vessel, and is dependent upon an affordable ferry system that operates on the Cape Fear River between the City of Southport and the Village of Bald Head Island. The ferry system, barge, on-island tram system, terminals, and parking facilities are presently owned and operated by a number of privately held corporations. The Act permits the Authority to purchase those assets from the privately held corporations and to consolidate those operations into a single transportation authority, as defined in G.S. 160A-681, and with the powers set forth in G.S. 160A-685. The Authority is in the process of undergoing a bond feasibility study, with plans to purchase the assets of the privately held corporations by either issuing traditional revenue bonds, obtaining traditional bank financing, or a combination of the two, during the fiscal year ending June 30, 2022.

B. Basis of presentation

Business-type activities are financed, in whole or in part, by fees charged to external parties. All activities of the Authority are considered business-type activities.

Fund financial statements

The fund financial statements provide information about the Authority's funds. The emphasis of fund financial statements is on major funds, each displayed in a separate column.

Bald Head Island Transportation Authority
Notes to Financial Statements

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

The Authority has one fund category - proprietary funds.

Proprietary funds

Enterprise funds

Enterprise funds are used to account for those operations that (a) are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public, on a continuing basis, be financed or recovered primarily through user charges; or (b) where the governing body has decided that the periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Bald Head Island Transportation Authority operates as a singular Enterprise Fund.

The Enterprise Fund is considered a major fund for the year ended June 30, 2021.

C. *Measurement focus, basis of accounting*

In accordance with North Carolina General Statutes, the fund of the Authority is maintained during the year using the modified accrual basis of accounting.

Proprietary fund financial statements

The proprietary fund financial statements are reported using the economic resources measurement focus. The proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The Authority's Enterprise Fund does not yet have operating revenues, as the capital assets for the ferry system have not yet been purchased by the Authority. Operating expenses for enterprise funds include the cost of sales and services and administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. *Budgetary data*

The Authority's budget is adopted as required by North Carolina General Statutes. An annual budget ordinance is adopted for the Enterprise Fund. All annual appropriations lapse at the fiscal year-end. The budget is prepared at the line item level using the budgetary basis of accounting (modified accrual). To account for the difference between the budgetary basis of accounting and the full accrual basis, a reconciliation showing the differences in the reported activities is shown at the end of the budgetary statement, as applicable.

Expenditures may not legally exceed appropriations at the departmental level for enterprise funds. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

Bald Head Island Transportation Authority
Notes to Financial Statements

E. Assets, liabilities, and fund net position

(1) Deposits and investments

All deposits of the Authority are made in board-designated official depositories and are collateralized as required by State law [G.S. 159-31]. The Authority may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the Authority may establish time deposit accounts such as NOW and SuperNow accounts, money market accounts, and certificates of deposit.

State law [G.S. 159-30(c)] authorizes the Authority to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and banker's acceptances; and the North Carolina Capital Management Trust (NCCMT).

(2) Cash and cash equivalents

The Authority considers demand deposits and investments with an original maturity of three months or less, which are not limited to use, to be cash and cash equivalents.

(3) Net position

Net position in proprietary fund financial statements is classified as net investment in capital assets; restricted and unrestricted. Restricted net position represents constraints on resources that are either externally imposed by creditors, grantors, contributors, laws or regulations of other governments, or imposed by law through State statute.

(4) Use of estimates

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

2. Detail Notes on All Funds

A. Assets

(1) Deposits

All deposits of the Authority are made in Authority-designated official depositories and are collateralized as required by G.S. 159-31. The Authority may designate, as an official depository, any bank or savings and loan association whose principal office is located in North Carolina. Also, the Board may establish time deposit accounts and certificates of deposit.

All of the Authority's deposits are insured or collateralized by using one of two options. Under the Dedicated Method, all deposits over the Federal depository insurance coverage are collateralized with securities held by the Authority's agent in the Authority's name. Under the Pooling Method, a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Authority, these deposits are considered to be held by the Authority's agent in the Authority's name. The amount of the pledged collateral is based on an approved

Bald Head Island Transportation Authority
Notes to Financial Statements

averaging method for non-interest-bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Authority or the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the Authority under the Pooling Method, the potential exists for under-collateralization; and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each pooling method depository.

The State Treasurer enforces standards of minimum capitalization for all Pooling Method financial institutions. The Authority relies on the State Treasurer to monitor those financial institutions. The Authority analyzes the financial soundness of any other financial institution used by the Authority. The Authority complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured. The Authority does not have a policy regarding custodial credit risk for deposits.

At June 30, 2021, the Authority's deposits had a carrying amount of \$50,972 and bank balance of \$50,972. All of the bank balance was covered by federal depository insurance. The Authority holds no petty cash.

B. Risk management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Authority carries public officials liability and employment practices liability coverage in the maximum liability of \$1,000,000.

In accordance with G.S. 159-29, the Authority's Treasurer of the Board of Directors is performance bonded through a commercial surety bond for \$50,000.

C. Commitments

The Authority entered into a contract with HMS Consulting to perform feasibility and planning activities to support the transition of the ownership and operation of the ferry system from the current owners to the Authority. Under the terms of the contract, HMS proposed a not-to-exceed limit of \$70,000 for the first phase of the contract, and has agreed to extend all payment terms until such time as financing and acquisition of the ferry system is completed. As of June 30, 2021, the acquisition has not closed and, accordingly, the Authority has not yet recorded any costs under the contract.

The Authority entered into a contract with Davenport & Company LLC to provide financial advisory services as it relates to the review, assessment and approach to evaluating the ferry system assets to be acquired, and structuring the purchase and financing of those assets from the current owners. Under the terms of the contract, Davenport & Company LLC proposed a not-to-exceed limit of \$50,000 to \$75,000 for planning, due diligence and non-transactional work, and \$75,000 to \$100,000 for the financing work. As of June 30, 2021, the acquisition has not closed and, accordingly, the Authority has not yet recorded any costs under the contract.

The Authority entered into a contract with McGuireWoods LLP on January 16, 2018 for legal services in connection with the anticipated acquisition of the ferry system and related assets, and the issuance of traditional revenue bonds, traditional bank financing, or a combination of the two, which will be used to fund this acquisition. In accordance with this agreement, McGuireWoods LLP has agreed to withhold billing for these legal services until the acquisition closes and the related financing proceeds are received. Fees related to the financing work are expected to range from \$65,000 to \$90,000, pending the type of financing obtained. Fees for acquisition work will be billed based on standard hourly rates. As of June 30, 2021, the acquisition has not closed and, accordingly, the Authority has not yet recorded any costs under the contract.

The Authority entered into a contract with Mercator National LLC on April 22, 2020 for services in connection with a bond feasibility study in connection with the anticipated acquisition of the ferry system and related assets, and

Bald Head Island Transportation Authority
Notes to Financial Statements

the issuance of traditional public revenue bonds, which will be used to fund this acquisition. In accordance with this agreement, Mercator International LLC will charge a fee of \$141,500, of which \$35,375 has been incurred and paid in prior years. The remaining obligation of the Authority to pay the fee is contingent upon the issuance of the bonds. As of June 30, 2021, the acquisition has not closed and bonds have not been issued and, accordingly, the Authority has not yet recorded any costs under the contract.

3. Related-Party Transactions

In accordance with an Interlocal Agreement with the City of Southport, the Authority leases office space from the City located at the Southport City Hall. The lease continues for a period of approximately two years. In consideration for the lease, the Authority pays to the City a sum of \$10 per year. The payment is due in arrears upon expiration of the lease term.

Also, under the Interlocal Agreement with the City of Southport, the City provides the Authority with administrative support services at a rate of \$30 per hour. During the year ended June 30, 2021, \$2,160 of support services were incurred under this agreement, of which \$0 remained payable as of June 30, 2021.

The Authority compensates the trustees on the Board of Trustees for each official meeting the trustee attends, at a rate of \$50 per meeting. During the year ended June 30, 2021, trustees were compensated in the amount of \$5,500, of which \$2,450 remained payable at June 30, 2021.



Supplementary Information

Bald Head Island Transportation Authority
Schedule of Revenues and Expenditures -
Budget and Actual (Non-GAAP)
Year Ended June 30, 2021

Schedule 1

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues			
Non-operating revenues:			
Grants, Village of Bald Head Island	\$ 25,000	\$ 25,000	\$ -
Total non-operating revenues	<u>25,000</u>	<u>25,000</u>	<u>-</u>
Total revenues	<u>25,000</u>	<u>25,000</u>	<u>-</u>
Expenditures			
Operating expenses:			
Governing body	5,300	5,500	(200)
Administration	19,500	23,257	(3,757)
Management/consultants	<u>137,200</u>	<u>131,718</u>	<u>5,482</u>
Total expenses	<u>162,000</u>	<u>160,475</u>	<u>1,525</u>
Appropriation from fund balance	<u>137,000</u>	<u>-</u>	<u>(137,000)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ (135,475)</u>	<u>\$ (135,475)</u>