
BALD HEAD ISLAND TRANSPORTATION AUTHORITY
Southport, North Carolina

September 29, 2023

Via E-mail (govops@ncleg.net; jeboyette@ncdot.gov)

Joint Legislative Commission on Governmental Operations
North Carolina General Assembly
Legislative Building
16 West Jones Street
Raleigh, North Carolina 27601

Honorable J. Eric Boyette
Secretary of Transportation
North Carolina Department of Transportation
1 South Wilmington Street
Raleigh, North Carolina 27601

Re: Bald Head Island Transportation Authority – Annual Report of Activities, Holdings and Finances Mandated by N.C. Gen. Stat. § 160A-684(f)

Ladies and Gentlemen:

Pursuant to Section 160A-684(f) of the North Carolina General Statutes, the Bald Head Island Transportation Authority (“BHITA” or the “Authority”) hereby submits this annual report of its activities, holdings, and finances to the Secretary of the Department of Transportation and to the Joint Legislative Commission on Governmental Operations. Since its formation on August 23, 2017, the Authority has made progress toward acquiring the assets of the existing private ferry system (the “System”) that currently serves Bald Head Island, North Carolina. The Authority’s Board of Trustees has held regular meetings since December 2017 and has hired a range of professional consultants to assist in the acquisition of the System. Previously, the Authority reached an agreement in principle to purchase the system from the current owners and applied to the Local Government Commission (“LGC”) for approval of the issuance of revenue bonds necessary to fund the purchase price. However, the LGC did not consider or approve the Authority’s application.

I. Bald Head Island Transportation Authority – Background and Governance

BHITA is a public authority of the State of North Carolina created in 2017 under Chapter 160A, Article 29 of the North Carolina General Statutes (the “Act”). The Act directs the Authority to acquire the “used and useful” assets of the System “at or below their appraised value”, and to finance such acquisition by “bonds or notes issued by the Authority or other financing mechanisms permitted under [the Act].” The Act permits the Authority to issue revenue bonds under Chapter 159 of the North Carolina General Statutes, and use the proceeds of such bonds to finance the acquisition.

The Authority is governed by an eleven-member Board of Trustees. Each trustee, and the authority who appointed him or her pursuant to the Act, is listed below:

1. Susan Rabon, Chair (appointee of the Governor of the State of North Carolina)
2. Robert Howard, Vice Chair (appointee of the Brunswick County Board of Commissioners)
3. Landon Zimmer, Secretary (appointee of the Secretary of the North Carolina Department of Transportation)
4. David Jessen, Treasurer (appointee of the Speaker Pro Tempore of the North Carolina Senate)
5. Rex Cowdry (appointee of the Secretary of the North Carolina Department of Transportation)
6. John Dixon (appointee of the Secretary of the North Carolina Department of Transportation)
7. Paul Cozza (appointee of the Speaker of the North Carolina House of Representatives)
8. Claude Pope (appointee of the Village of Bald Head Island Council)
9. Jim Powell (appointee of the Southport Board of Aldermen)
10. Peter Quinn (Mayor of the Village of Bald Head Island, *ex officio* voting member)
11. Scott Gardner (Mayor Pro Tempore of the Village of Bald Head Island, *ex officio* voting member)

II. Activities of the Bald Head Island Transportation Authority

The Board of Trustees held its first regular public meeting on December 14, 2017. Since that time, the Board has held regular meetings, generally on a monthly basis, although more recently on a quarterly basis, in the City of Southport.¹ During 2018, 2019 and 2020, the Board retained professional consultants to assist it in evaluating the assets of the System. Both the Board and those professional consultants reviewed a variety of diligence materials produced by the current owners of the System: Bald Head Island Transportation, Inc. and Bald Head Island Limited, LLC.

a. Professional Consultants for Acquisition Efforts

In January 2018, the Authority engaged McGuireWoods LLP to serve as its legal counsel. A team of McGuireWoods attorneys located in Raleigh and Wilmington has advised the Authority on the legal aspects of its proposed acquisition and financing.

On January 31, 2018, the Authority released a Request for Qualifications for Financial Advisory Services to thirteen organizations. After receiving submissions and conducting interviews with responding firms, the Board engaged Davenport & Company LLC in March 2018 to serve as financial advisor to the Authority. Davenport has studied the historical financial operations of the System, and engaged with the Local Government Commission on the Authority's behalf. Davenport also engaged with the rating agencies and helped the Authority to obtain an investment grade rating from one of the rating agencies for the bonds proposed to be issued to purchase the System.

¹ Hurricane Florence forced the Board of Trustees to cancel its September 19, 2018 meeting. During the height of the pandemic, pursuant to N.C.G.S. § 166A-19.24, the Board met on a remote-only basis. More recently, the Board has met either monthly or (at least) quarterly, with special called meetings when necessary, through a combination of in-person and remote-only meetings.

In June 2018, the Authority engaged HMS Consulting and Technical LLC, a division of HMS Global Maritime, to conduct a bond feasibility study for the System and to assess the current condition of the assets to be acquired. HMS shared the results of its work with the Authority and these results were used by the Authority to conduct due diligence and analyze its potential acquisition of the System.

In December 2018, the Authority engaged S&ME, Inc. to perform certain environmental site assessment services to the Authority. In April 2019, the Authority engaged S&ME, Inc. to perform certain soil compaction, spoil-area capacity and soil quality studies for the Authority. In June 2020, the Authority engaged S&ME, Inc. to perform certain additional soil quality studies for the Authority. S&ME has provided several reports on these matters to the Authority.

In 2019, the Authority engaged Worsley Real Estate Company to perform appraisals of the real estate assets to be included in the proposed transaction.

In January 2020, the Authority engaged UBS Financial Services, Inc. to serve as the lead underwriter for the planned issuance of revenue bonds to finance the acquisition of the System.

In April 2020, the Authority engaged Mercator International LLC to serve as feasibility consultant in connection with the planned issuance of bonds to finance the acquisition of the System.

In November 2020, the Authority filed its application to the LGC seeking approval for the issuance of revenue bonds in an amount not to exceed \$55,000,000 in order to finance the purchase of the System from the current owners at a price of \$47,750,000. The application was revised in April 2021 to eliminate seller financing and to increase the not-to-exceed amount to \$56,600,000. However, that application was never considered for approval by the LGC.

The Authority held an information session regarding its proposed purchase, and responded to numerous questions from the LGC regarding the acquisition and the process around valuation, governance and transparency. In response to questions raised about the initial real property appraisal, the Authority engaged Newmark Knight Frank Valuation & Advisory, LLC in June 2021 to perform additional appraisals of the real estate assets to be included in the proposed transaction.

The Village of Bald Head Island (the “Village”) determined that it should be the entity to purchase the System and publicly announced its desire to purchase the System in March 2021. The Village filed an application with the LGC for approval of the issuance of general obligation bonds in the amount of up to \$54,000,000, the proceeds of which would be used to acquire the System. The Village does not have an agreement with the current owners for the acquisition of the System, and has not made a public offer for it.

In May 2022, the current owners of the System announced that they had agreed to sell the System and certain other assets to a for-profit investment group headed by SharpVue Capital, LLC of Raleigh, North Carolina. The Authority understands that the current owners have recently obtained approval from the North Carolina Utilities Commission (“NCUC”) for the sale to SharpVue of the currently-regulated assets (ferry and trams). Meanwhile, the Authority understands that the Village and the current owners are involved in litigation in Brunswick County Superior Court regarding the validity and applicability of a purported right of first refusal for the purchase of the System in favor of the Village.

b. Authority Operations

The Authority has not hired any employees since its formation, but has contracted with the former finance director of the Village of Bald Head Island, Deb Straub, to serve as the Authority's finance officer. Ms. Straub prepared and presented the Authority's budgets for Fiscal Year 2017-18, Fiscal Year 2018-19, Fiscal Year 2019-20, Fiscal Year 2020-2021, Fiscal Year 2021-2022, Fiscal Year 2022-2023 and Fiscal Year 2023-2024. Until her retirement in August 2020, Michelle Windham, the Clerk of the City of Southport, provided various administrative services to the Authority under the terms of an Interlocal Agreement between the Authority and the City of Southport. Beginning in August 2020, Daralyn Spivey, the Clerk of the Village of Bald Head Island, provided the same services to the Authority under the terms of an Interlocal Agreement between the Authority and the Village. After Ms. Spivey resigned in May 2021, Ms. Windham agreed to return as Interim Clerk and provides such services to the Authority today.

c. Due Diligence

Since January 2018, the Board of Trustees and its professional consultants have reviewed a variety of diligence materials produced by the current owners of the System.

III. Holdings of the Bald Head Island Transportation Authority

The Authority has not completed an acquisition of the System. Therefore, the Authority has not received any funds from the System's operations. Other than as described in Section IV below, the Authority does not have any assets at this time. Generally, the Authority's consultants would be paid upon the consummation of the financing and subsequent acquisition and operation of the System.

IV. Finances of the Bald Head Island Transportation Authority

a. Grants from Village of Bald Head Island and Bald Head Island Limited, LLC

The Authority has secured limited operational funding from the Village of Bald Head Island (the "Village") under the terms of six (6) Interlocal Agreements, dated March 16, 2018, November 16, 2018, March 16, 2019, February 26, 2020, April 17, 2020, and June 19, 2020, respectively, each between the Authority and the Village (the "Village ILAs"). Under the Village ILAs, the Village has granted a total of four hundred fifteen thousand dollars (\$415,000) to the Authority to allow the Authority to cover operational expenses incurred prior to the acquisition of the System. More recently, the Authority has secured limited operational funding from Bald Head Island Limited, LLC under the terms of five (5) Funding Agreements dated May 27, 2021, September 23, 2021, June 30, 2022, December 21, 2022 and June 21, 2023 (the "Limited Funding Agreements"). Under the Limited Funding Agreements, Limited has granted a total of ninety-five thousand dollars (\$95,000) to the Authority to allow the Authority to cover operational expenses incurred prior to the acquisition of the System.

Funds granted to the Authority by the Village of Bald Head Island and by Bald Head Island Limited, LLC are the only monies that the Authority has received since its formation. The Authority may seek additional grants to cover operational expenses in the coming months.

The Authority has leased a small office in the Southport City Hall from the City of Southport (the "City") pursuant to an Interlocal Agreement, dated April 12, 2018, with the City (the "Southport ILA").

b. The Authority's Budgets

The Authority has adopted a budget for each fiscal year beginning with fiscal year 2018-19, which have previously been submitted as part of the Authority's annual reports for the years 2018 through 2022. During its meeting held on June 21, 2023, the Board of Trustees adopted the Authority's budget for fiscal year 2023-2024. A copy of the fiscal year 2023-2024 budget ordinance is attached as Exhibit A hereto. The Authority intends to revise its budget if and when it determines that the acquisition of the System can be completed in this fiscal year.

c. Submission of Audit

Section 160A-684(f) of the Act requires the Authority to include "an audit of its accounts by a certified public accountant" with this report. Such audit for the fiscal year ended June 30, 2023, is attached hereto as Exhibit B.

V. Summary

The Authority was in a position to purchase the assets of the System in fulfillment of its statutory mandate. However, that transaction and the related debt were not considered or approved by the LGC. Since then, the owners of the System have entered into an agreement to sell those assets to a private investor at a higher price, and it is not clear that the previous transaction negotiated between the current owners of the System and the Authority remains an option. Should you have any questions about this report or the Authority, please contact the Authority's legal counsel, Mary Nash Rusher (mrusher@mcguirewoods.com) or Henry L. Kitchin, Jr. (hkitchin@mcguirewoods.com).

Very truly yours,

**BALD HEAD ISLAND
TRANSPORTATION AUTHORITY**

/s/ Susan Rabon

Susan Rabon, Chair

cc: Honorable Joey Hopkins
Incoming Secretary of Transportation

McGuireWoods LLP
Mary Nash Rusher
Henry L. Kitchin, Jr.

Exhibit A

Budget Ordinance of the Bald Head Island Transportation Authority
Fiscal Year 2023-24

**BOARD OF TRUSTEES OF THE
BALD HEAD ISLAND TRANSPORTATION AUTHORITY**

**AN ORDINANCE OF THE BALD HEAD ISLAND TRANSPORTATION AUTHORITY
ADOPTING A BUDGET FOR FISCAL YEAR 2023-2024**

WHEREAS, on May 24, 2023, the finance officer of the Bald Head Island Transportation Authority (the “Authority”) presented to the Authority’s Board of Trustees (the “Board”) a proposed budget of the Authority for fiscal year 2023-2024 (the “Proposed FY 2024 Budget”);

WHEREAS, pursuant to N.C.G.S. § 159-12(a), notice of a public hearing on the Proposed FY 2024 Budget was published on June 7, 2023 and June 14, 2023;

WHEREAS, pursuant to N.C.G.S. § 159-12(b), the Board held a public hearing on the Proposed FY 2024 Budget on June 21, 2023;

WHEREAS, the Board has fully considered matters associated with the Proposed FY 2024 Budget, including supplemental recommendations associated with it and desires to enact a budget ordinance for the fiscal period ending June 30, 2024.

NOW, THEREFORE, BE IT ORDAINED by the Board of Trustees of the Bald Head Island Transportation Authority as follows:

1. The Authority’s FY 2024 Budget, covering the financial operations of the Bald Head Island Transportation Authority for the fiscal period ending June 30, 2024 inclusive, is shown below and incorporated herein by reference as if fully set herein verbatim.

2. The following anticipated fund revenues, departmental expenditures and interfund transfers are approved and appropriated for the Bald Head Island Transportation Authority General Fund for the Fiscal Year ending June 30, 2024.

<u>Expenditures:</u>	
Governing Body	\$ 1,400
Administration	\$ 21,913
Legal	\$ 17,500
Total	\$ 40,813
 <u>Revenues:</u>	
Fund Balance Appropriated	\$ 40,813
Total	\$ 40,813

3. The budget shall be administered on a departmental basis. The budget officer of the Authority shall have the power and authority to make departmental and interdepartmental amendments. All such amendments will be reported to the Board at the Board’s regular meeting following the month in which such amendments are made.

4. All public funds which will accrue to the Authority during the fiscal period ending June 30, 2024 inclusive, shall be deposited at Truist Bank.

5. This ordinance shall expire at the close of Authority business on June 30, 2024.

So adopted by the Bald Head Island Transportation Authority Board of Trustees, this the 21st day of June, 2023.

By: Susan W. Rabon
Susan Rabon, Chair

ATTEST:



Landon G. Zimmer, Secretary

(SEAL)



Trustee Josser moved to approve the foregoing, Trustee Howard seconded, and the motion was passed by the following vote:

Ayes: all participating

Nays: none

Not Voting: n/a

Board Action Control Number: 2023 - _____

Exhibit B

Audited Financial Statements of Bald Head Island Transportation Authority

Fiscal Year 2022-2023



Bald Head Island Transportation Authority

**Independent Auditor's Report,
Financial Statements, and
Supplementary Information**

June 30, 2023




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Introductory Section

Bald Head Island Transportation Authority

Southport, North Carolina

Board of Trustees

Jim Powell
John (Jed) Dixon
Landon Zimmer
Rex Cowdry
Susan Rabon
Paul Cozza
David Jessen
Robert Howard
Claude Pope
Peter Quinn
Scott Gardner

Officers

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

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

Financial Section

Independent Auditor's Report

Board of Trustees
Bald Head Island Transportation Authority
Southport, North Carolina

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the business-type activities of Bald Head Island Transportation Authority (the "Authority") as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Authority as of June 30, 2023 and the 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of the Authority, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 6 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.

FORVIS

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.

FORVIS,LLP

**High Point, North Carolina
September 28, 2023**

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, 2023. 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.

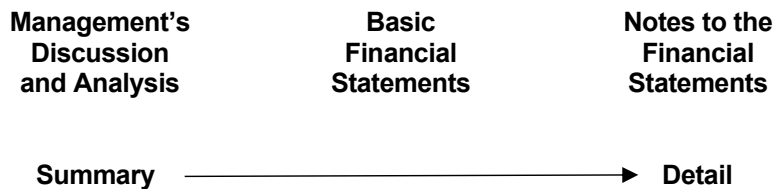
Financial Highlights

As of the close of the current fiscal year, the Bald Head Island Transportation Authority reported net position of \$56,275, 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.

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

Financial Analysis

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

	Business-Type Activities	
	2023	2022
Assets:		
Current and other assets	\$ 56,275	\$ 28,756
Total assets	56,275	28,756
Liabilities:		
Current liabilities	-	4,600
Net position:		
Unrestricted	56,275	24,156
Total net position	\$ 56,275	\$ 24,156

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 \$56,275 (net position) as of June 30, 2023. The Authority's net position increased by \$32,119 for the fiscal year ended June 30, 2023. The entire net position of the Authority is unrestricted as of June 30, 2023.

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

	2023	2022
Revenues:		
Grant income	\$ 45,000	\$ 26,850
Total revenues	45,000	26,850
Expenses:		
Governing body	450	2,150
Administration	9,031	18,248
Management/consultants	3,400	25,718
Total expenses	12,881	46,116
Increase (decrease) in net position	32,119	(19,266)
Net position:		
Beginning of year - July 1	24,156	43,422
End of year - June 30	\$ 56,275	\$ 24,156

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

Business-type activities. Business-type activities increased the Bald Head Island Transportation Authority's net position by \$56,275. Key elements of the increase are as follows:

- Continued receipt of grant funding from the Bald Head Island Limited, LLC
- Decreased costs related to management/consultants

Budget Highlights for the Fiscal Year Ending June 30, 2024

The 2023-2024 budget reflects continued start-up expenses and revenues for the fiscal year. If the Authority has the opportunity to purchase and/or operate any part of the ferry transportation system during fiscal year 2023-2024, the Authority's budget would be amended to reflect such additional activity.

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, 2023

Exhibit A

ASSETS

Current assets:

Cash	\$	54,868
Prepaid expenses		<u>1,407</u>

Total current assets		<u>56,275</u>
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Total assets		<u>56,275</u>
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NET POSITION

Unrestricted		<u>56,275</u>
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Total net position	\$	<u><u>56,275</u></u>
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Bald Head Island Transportation Authority
Statement of Revenues, Expenses and Changes in Fund Net Position
Year Ended June 30, 2023

Exhibit B

Operating expenses	
Governing body	\$ 450
Administration	9,031
Management/consultants	<u>3,400</u>
Total operating expenses	<u>12,881</u>
Operating loss	<u>(12,881)</u>
Non-operating revenues	
Grants from Bald Head Island Limited, LLC	<u>45,000</u>
Total non-operating revenues	<u>45,000</u>
Change in net position	32,119
Net position	
Beginning of year - July 1, 2022	<u>24,156</u>
End of year - June 30, 2023	<u><u>\$ 56,275</u></u>

Bald Head Island Transportation Authority
Statement of Cash Flows
Year Ended June 30, 2023

Exhibit C

Cash flows from operating activities:

Cash paid for expenses \$ (17,017)

Net cash used by operating activities (17,017)

Cash flows from noncapital financing activities:

Cash received from grants 60,000

Net cash provided by noncapital financing activities 60,000

Net increase in cash and cash equivalents 42,983

Cash and cash equivalents:

Beginning of year - July 1, 2022 11,885

End of year - June 30, 2023 \$ 54,868

Reconciliation of operating loss to net cash used by operating activities:

Operating loss \$ (12,881)

Adjustments to reconcile operating loss to net cash used by operating activities:

Decrease in prepaid expenses 464

Decrease in accounts payable (4,600)

Net cash used by operating activities \$ (17,017)

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 underwent 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. However, on May 17, 2022, the current owner of the ferry system, barge, on-island tram system, terminals, and parking facilities that the Authority was established in order to purchase, entered into a purchase and sales agreement with an unrelated third party. Management is in the process of determining how this sale impacts the future of the Authority, and its state-prescribed obligations. The sale by the owner of system to the unrelated third party has not yet closed, and is currently the subject of a legal challenge by the Village of Bald Head Island which, if successful, could prevent the sale to the unrelated third party from occurring. Management is in the process of determining how such sale, if consummated, would impact the future of the Authority and its state-prescribed obligations.

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.

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, 2023.

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.

Bald Head Island Transportation Authority
Notes to Financial Statements

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 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, 2023, the Authority's deposits had a carrying amount of \$54,868 and bank balance of \$58,268. 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 Finance Director 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, 2023, 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. Payment of the fees is contingent upon the closing of financing. As of June 30, 2023, the acquisition has not closed and, accordingly, the Authority has not recorded any costs under the contract.

Bald Head Island Transportation Authority
Notes to Financial Statements

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 would be billed based on standard hourly rates. As of June 30, 2023, the acquisition has not closed and, accordingly, the Authority has not incurred 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 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, 2023, the acquisition has not closed and bonds have not been issued and, accordingly, the Authority has not 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.

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, 2023, trustees were compensated in the amount of \$450.

Supplementary Information

**Bald Head Island Transportation Authority
Schedule of Revenues and Expenditures -
Budget and Actual (Non-GAAP)
Year Ended June 30, 2023**

Schedule 1

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues			
Non-operating revenues:			
Grants, Village of Bald Head Island	\$ 60,000	\$ 45,000	\$ (15,000)
Other revenue	-	-	-
Total non-operating revenues	<u>60,000</u>	<u>45,000</u>	<u>(15,000)</u>
Total revenues	<u>60,000</u>	<u>45,000</u>	<u>(15,000)</u>
Expenditures			
Operating expenses:			
Governing body	5,554	450	5,104
Administration	14,218	9,031	5,187
Legal	3,400	3,400	-
Total expenses	<u>23,172</u>	<u>12,881</u>	<u>10,291</u>
Appropriation to fund balance	<u>(36,828)</u>	<u>-</u>	<u>36,828</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 32,119</u>	<u>\$ 32,119</u>